ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
225 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

Hugh Malone

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K – STATE CAPITOL
JUNEAU 99811

January 3, 1976

M E M O R A N D U M

TO: The Honorable Jay S. Hammond
Governor

FROM: Avrüm M. Gross
Attorney General

by LAWD

RE: Proposed joint resolution calling for a constitutional amendment establishing a permanent fund.

Attached is the proposed joint resolution calling for a constitutional amendment to establish a permanent fund to which mineral leasing revenues would be dedicated.

In contrast to HJR 39 which you introduced last year, the attached resolution would establish a constitutional permanent fund into which 10 percent of all mineral leasing revenue and mineral production taxes would automatically be dedicated without further legislative action. Last year's resolution would simply have given the legislature the authority to establish a permanent fund by law which could be changed or repealed by subsequent legislatures.

The revenues that would be dedicated include mineral leasing rentals, royalties and bonuses. Questions do arise, however, as to some special circumstances. For example, what is to occur when the state takes its royalty in kind? Should 10 percent of the proceeds from the sale of royalties taken in kind be dedicated to the fund? I have assumed that this would be the case and have included language in the draft transmittal letter to clarify our intent in this respect.

Also, what is to occur if the state changes its leasing policy from the traditional bonus bidding with a 1/8 or 1/6 royalty to a royalty bidding arrangement with a nominal cash bonus with the state instead receiving a larger royalty share such as 50 percent? Again I have assumed that you have intended that a full 10% of this larger royalty share would be dedicated to the fund, and I have included language in the transmittal letter to state your position on this.

Also, what is to occur with respect to the revenue sharing which the state receives from federal mineral leasing? If this revenue is to be included, we should add some appropriate language in the resolution and in the transmittal letter to accomplish it.

Other revenue that would be dedicated to the fund would include mineral production taxes. I have assumed that this would only include the state's oil and gas properties production tax ("severance tax"), the oil and gas conservation tax (conservation tax), and the mining license tax regardless what form they may take in the future. Taxes that have not been included are the oil and gas exploration, production and pipeline property tax (20-mil property tax) and the oil and gas reserves ad valorem tax (reserve tax). If it is intended that these taxes should also be dedicated then the resolution and draft transmittal letter should be changed accordingly.

A question can be raised as to what amount of tax should be dedicated. For example, what is to occur with respect to any production taxes which the state must transmit to the Native Fund? Should 10 percent of taxes which the state receives and then transmits to the Native Fund be dedicated? I have assumed not and have so stated in the draft transmittal letter.

Also, what is to occur with respect to the production taxes which the state does not receive in cash but in effect receives through the application of accumulated "reserve tax" credits? For example, a taxpayer having a production tax liability of $100,000 may credit his accumulated reserve tax against the production tax up to $50,000 and only pay the remaining amount. Again, I have assumed that the production tax paid by the reserve tax credit would not be dedicated. If it is intended that more than just the net amount of cash tax revenue received by the state should be dedicated, then some additional changes should be made to the transmittal letter.

The resolution specifies that the fund will be used for investment only, with the legislature specifying the types of investment. A question has arisen whether the

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STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K – STATE CAPITOL
JUNEAU 99811

August 16, 1977

Representative Clark Gruening
Chairman
House Special Committee on
the Permanent Fund
528 West Fifth, Suite 270
Anchorage, Alaska 99501

Dear Representative Gruening:

This responds to that part of your request of July 11, 1977, for advice on making appropriations (or otherwise funding) the permanent fund at more than 25 percent of mineral revenues by joint or concurrent resolution.

The law making power of the State is vested in the legislature and is exercised by the passage of bills which are subject to a veto. Alaska Const., art. II, §§ 1, 13, 14 and 15. A veto may be overriden by two-thirds majority (three-fourths for revenue or appropriation bills) of the entire membership. Id., § 16. Appropriations are made by law. Id., § 13, art. IX, § 13. Whether the appropriation is continuous or annual would appear to make no difference; either or both would require passage of a law. Items in appropriation bills may be stricken or reduced by a veto and a three-fourths majority is required to override. A resolution is not subject to a veto.

We are of the opinion that, under our constitution, the legislature may not appropriate money to the Permanent Fund (or otherwise place money in that fund) by a joint or concurrent resolution. First, the constitutional safeguards for enacting legislation, i.e., for exercising the law-making power, do not apply to resolutions and are not observed in adopting resolutions. Second, the governor plays an integral part in the exercise of the law-making power, i.e., by approving or disapproving bills passed by the legislature. The governor plays no role whatever in the adoption of resolutions. Accordingly, except where its use is provided for by the constitution, e.g., art. III, § 23 (disapproving executive orders) and art. X, § 12 (disapproving boundary changes), a resolution may not be used in lieu of a bill to exercise law-making power.

We will answer your two other questions as soon as possible.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By: Rodger W. Pegues
Rodger W. Pegues
Assistant Attorney General

RWP:chp

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STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99811

September 16, 1977

Hon. Clark Gruening
Chairman
House Special Committee on
the Permanent Fund
528 West Fifth, Suite 270
Anchorage, Alaska 99501

Re: Permanent fund, accounting for inflation; our file J-66-107-78

Dear Representative Gruening:

You have asked whether there is any legal requirement that the statutory guidelines for administering the permanent fund take inflation into consideration.

We believe that the answer is no.

The answer to your question requires an inquiry into the legal nature of the permanent fund and, there being no law on the precise subject, involves some speculation.

First, we believe that, despite the absence of an actual transfer of legal and equitable interests to a trustee and beneficiary respectively, the Alaska Supreme Court will treat the permanent fund as a trust or quasi-trust, and as a general rule, apply trust concepts in determining its administrators' duties. We make this assumption (1) because of the tendency of the court, exemplified by such cases as Moore v. State, 553 P.2d 8 (Alaska 1976), to impose trust-like duties upon the State's management of its patrimony, and (2) because the constitutional amendment which created the permanent

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fund is extremely similar to the classic spendthrift trust both in its roots or causes and in its establishment, i.e., the owner of the State's capital, the people, dissatisfied with the state government's spending of the royalty bonus from the Prudhoe Bay leases, has resolved to remove a portion of that capital from the spending power of the government and to place it in trust, with only the income from its investment available to the government for expenditure.

Because the people established the trust, we believe that the state government will be deemed to be the trustee, not the trustor. This means that, despite the power vested in it by the constitutional amendment to designate by law the kinds of investments to be made, the legislature--as the appropriating arm of the government--will not be deemed to be the trustor or settlor, and that therefore, its power to designate eligible investments is not plenary but rather is limited by the express terms of the amendment on the one hand and by implied trust concepts on the other. In other words, the legislature may designate only income-producing investments and may not designate imprudent, income-producing investments or provide for imprudent administration of the fund principal. To the extent, if any, that it did, the managers of the fund would nevertheless remain under a duty to make only prudent income-producing investments and to provide a prudent administration.

Finally, we believe that the Alaska Supreme Court will rule that--absent exceptional circumstances involving the very existence of the State or its citizens--the preservation of the fund principal is of primary import, i.e., that investment policies cannot endanger the principal. This belief rests on what we perceive to be the essential character of this trust or quasi-trust, i.e., a conservative, cautionary nest egg. */

Of course, the Alaska Supreme Court could rule that no trust or quasi-trust exists and that the law of trusts does not, therefore, govern the fund's administration. That would remove the administration of the fund from the operation of the prudent-man rule. There would then be no duty to limit investments to those which are prudent. That would pretty much give the legislature the power to authorize the expenditure of the fund's principal on any income-producing investment even though it would not be a prudent, i.e., an investment which a trustee could not properly make. This result would allow the fund principal to be frittered away and thereby frustrate the basic purpose of the constitutional amendment. Principally for that reason, we believe the Alaska Supreme Court will impose trust concepts to avoid that result and to give the amendment its full effect.

*/ While the permanent fund is essentially a conservative device, the constitutional amendment was not overly conservative. It did not apply to taxes on minerals at all and it still leaves 75 percent of other mineral revenues available for expenditure.

There can be no question that a trustee must take into consideration the trend of prices and the cost of living, the prospect of inflation or deflation. RESTATEMENT (SECOND) OF TRUSTS 2d § 227, Comment e (1959). To do otherwise would hardly be the conduct of a man of prudence. Accordingly, the fund managers will have to take inflation (or deflation) into account in making and changing investments, if--as we believe--the fund constitutes a trust.

It does not follow, however, that the legislature has a duty to provide specific guidelines on the matter. If the court rules that there is a trust, the prudent-man rule applies. If it rules otherwise, the rule does not apply. Unless the legislature itself resolves the question by making the fund a trust, the matter is entirely up to the court. Whichever way it rules, the court would not, and could not, order the legislature to adopt any particular guidelines. It would merely order the fund managers to follow the prudent-man rule.

Nor does the legislature have any duty to increase the amount of the fund principal because of inflation. The constitutional amendment, which sets forth the principal terms of the trust, makes it mandatory to deposit 25 percent of the designated mineral revenues in the fund. That is the trust property which must be administered, we believe, under the prudent-man rule. While the legislature _qua_ legislature clearly has the power to increase that amount, nothing in

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trust law places a duty on it to do so. It could also provide for all or a portion of the income from the principal to be deposited in the fund, i.e., added to the principal. But under the terms of the trust, i.e., the constitutional amendment, it has no duty to do so.

We hope that this answers your question. We remind you that we are making an educated guess as to the trust or quasi-trust nature of the permanent fund. We believe it is a trust or quasi-trust and that trust law applies. We are constrained to add that we could be wrong. The legislature may wish to treat the fund as a trust. That would resolve the issue. It should feel free, however, to experiment and treat it otherwise insofar as it determines the public interest warrants doing so, and let the court resolve the issue.

Sincerely yours,

AVRUM M. GROSS
ATTORNEY GENERAL

By: Rodger W. Pegues
Rodger W. Pegues
Assistant Attorney General

RWP:chp

SCOMM

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PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

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State of Pennsylvania
Financing Programs

1) Industrial and Commercial Development Authority Law
The law empowers counties, town, cities, etc. to establish industrial and commercial development authorities to finance industrial and commercial development projects including financing for modern buildings, plant facilities, modern machinery and equipment and to encourage commercial enterprise in meeting pollution standards. The Authority may exist for a maximum 50 year period at which time all it's holdings are turned over to the municipality, city, town or county.

The Authority is empowered to issue revenue bonds, which are exempt from state tax, with a maximum maturation length of 40 years (less depending on the the life of the Authority as all bonds must be paid off by the expiration of said Authority). Payment of principal, interest and other charges are payable solely from: a. the income, revenues and property of the project financed, in whole or in part, with the proceeds of such bonds, b. the income and revenues of certain designated projects whether or not they are financed, in whole or in part, with the proceeds of such bonds, and c. from its (the Authority) revenues generally.

2) Pennsylvania Industrial Development Authority (PIDA)
PIDA was established to stimulate economic activity in counties with high unemployment by making low-cost business loans, particularly to industrial and manufacturing firms for acquisition or construction of buildings. Loans have also been made to other job-creating enterprises. County unemployment must be 4% or greater to qualify for a loan.

PIDA participates in the necessary financing with the local industrial development corporation (IDC) and local financial institutions. The local bank takes the first mortgage and puts up 50% of the financing. PIDA takes a second mortgage and, depending on the extent of the county's unemployment, puts up 30 - 50%. The local IDC takes a third mortgage and supplies the balance of the financing.

There are no specified loan terms or amounts but the following roughly conveys PIDA's average figures.

Loan Amount	$4,000 - $5 million (cannot exceed 50% of costs)
Terms	Up to 20 years
Interest Rate	Roughly 4%

3) Pennsylvania Redevelopment Area Economic Cooperation and Implementation Act
This act authorized the Department of Commerce and PIDA to implement the Federal program established by Federal Area Redevelopment and, secondly, to allow PIDA to make loans to industrial development agencies for 60% of the cost for industrial parks with the industrial development agency contributing not less than 10% of the costs. Loans will be secured by a first mortgage except in the case of Federal participation in which case PIDA will accept a lien junior to that of the Federal agency involved.

State of South Carolina
Financing Programs

1) IRB's

State of Vermont
Financing Programs

1) Vermont Industrial Development Authority
The VIDA was created to coordinate the state's activities in encouraging the orderly growth of industrial development.

a. Assistance to local development corporations
The VIDA provides loans for purchase of land, industrial park planning and erection of speculative shell buildings. Funds made available to the Authority by issuance of notes to the State Treasurer. There is $5,000,000. available to local development corporations at low interest rates. Loans will be payable not later than 5 years (may be extended by approval of Treasurer) and secured by assignment of a first mortgage to VIDA.

b. Insurance of mortgage loans
This includes loans from lending institutions for purchase of land, building, and equipment. Loans are insured by VIDA under these terms:
a) lender willing to make funds available for manufacturer if VIDA will insure loans
b) Guarantees up to $10 million for each project
c) VIDA will insure up to 90% project and local development corp. participates at 10% of cost
d) Working capital loans insured through refinancing of capital assets.
e) Not more than $35,000,000 in loan guarantees may be outstanding at any one time.

c. Direct mortgage loans
VIDA loans for purchase of industrial land, buildings and equipment may be made under the following conditions:
a) VIDA will loan at low interest up to 40% of project not to exceed $300,000 for land and buildings and $100,000 for equipment
b) Loan will be made by local development corporation up to 10% and other banks or lenders supply the balance
c) VIDA will take second mortgage on project with first mortgage being assigned to principal lender.

d. Industrial Revenue Bonds

	TERMS		INTEREST RATE	
	Statutory	Existing	Statutory	Existing
a. Loans to LDC	5 yrs renewable	2 yrs renewable	Not less than State cost of $	State cost of $ plus 1%
b. Loan Guarantees	25yr land & bldg.	same	determined by lender	
	10yr machinery & equipment	same	determined by lender	
c. Direct Loans	20 yrs	same	none	4%
d. IRB's	40 yrs	same	determined by lender	

State of Virginia
Financing Programs

1) IRB's

2) LDC's

3) Virginia Industrial Development Corporation (VIDC)
VIDC is a privately capitalized and financed lending agency chartered by a special act of the General Assembly to assist in the State's industrial development. It cannot make a lona unless the loan has been offered to and refused by a conventional lender legally able to make the loan. It participates in term loans to credit-worthy borrowers and extends participations to conventional lenders. VIDC prefers local participation in loans through local development organizations or banks at the following terms:

Loan term	Not to exceed 15 to 20 yrs
Loan amt.	Prefer $150,000 to $350,000 (May not exceed $500,000.)
Interest rate	2% plus, above the prime rate prevalent among Virginia banks

State of Wisconsin
Financing Programs

1) IRB's

State of Wyoming
Financing Programs

1) IRB's

2) Wyoming Industrial Development Corporation

The WIDC is a privately capitalized and financed corporation designed to assist in the economic development of the State of Wyoming by providing management advisory services and financing to small businesses. Consultant services are frequently supplied in conjunction with financial assistance. Payment for these services is usually by direct fee or additions to the loan granted. They are not precluded, however, from taking an equity position.

3) Local Development Companies

Providing financial assistance, acquire sites and sell or lease land, buildings, equipment or other capital goods to firms.

4) Wyoming Farm Loan Board

a. Water Development Loan
The farm loan board is authorized to issue its nonnegotiable debenture bonds for a sum not in excess of 33 1/3% or $60 million, whichever is less, of the permanent funds of Wyoming which shall be available for water development loans (construction of water development projects). The treasurer of Wyoming is directed to invest and keep invested a sum not to exceed 33 1/2% or $60 million, whichever is less, of the permanent funds of Wyoming in the bonds of the Eyoming farm loan board; 1/2 of this sum shall be used for loans to small water development projects.

Securities	1st Mortgage on land
Maximum Amt	$150,000.
Maximum Term	40 Yr. Term
Interest Rate	4 - 6%

b. Loans to State Agencies
The farm loan board is authorized to negotiate and make loans to departments and agencies of state and local government, persons, corporations and associations in Wyoming for projects in a redevelopment area for industrial or commercial usage. Loans provided for shall be made from the permanent funds of State of Wyoming. Loans shall not exceed 10% of the cost of any project withing the redevelopment area

Securities	Mortgage or other Lien
Maximum Amt	10% of total project cost Loans not to exceed the aggregate amount of $300,000.00
Maximum Term	40 Yrs
Interest	Reasonable Amount

4) Wyoming Farm Loan Board (continued)

c. Joint Powers Loans
The farm loan board is authorized to negotiate and make loans to one or more agencies, or joint powers boards presently existing (permitted or created pursuant to the statutes) from the permanent funds of Wyoming not otherwise obligated and not to exceed $40 million including all loans previously made and outstanding.

Securities	Title of land on which facility is to be constructed
Maximum Amt	Not stated
Interest Rate	4% - 8% depending on current commercial rates

d. Farm Loans
The purpose of the Farm Loan system is to foster and encourage agriculture, dairying, livestock raising and the development and improvement of farm land.

Securities	1st mortgage
Maximum Amt	Not in excess of 50% of appraised value of mortgaged land $1,000 - $150,000.
Interest Rate	4% - 8%

e. Coal Excise Tax Loans and Grants
Funds may be used for impact related projects to replace, repair or maintain an existing so long as same is required due to coal impact.

State of Kentucky
Financing Programs

1) IRB's

2) Kentucky Business Development Corporation (BDC)
The BDC consists of privat pooled capital to finance industrial building projects that are high risk requiring large amounts of capital where no other financing is available. Terms and amounts are determined by the director of BDC but roughly fall into the following:

Maximum Term	20 Yrs.
Maximum Amount	$1,000,000.
Interest Rate	2-3% above prime rates
Security	1st or 2nd mortgages on real estate or chattels

3) Kentucky Industrial Development Finance Authority
KIDFA is an agency of the government separate from the executive branch or any administrative department created to promote and aid the development of industrial and manufacturing enterprises in the Commonwealth through loans for industrial building projects or industrial subdivisions. Monies are appropriated by the General Assembly to the Industrial Development Fund which also includes grants, gifts and repayments.

a. Loans are primarily made through Local Development Agencies (non-profit) where the LDA provides 10% of the financing and a firm committment exists from other sources for 40-50% of the funds. The KIDFA supplies:

40% costs	building projects
50% costs	sub-division projects

b. Direct loans are given to industry with participation of a business development corporation or federal agencies

There are no set rates or terms for KIDFA loans but they roughly fall into the following:

Maximum Term	25 Yrs.
Amount	$50,000 - $500,000.
Interest Rate	Generally 8% (as determined by director)

4) Capital Funds for Area Development Districts (New Law)
Funds are allocated by General Assembly to a special fund for reclamation and industrial site development projects. Funds may be used for construction, property acquisition, engineering and design, maintenance, and equipment. The law allocates specific amounts available to each district. Administered by Dept. for Finance and Administration.

5) Coal Severance Economic Aid Fund (New Fund - 1976)
This fund will be used to finance capital improvement projects in the coal producing counties of the State for industrial development and reclamation. A formula has been established for allocation of funds based on the amount of tax collected and the income of the county.

6) Local Industrial Development Foundations
Most communities have an active non-profit industrial development foundation

State of Maryland
Financing Programs

1) Maryland Housing Insurance Program
Maryland's Housing Fund (MHF) received intitial monies from issue of G.O. bonds and must be self-supporting from premiums and fees.

The program was established to meet the housing needs of those from all levels of income by insuring mortgages which removes the risk to the private lender. The key criteria is the ability of the individual to meet mortgage obligation from a qualified lender. This tends to eliminate people in the low income bracket from receiving the insurance from the State.

The housing insurance program is presently limited to 1 - 4 family residential units. When there has been adequate default ratio experience and the reserve fund is solid, it is likely they will expand to multi-family insurance.

The MHF has established four insurance plans which apply to both existing and proposed structures. The significant difference is the initial loan ratios. The following chart indicates the initial loan ratios, MHF upper coverage and appropriate premium plans.

Premium Plans

Initial Loan-Ratio	80%	90%	95%	100%
MHF upper coverage	20%	20%	25%	25%
Equiv. loan ratio	64%	72%	71.25%	75%
Initial Premium	.25% of loan	.50% of loan	1% of loan	2% of loan
Annual renewal	.25% of bal.	.25% of bal.	.25% of bal.	.50% of bal.
Five year term	.75% of loan	1% of loan	1.50% of loan	3% of loan
Seven year term	1% of loan	1.50% of loan	2% of loan	4% of loan
Ten year term	*	2% of loan	2.50% of loan	4.50% of loan
Fifteen year term	*	*	2.75% of loan	5% of loan
Application Fee	$25.00	$25.00	$25.00	$25.00

* Coverage on loans insured through a term premium plan may be continued after expiration of the term by requesting contined coverage on an annual renewal basis.

2) Maryland Industrial Development Authority (MIDFA)
MIDFA was established to provide state insurance for industrial mortgage loans and to assist going businesses which are financially solid but not of sufficient size or credit to obtain funds through the (uninsured) industrial revenue bond market. MIDFA insures mortgage loans for financing acquisition, construction, rehabilitation and/or improvements of industrial plants and equipment thereby allowing financing through: a. IRB's, or b. mortgage loans arranged directly through the financial institutions. When evaluating loans considerable weight is placed on the socio-economic impact of each project. Additionally sound credit practices, such as are commonplace in commercial banks, are followed by the Authority

	Mortgage loan amt.	Term	MIDFA insurance	MIDFA premium
Acquisition of equipment and machinery	100%	15 yrs	70% of cost	0.5%
Lands & buildings	100%	25 yrs	90% of cost	0.5%

Maximum Amt. MIDFA insurance per project: $5 million

3) Industrial Development Corporations
When a county declares an acute state of unemployment exists, they are authorized to raise, contribute and deliver sums of money to individual development corporations operating with said county to encourage and assist new and existing business and individuals. In order to provide adequate funding to the development corporations, the county may issue bonds not to exceed 0.2% of the total assessed valuation of all property within the county subject to taxation of full county tax rate. These industrial development bonds shall have interest not exceeding 5.5% for 30 year maximum term and become the obligation of the county. Certificates of indebtedness may also be issued for terms not exceeding 5 years.

State of Massachusetts
Financing Programs

1) Massachusetts Community Development Finance Corporation (CDFC)
The CDFC was created to provide equity and venture capital to finance businesses and create jobs. They are targeted only to those areas where economic conditions are severe.

Initially $10 million was invested in CDFC through issue of G.O. bonds. In time, a modest return on investment will allow the organization to be self-sustaining. CDFC is also authorized to accept grants, gifts, and loans from any federal or state agency. Project by project capital investmens are made to non-profit community development corporations (CDC's), local development corporations (LDC's), and local industrial authorities. Financing can be provided in the form of debt, preferred or common stock, or other capital participation instruments. If equity is used, CDFC is prohibited from owning more than 49% of the stock of any enterprise.

CDFC is also authorized to establish a limited small business investment corporations (SBIC) which, in turn, may provide equity capital or loans to small businesses meeting CDFC criteria.

Wherever possible, CDFC will co-venture with other financial intermediaries in making lonas. CDFC takes the high, front-end risk and the financial institution assumes the reasonable market risk.

2) Massachusetts Industrial Mortgage Insurance Agency (MIMIA)
Under this plan, an eligible borrower is an industrial, recreational, research and development enterprise when there is reasonable assurance of the ability to make payments on the loan. In conjuction with the above, elibible borrowers could include realty holding companies, private developers, CDC's, community foundations holding title to industrial realty. Any payments required to be paid by MIMIA are derived solely from the mortgage insurance reserve fund.

	Land & Bldg.	Machinery & Equipment	Polution Control Facilities
Lender			
Max. Cost Coverage	90%	80%	80%
Max. Term	30 yrs	15 yrs	15 yrs
MIMIA			
Max Ins. for 1st Mortgage	40%	40%	40%
Max Amt. Ins. Per Project	$400,000.	$250,000.	$250,000.
Premium	1 - 2%	1 - 2%	1 - 2%

3) Massachusetts Business Development Corporation (BDC)
The BDC was created by private enterprise to provide funds for industrial growth and expansion of employment in the Commonwealth. It does not compete with banks or other conventional lenders since it makes loans only to borrowers who are not able to obtain financing, and the loans are normally medium or long term and in secondary position to other financing.

The company obtains funds from the sale of its stock and from loans from financial institutions such as banks and insurance companies which, by becoming Members of the Company, agree to lend money to it upon call, under conditions and limits as set forth in the Company's charter.

4) IRB's

State of Michigan
Financing Programs

1) IRB's

2) Michigan Industrial Development Corporations (IDC)
An IDC is an organization formed by local firms and individuals interested in promoting the local economy by offering incentives to commercial and industrial firms to locate within their communiyt. the IDC can acquire or build plants and other facilities for sale or lease to firms to locate within their community. Initial capital comes from sale of stock or memberships. Additional funds can be raised by sale of debentures, borroiwng from financial institutions, revenues from sales and rentals, or loans from the SBA under "502" loan program.

3) Economic Development Corporations
An EDC can acquire, develop, and maintain all lands, buildings, machinery, furnishings, and equipment necessary to complete a project plan. The potential uses of the EDC are diverse and EDC's primarily complement state and local economic development efforts through the issuance of tax exempt revenue bonds. They also participate in federal programs such as EDA, SBA "502" program.

State of Mississippi
Financing Programs

1) Small Businessman's Loan Guaranty Program

This program received its funds through state appropriation and is empowered and authorized to accept federal and private grant funds for additional guarantee authority so long as the Small Businessman's Loan Fund and Guaranty Fee Fund do not exceed $1 million liability. The fund was created to provide guarantees expansion and development of business. In order to be eligible, the applicant must be unable to obtain financing elsewhere. The amount of outstanding guarantees may not exceed four times the combined total amount in the Small Businessman's and Guaranty Fee Funds.

Maximum Loan	$50,000.00
Maximum Term	10 Yrs.
Maximum Interest	Current Legal Rate
Maximum Guaranty	75% - not to exceed $37,500.00
Guaranty Fee	1% per annum of the guaranteed portion to be remitted to the state

NORTH CAROLINA

The North Carolina Business Development Corpration is privately owned and managed but works closely with the State government. Financed by sale of stock, and loans are also obtained from member financial institutions.

Manufacturing and processing corporations are eligible for NCBDC loans ranging from $50,000. to $1,000,000. for a 5 - 20 year term at 6% interest (possible more depending on condition of the market). On occassion member financial institutions (banks) participate in the loan. NCBDC is also authorized to participate in a bank loan.

State of Oklahoma
Financing Programs

1) The Oklahoma Industrial Finance Authority
This Authority was established by law and permitted to sell general obligation bonds (in an amount not to exceed $20 million outstanding at any one time) to initiate its activities. Its purpose is to aid in financing new or expanding industry by making loans to local incorporated industrial development agencies, includig public trust authorities, for specific industrial projects.

Method of Financing

Maximum amt. of project cost	25%
Maximum loan amt.	$1 million
Interest rate	8%
Security	1st or 2nd mortgage

Local participation is favored with local agencies and other sources contributing 75% of the project cost. The only restriction on OIFA loans is that they must be applied to manufacturing projects only.

2) IRB's

3) SBIC's

4) Oklahoma Business Development Corporation (BDC)
The BDC is a privately owned development company. The membership is composed of shareholders and members which are financial institutions, mostly banks. BDC provides intermediate and long term industrial loans to small businesses, locally owned firms and local branches of out-of-state firms provided they have first applied for funds through conventional lending sources.

Loans are made for the purchase of land, construction of buildings, the purchase of machinery and equipment, and for working capital.

Term	Negotiable
Amount	Not specified
Interest	2-3% above prime rate
Security	Liens Assigned leases and life insurance policies Personal guarantees Subordination of other indebtedness Loan agreements controlling certain expenditures

State of Kansas
Financing Programs

1) IRB's

2) Kansas Development Credit Corporation (KDCC)
The KDCC was created to meet the long and short term financial needs of businesses and industry. It supplements existing sources of credit to foster new and expanding business and industry.

KDCC was established by the Kansas State Chamber of Commerce and the Kansas Bankers' Association and operates by borrowing money from more than 400 members banks lending it to manufacturers and processors in Kansas. These loans can range up to $250,000 and are available to companies unable to find financial assistance from conventional lenders.

Under the "Kansas Funds Promote Kansas Jobs" program, KDCC can purchase the Small Business Administration (SBA) guaranteed portion of new loans or those already held by Kansas banks thus releasing their funds committed to SBA guaranteed loans and allowing them to make new SBA guaranteed loans which would not normally be made.

State of Indiana
Financing Programs

1) IRB's

2) Indiana Economic Development
(mortgage, equipment and small business loan quaranties)

The General Asembly appropriates funds to the Mortgage Insurance Fund. 40% of these funds available for guaranteeing mortgages in rural areas and small municipalities. 60% are available for same activities in the rest of the state. The amount of principal obligations of all mortgages so insured outstanding at any one time shall not exceed ten times the amount of money in the fund.

Mortgage and Equipment Guaranty Fund

Maximum Guaranty Amount	$1,000,000.
Maximum Maturity	25 Yrs.

The General Assembly also appropriates funds to the samll business commercial and industrial fund which is used for encouraging and assisting small business enterprises.

Maximum Guaranty Amount	$ 100,000.
Maximum Maturity	10 Yrs.

3) Industrial Development Loans
(Direct loans to municipalities)

The law established a $3,000,000. loan fund enabling Indiana communities to borrow up to $200,000. for a) construction, extension of sewer lines; b) water lines; 3) sidewalks/streets; 4) purchase of real property. Loans exceeding $50,000 shall be matched on a one to one basis by the community.

Interest rate is established by the State Board of Finance at the time of approving the loan. Maximum term is ten years.

State of Illinois
Financing Programs

1) Illinois Industrial Development Authority

The IIDA received $1 million appropriation in 1969 (inception) to help create the greatest number of permanent new jobs possible in labor surplus areas. Assistance is concentrated in the area of industrial and manufacturing projects and priority is given to projects partially financed from other sources.

The Authority may make loans up to 25 years in length with interest rates consistent with the standard bank prime rates operable in the project area on the effective date of the loan.

State of Delaware
Financing Programs

Delaware Industrial Financing Plan

1) The DIFP was established to aid small businesses in expanding or commencing in agricultural and urban areas through:

   a. IRB's - annual service fee: $400.00

   b. G.O. Bonds
   Issue of G.O. bonds is limited to $3 million per project. The minimum project cost is $200,000. The total amount of G.O. bonds outstanding is limited to $50 million as provided in the revolving fund authorization. The annual service on each project is 1 1/4% of the annual payment of interest plus principal

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

note lack of evaluation criteria, differences between planned and actual performance, predominance of vet's loans, position of dept. of Revenue.

TO: Ronald D. Lehr, Deputy Director
Division of Budget and Management
Office of the Governor

DATE: October 11, 1976

FROM: James Stey, Budget Analyst
Division of Budget and Management
Office of the Governor J. Stey

SUBJECT: State Loan Programs

In FY 76 the State of Alaska loaned $56.8 million dollars to its residents. Farmers, fishermen, and businessmen used twenty percent of this sum to develop their respective industries. Veterans borrowed seventy three percent of this total to finance personal expenditures and to build or buy new homes. Students used the remaining seven percent of the funds to attend vocational schools and universities. During the next ten to twenty years, the state shall receive roughly $4.1 million dollars in annual interest payments on the value of loans issued in FY 76. Excluding the costs of delinquent notes, defaults and administrative expenses, this represents approximately a seven and a third percent return on the original investment. Some financial analysts estimate that the state could obtain a higher return on their reserve revenue by investing it in first class bonds and federal securities. This suggests that the State's loan programs are more than just another investment portfolio. The purpose of this memo is to provide a brief examination of these loan programs. Specific attention is given to the legislative intent administrative goals and the organization of these programs. Information concerning the value of outstanding loans, statutory loan limitations and program accomplishments is available in the attachments at the end of this memo.

The state maintained six revolving loan funds in FY 76: Small Business Development, Tourism, Commercial Fishing, Veteran's Affairs, Agriculture, and Student Financial Aid. In addition to these programs, four new loan funds (Water Resources, Fisheries Enhancement, Senior Citizen Housing Development, Child Care Facilities) were established and funded for operations in FY 77. The Alaska State Development Corporation, and the Small Business Development Corporation maintain revolving loan funds. However, today these loan funds are inactive. The Power Project Development Loan Fund is also a new loan fund in FY 77. It is administered by the Power Development Authority. However, those loan funds whose operations are outside the control of line agencies are not a subject of this memo. Attachment A lists the goals and objectives, as defined by program managers, of these ten loan fund programs. In several instances these goals and objectives are quite broad and fail to identify the ultimate aims (end products) of the given program. Generally, program managers are more concerned about the manner and not the reasons for operating their loan programs. The legislative intent pertinent to each loan fund underscores the significance of function over purpose. Only five of the ten loan fund legislative acts state the intentions (goals) of the established fund. (see Attachment B) However, each act precisely

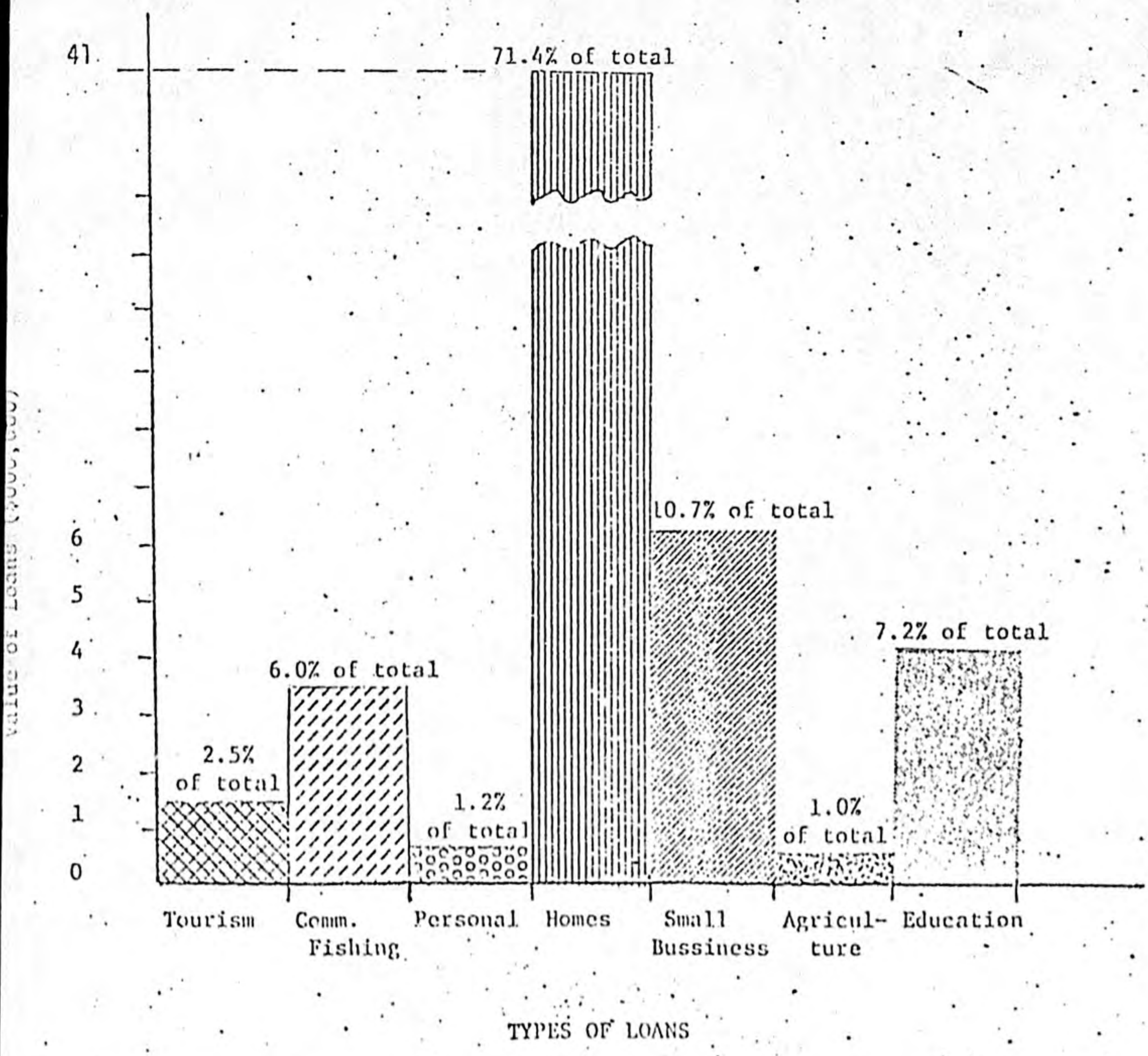
defines the duties and powers of the commissioner relative to each loan fund. Thus it is not unusual for program managers to confuse program activities (making loans) with what would seem to be the real program objectives, social or economic development. For example, some program managers argue that their objective is to make as many good loans as possible simply because the law compels them to do so. This is demonstrated on attachment C, which delineates the performance measures of the loan fund programs that were active in FY 76. These workload measures provide very little information with which to evaluate the extent to which each fund contributes to the development of Alaska or its citizens.

As an alternative measure of importance, it might seem that a review of the capitalization limits (total appropriated dollars) of each revolving fund would suggest the priority of each loan fund. However this is not the case with our revolving loan funds because they do not genuinely revolve, i.e., they are not self-supporting. Each revolving fund contains a basic appropriation. In addition to this, most funds have a "back door" financial agreement with the Department of Revenue. Through this arrangement, loan fund managers may sell virtually all of their loans (mortgages) to this Department. Hence loan fund managers and loan fund committee members in effect set the state's loan policy by deciding on the type, quality, and value of loans that are issued. The bar graph on the following page summarizes the result of loan fund activity in FY 76. Note that the value of housing loans made to veterans is roughly two and a half times the value of loans made to the tourist, fishing and small business industries.

The size and value of the loan programs have increased steadily since 1970. Still, there does not appear to be any legislative or administrative checks on the quality and/or volume of loans administered by the revolving funds. Attachment D contains a list of the value of outstanding loans and the holders of these loans, i.e., the revolving funds and the Treasury Department. It also identifies the capitalization limits (general appropriations made to each revolving fund) and the statutory limits placed on the value of loans sold to the state Treasury. At the present time only 4 out of 10 loan funds have limits placed on the total value of loans which could be sold to the Treasury.

Although the State does receive interest on these loans, these programs are not primarily intended to be income-producing assets. A good deal of these loans have been made to what banks would rate as high risk industries, e.g., commercial fishing and agriculture. Furthermore the rate of interest which the state charges its borrowers tends to be significantly lower than the interest rates of commercial banks for similar loans (see attachment E). It is generally argued that the state operates loan programs to enhance economic development through the provision of goods and services which otherwise would not be available in the private sector. Yet, there is virtually no concrete information to confirm that these programs have influenced development.

LOAN FUND ACTIVITY IN FY 76



In 1973 the consolidation of the various loan programs was a subject of issue analysis. It was thought that; "consolidation would lead to more uniform procedures, decision criteria, and result in clearer public understanding and less arbitrariness in granting loans." Managers of the loan programs resisted the consolidation, maintaining that it would: (1) raise operating costs without producing commensurate savings, and (2) undermine the unique services provided by each loan program. It appears that the bulk of the information presented to the Budget Review Committee was simply a compilation of memos from loan fund managers. Evidentally, this information was persuasive enough to cause the BRC to recommend against merger at that time.

Some of the factors which precipitated this examination in 1973 are germane to issue analysis today. For instance there are 10 active loan programs which often share common objectives, i.e., economic development, personal financial assistance, and education and social service developments. These programs are controlled by 5 independent management units. For example, the Developmental Loans budget request unit (BRU) envelopes six loan funds while each of the remaining four loan funds; Senior Citizen Housing Development, Student Aid, Veterans' Affairs, Agriculture, is a separate BRU.

Furthermore, there are very few uniform procedures, standard decision criteria, output measures etc. for each loan program. For example several loan funds have different definitions for the rate of delinquency, or for the factors which constitute a "good" or "bad" loan. Consequently it is extremely difficult to compare even the most basic loan fund activity.

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1. devote some of its resources to the development of a solid policy concerning the objectives and the administration of loan fund programs.

2. develop a mechanism for evaluating the effectiveness (impact) of each loan fund program on the overall economic and social development in Alaska.

3. study the administrative efficiency of our loan fund programs.

JS/mjc
Attachments

ATTACHMENT A

LOAN FUND	GOAL	OBJECTIVE
Commercial Fishing	To maintain a reasonable standard of living in Alaska by developing the commercial fishing industry.	1. To produce more fish 2. To increase fishing in undeveloped fisheries
Tourism	To maintain a reasonable standard of living in Alaska by developing the local tourist industry.	1. To create new jobs
Agriculture	To improve the quality and nutritional value of food products grown in Alaska. To supply these food products at the lowest price by developing the Agriculture Industry.	1. To assist farmers who cannot obtain loans at a reasonabl interest rate in the private sector. 2. To improve farming efficiency and increase the quality of the product.
Veterans Affairs	To reward Veterans and Alaskan guardsmen for military service.	1. To make loans to all veterans and guardsmen.
Small Business	To maintain a resonable standard of living in Alaska by developing small businesses.	1. To increase local bank participation in small business loans. 2. To provide information on the loan fund program.
Student Financial Aid Revolving Loan Fund	To assist students to secure a post secondary education and to encourage the students to live in Alaska after their schooling.	1. To make loans to needy students 2. To collect loan repayments.
Child Care Facilities Revolving Loan Fund	No expressed goal or intent.	- not stated -
Fisheries Enchancement Loan Program	To produce fish for common property fisheries.	- not stated -
Water Resources Revolving Loan Fund	To assist the development of hydroelectric and water supply projects.	- not stated
Alaska Municipal Bond Bank Authority	To help municipalities market their bonds at a lower Cost.	1. To purchase $10,000,000 in municipal bonds in FY 77.
Alaska State Development Corporation	To develop and stimulate the business prosperity and economic welfare of Alaska.	1. To provide loans to businesses.
Small Business Development Corporation	To develop and stimulate the economic welfare in Alaska.	1. To insure high risk development loans.
Senior Citizen Housing Development	To develop senior citizen housing	1. To make grants or loans to municipalities or to corporations for the purpose of developing senior citizen housing.

LEGISLATIVE INTENTIONS

Commercial Fishing Revolving Loan Fund	AS 16.10.300 -- to promote the development of a predominately resident fishery and continued maintenance of commercial fishing gear and vessels . . .
Tourism Revolving Loan Fund	AS 45.090 -- No expressed intent.
Agriculture Revolving Loan Fund	AS 3.10.010-060 . . . to promote the more rapid development of Agriculture as an industry throughout Alaska . . .
Veterans Affairs Revolving Loan Fund	AS 26.15 & 010 - 070 -- No expressed intent.
Small Business Loans Revolving Fund	AS 45.095 - 010 -- No expressed intent.
Student Financial Aid Revolving Fund	AS 14.40.751 - 806 -- No expressed intent.
Child Care Facilities Revolving Loan Fund	Senate Bill 753 -- No expressed intent.
Fisheries Enhancement Loan Fund	AS 16.10.500 - 550 . . . To promote the enhancement of the State's fisheries . . .
Water Resources Revolving Loan Fund	AS 45.86.010 - 050 . . . To develop and conserve in the public interest the water resources . . .
Senior Citizen Housing Development	HB 815 -- for developing senior citizen housing.

LOAN FUND PERFORMANCE MEASURES
FY 76

LOAN FUND	MEASURE	PLAN	ACTUAL
Commercial Fishing	No. of Salmon hatcheries contracted	3	1
	No. of fishing loan applications processed	120	143
	No. of fishing loans made	80	71
	% of total fishing loan assisting fisherman in new fisheries	8%	3% (2 of 71)
Tourism	No. of jobs created by tourism projects	150	70
	No. of tourist attractions financed	10	4
	No. of loan applications	9	9
	No. of loans made	4	4
Agriculture	No. of loan applications processed	120	74
	No. of loans made	46	51
	Value of loans issued	$700,000	$587,600
	No. clients/no. loans outstanding	134/235	127/222
	Value of outstanding loans supervised	$4,400,000	$4,311,500
	Delinquency rate (90 days) (Value deliq. loans x 100) (Value outstanding loans)	8%	16.4%
	No. clients in litigation/value loans in litigation	8/NA	14/$506,028
Veteran's Affairs	No. loan applications processed	1800	1147
	No. loans made	1500	945
	Value of loans approved	55,000,000	45,159,275
Small Business	% of business loans involving local bank participation	6%	20% (7 of 34)
	No. of loan seminars held	12	8
	No. of loan applications processed	120	97
	No. of loans made	80	34
Student Financial Aid	No. loans made	2200	2087
	Value loans made	$4,100,100	$4,100,000
	No. student making payments	900	NA
	Value of collections	$ 308,500	NA

Loan Fund		Loan Fund	% of Loans Held By Revenue	Other	Statutory Limits on Loans Sold To Treasury
Commercial Fishing	$ 5,724,919	14%	86%		$5,000,000
Tourism	8,611,947	2%	98%		no limit
Agriculture	4,311,495	83%	14%	3%	no limit
Veterans	112,316,584	7%	92%	1%	no limit
Small Business	6,160,805	5%	95%		no limit
Student Aid	12,642,554	100%	___	___	$-0-
TOTALS	$149,768,304	17.3%	82.1%	0.6%	
		($25,946,482)	($122,921,823)	($900,000)	

New Loan Funds in FY 77	Loan Fund Capitalization Limits	Limits on Loans Purchased By the Treasury Department
Water Resources	$2,500,000	Not Stated
Fisheries Enhancement		$200,000,000
Child Care Facilities	$ 50,000	$ 300,000
Senior Citizen Housing Development	6,000,000	Not Stated

ATTACHMENT E

INTEREST SAVINGS -- DIFFERENCE BETWEEN ANNUAL INTEREST PAID TO LOAN FUNDS AND COMMERCIAL BANKS

Type of Loan	# of Loans in FY 76	Value of Loans Made in FY 76	Interest Rates State	Interest Rates Banks	Approximate Interest paid to: State	Approximate Interest paid to: Banks***	Increased Revenue Total Savings	Ave Ann Savin Lo
TOURISM	4	$1,400,000	8%	10½%	$ 112,000	$ 147,000	$ 35,000	$8,7
COMMERCIAL -- CFRLF	71	3,300,000	7%	11%	231,000	363,000	132,000	1,8
FISHING -- VRLF	2	98,000	7½%	11%	7,350	10,780	3,430	1,7
PERSONAL	88	749,429	7½%	10%	56,207	74,943	18,736	2
HOME & MULTI DWELLING UNITS	~~98~~ 933	40,572,311	7½%	9 3/4%	3,042,923	3,955,800	912,377	1,14
SMALL BUSINESS -- SBRLF	34	2,400,000	8%	10½%	192,000	252,000	60,000	1,76
-- VRLF	57	3,739,534	7½%	10½%	280,465	392,651	112,186	1,96
AGRICULTURE	51	587,600	6%	11%	35,256	64,636	29,380	57
STUDENT *	2087	4,100,000	5%	7%	205,000	287,000	82,000	3

TOTAL LOAN FUND PROGRAM FY 1976--$1,385,609**

*. This is a deferred loan program whereby the payment of interest and principal may be postponed up to 5 years.

** It should be noted that if the state employed commercial rates of interest, it could increase its annual revenues by as much as $1.39 million dollars. This figure is based on the assumption that there would not be a significant decline in the demand for state loans at commercial rates of interest.

*** These interest rates were obtained from the loan department of Behrends Bank.

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Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
(907) 276-3433
528 W. 5TH, SUITE 270
ANCHORAGE, AK. 99501
[POUCH V, JUNEAU, AK. 99811]
(907) 465-3873

House of Representatives

October 3, 1977

Dear Mike,

Enclosed are all of the materials I have concerning the State's loan programs. Sorting out the relevant policy considerations from this jumble is not easy. I spoke with Terry over the weekend and we feel that as of now the RRDF should not seek to "fold in" the renewable resource-related loan programs. We will be able to fund them if our planning and evaluation process shows them to be desirable investment of the Fund, however. Nevertheless, the political, bureaucratic, strategic etc. realities lead us to feel that the RRDF will have enough on its hands to manage its funds wisely. Grand reorganization schemes over the Departments or the loan programs should be part of a "phase II," once we get what is spelled out in out interim report through the legislature. Of course, we remain open to House or Senate Permanent Fund Committee recommendations regarding the loan programs.

Yours,

Tom

Tom Singer

Agricultural Revolving Loan Fund

Statutory Authority: AS 03.10.020

Administrative Regulations: 11 AAC 39.010
11 AAC 39.030

Objective: "...to promote the more rapid development of agriculture as an industry throughout the State by means of long-term, low interest loans."

Eligibility: Alaskan resident farmers, homesteaders, or like partnerships and corporations. Prior experience in type of operation loan sought for; at least 2 years experience in Alaska for chattel loans, 3 years experience in Alaska for farm development loans.

Terms: No other financing available to borrower.

Loan Types: Short term: maximum \$25,000/max. 1 year term/ max. 6% interest.
Farm development: maximum \$200,000/ max. 30 year term/max. 6% interest.
Chattel: maximum \$100,000/max. 7 year term/ max. 6% interest.
Irrigation: no maximum stated/max. 10 year term/max. 4% interest.

Board shall fix terms of repayment and set interest rates not to exceed those listed above.

Implementation: Money usually given directly to borrower. If bank work involved, bank disperses funds at no additional cost to borrower.

Fund limited to \$5,000,000. The Department of Revenue is required to purchase all loans.

Commercial Fishing Revolving Loan Fund

Statutory Authority: AS 16.10.300

Administrative Regulations: 3 AAC 80.100

Objective: ...to promote the development of a predominantly resident fishery and continued maintenance of commercial fishing gear and vessels throughout the State by means of long-term low interest loans.

Eligibility: Loans may be made for repair, upgrading or restoration of existing vessels and gear; purchase of entry permits, gear, and the construction and purchase of vessels. Applicant must be commercial fisherman; Alaskan resident for continuous 5 year period; holder of commercial fishing license for 3 year period.

Terms: Maximum $150,000/max. 15 year term/max. 7% interest.
Loans secured by first lien and appropriate security agreements (except lien in favor of state is not required for loans guaranteed fully by federal government under Federal Shipping Financing Act). Loans may not exceed 75% of appraised value of collateral used to secure loans.

Fund limited to $1,000,000

Fisheries Enhancement Loan Program

Statutory Authority: AS 16.10.500 - 550

Administrative Regulations: None

Objective: "...to promote the enhancement of the state's fisheries by means of long-term low interest loan for hatchery planning and construction."

Eligibility: Loans made to non-profit salmon hatchery permit holders; or qualified non-profit corporation or local non-profic corporation approved by qualified regional association for preconstruction activities necessary to obtain permit.

Terms: Maximum loan is 75% of total cost not to exceed $300,000. for private non-profit corporation and $3,000,000. for non-profit corporation established or approved by qualified regional association.
25 year term/max 8% interest
Loans secured by acceptable collateral.

Fund limited to $200,000,000, total loanable each year set by legislature: $3,000,000 in FY'77, $10,000,000 in FY'78. The Department of Revenue is required to purchase these amounts; and the ceiling goes to $200,000,000 in FY'79.

7. Tourism Revolving Loan Fund

Statutory Authority: AS 45.090

Administrative Regulations: 3 AAC 84.010
3 AAC 84.080

Objective: None stated

Eligibility: Funds to be used for construction of new facilities. Applicants may be any business involved in tourist industry in Alaska which shows potential for growth of business, increase in employment, or increase in services available to tourists.

Terms: State participation in loan not to exceed \$3 million and, if loan in excess of \$150,000, private financial institution must participate in not less than 20% of total loan amount. Loans made for up to 20 years at 8% interest on state's share. The participating financial institution shall administer the loan for a fee not to exceed one half of 1%.

Loan secured by acceptable collateral is not to exceed 75% of appraised value of collateral.

\$1,000,000 available at 2½% from the sale of commercial paper.

Dept. of Revenue must purchase all ~~small bus~~ tourism loans.

Water Resources Revolving Loan Fund

Statutory Authority: AS 45.86.019 - .050

Administrative Regulations: None

Objective: "...to develop and conserve in the public interest the water resources of Alaska."

Eligibility:	Public utilities that can demonstrate economic and technical feasibility of project. Emphasis on hydroelectric projects.
Terms:	Loans at 6% interest and limited to 7 years or start of project construction, whichever is sooner.

Management: Commissioners of CRA, Commerce, Administration, and Revenue constitute the decision-making Committee.

$2,500,000 was appropriated last year.

ALASKA MEMORANDUM

IMPLIC. FOR FAILURE OF AK ST. DEV. CORP + SB Dev. Corp. for P.F. efforts

TO: Ronald D. Lehr, Deputy Director
Division of Budget and Management
Office of the Governor

DATE: October 11, 1976

FROM: James Stey, Budget Analyst
Division of Budget and Management
Office of the Governor J. Stey

SUBJECT: State Loan Programs

LACK OF ENTREPRENEUR

CALL PETE JEANS 5-2510 Div. of Bus. Loans

In FY 76 the State of Alaska loaned $56.8 million dollars to its residents. Farmers, fishermen, and businessmen used twenty percent of this sum to develop their respective industries. Veterans borrowed seventy three percent of this total to finance personal expenditures and to build or buy new homes. Students used the remaining seven percent of the funds to attend vocational schools and universities. During the next ten to twenty years, the state shall receive roughly $4.1 million dollars in annual interest payments on the value of loans issued in FY 76. Excluding the costs of delinquent notes, defaults and administrative expenses, this represents approximately a seven and a third percent return on the original investment. Some financial analysts estimate that the state could obtain a higher return on their reserve revenue by investing it in first class bonds and federal securities. This suggests that the State's loan programs are more than just another investment portfolio. The purpose of this memo is to provide a brief examination of these loan programs. Specific attention is given to the legislative intent administrative goals and the organization of these programs. Information concerning the value of outstanding loans, statutory loan limitations and program accomplishments is available in the attachments at the end of this memo.

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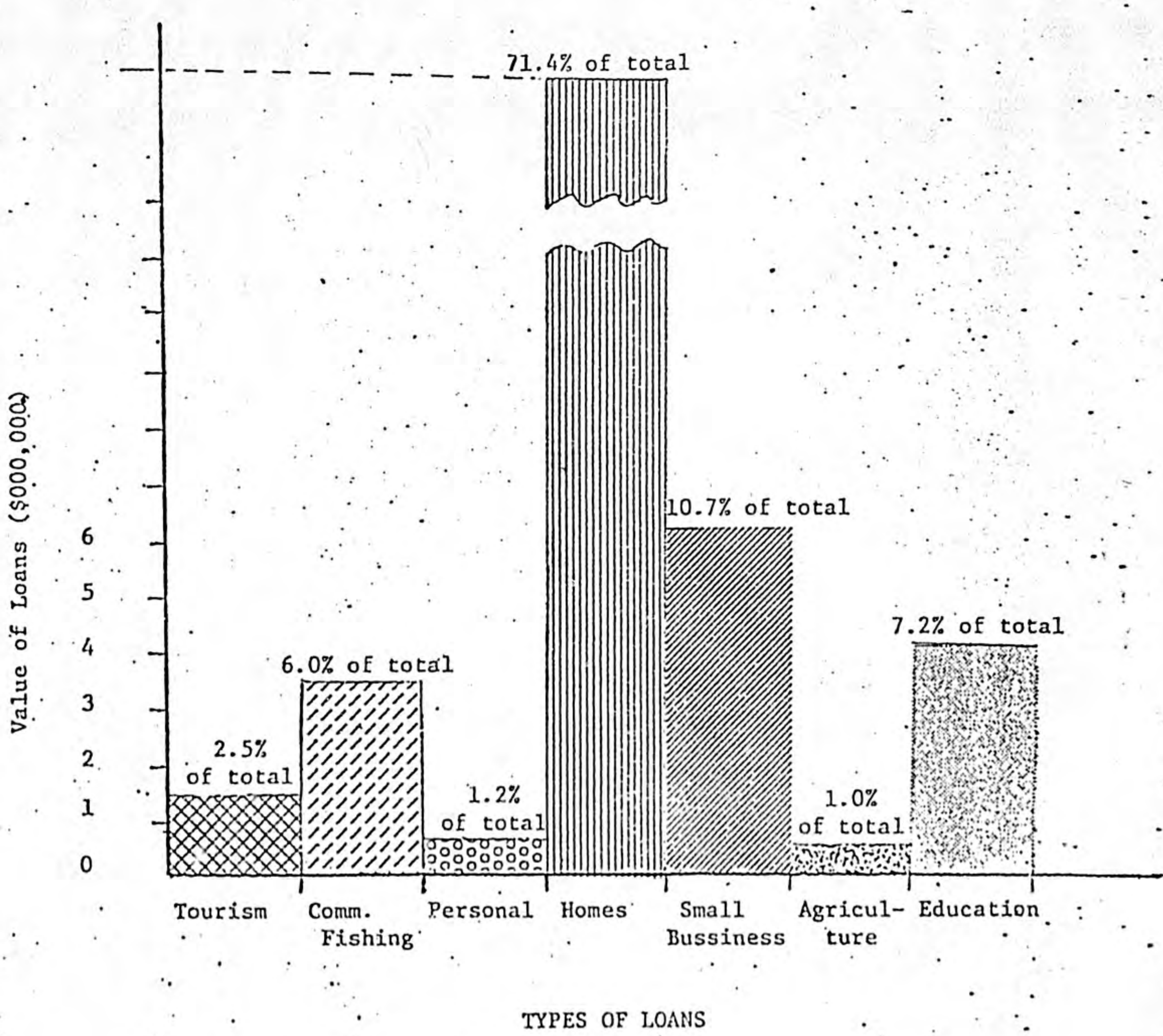
LOAN FUND ACTIVITY IN FY 76



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JS/mjc
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Fisheries Enchancement Loan Program	To produce fish for common property fisheries.	- not stated -
Water Resources Revolving Loan Fund	To assist the development of hydroelectric and water supply projects.	- not stated
Alaska Municipal Bond Bank Authority	To help municipalities market their bonds at a lower Cost.	1. To purchase $10,000,000 in municipal bonds in FY 77.
Alaska State Development Corporation	To develop and stimulate the business prosperity and economic welfare of Alaska.	1. To provide loans to businesses.
Small Business Development Corporation	To develop and stimulate the economic welfare in Alaska.	1. To insure high risk development loans.
Senior Citizen Housing Development	To develop senior citizen housing	1. To make grants or loans to municipalities or to corporations for the purpose of developing senior citizen housing.

ATTACHMENT B

LEGISLATIVE INTENTIONS

Commercial Fishing Revolving Loan Fund	AS 16.10.300 -- to promote the development of a predominately resident fishery and continued maintenance of commercial fishing gear and vessels . . .
Tourism Revolving Loan Fund	AS 45.090 -- No expressed intent.
Agriculture Revolving Loan Fund	AS 3.10.010-060 . . . to promote the more rapid development of Agriculture as an industry throughout Alaska . . .
Veterans Affairs Revolving Loan Fund	AS 26.15 & 010 - 070 -- No expressed intent.
Small Business Loans Revolving Fund	AS 45.095 - 010 -- No expressed intent.
Student Financial Aid Revolving Fund	AS 14.40.751 - 806 -- No expressed intent.
Child Care Facilities Revolving Loan Fund	Senate Bill 753 -- No expressed intent.
Fisheries Enhancement Loan Fund	AS 16.10.500 - 550 . . . To promote the enhancement of the State's fisheries . . .
Water Resources Revolving Loan Fund	AS 45.86.010 - 050 . . . To develop and conserve in the public interest the water resources . . .
Senior Citizen Housing Development	HB 815 -- for developing senior citizen housing.

ATTACHMENT C.

LOAN FUND PERFORMANCE MEASURES
FY 76

LOAN FUND	MEASURE	PLAN	ACTUAL
Commercial Fishing	No. of Salmon hatcheries contracted	3	1
	No. of fishing loan applications processed	120	143
	No. of fishing loans made	80	71
	% of total fishing loan assisting fisherman in new fisheries	8%	3% (2 of 71)
Tourism	No. of jobs created by tourism projects	150	70
	No. of tourist attractions financed	10	4
	No. of loan applications	9	9
	No. of loans made	4	4
Agriculture	No. of loan applications processed	120	74
	No. of loans made	46	51
	Value of loans issued	$700,000	$587,600
	No. clients/no. loans outstanding	134/235	127/222
	Value of outstanding loans supervised	$4,400,000	$4,311,500
	Delinquency rate (90 days) (Value deliq. loans x 100) (Value outstanding loans)	8%	16.4%
	No. clients in litigation/value loans in litigation	8/NA	14/$506,028
Veteran's Affairs	No. loan applications processed	1800	1147
	No. loans made	1500	945
	Value of loans approved	55,000,000	45,159,275
Small Business	% of business loans involving local bank participation	6%	20% (7 of 34)
	No. of loan seminars held	12	8
	No. of loan applications processed	120	97
	No. of loans made	80	34
Student Financial Aid	No. loans made.	2200	2087
	Value loans made	$4,100,100	$4,100,000
	No. student making payments	900	NA
	Value of collections	$ 308,500	NA

ATTACHMENT D

HOLDERS OF STATE LOANS

Loan Fund		Loan Fund	% of Loans Held By Revenue	Other	Statutory Limits on Loans Sold To Treasury
Commercial Fishing	$ 5,724,919	14%	86%		$5,000,000
Tourism	8,611,947	2%	98%		no limit
Agriculture	4,311,495	83%	14%	3%	no limit
Veterans	112,316,584	7%	92%	1%	no limit
Small Business	6,160,805	5%	95%		no limit
Student Aid	12,642,554	100%	___	___	$-0-
TOTALS	$149,768,304	17.3%	82.1%	0.6%	
		($25,946,482)	($122,921,823)	($900,000)	

New Loan Funds in FY 77	Loan Fund Capitalization Limits	Limits on Loans Purchased By the Treasury Department
Water Resources	$2,500,000	Not Stated
Fisheries Enhancement		$200,000,000
Child Care Facilities	$ 50,000	$ 300,000
Senior Citizen Housing Development	6,000,000	Not Stated

ATTACHMENT E

INTEREST SAVINGS -- DIFFERENCE BETWEEN ANNUAL INTEREST PAID TO LOAN FUNDS AND COMMERCIAL BANKS

Type of Loan	# of Loans in FY 76	Value of Loans Made in FY 76	Interest Rates State	Interest Rates Banks	Approximate Interest paid to: State	Approximate Interest paid to: Banks***	Increased Revenue Total Savings	Average Annual Savings per Loan
TOURISM	4	$1,400,000	8%	10½%	$ 112,000	$ 147,000	$ 35,000	$8,750
COMMERCIAL -- CFRLF	71	3,300,000	7%	11%	231,000	363,000	132,000	1,860
FISHING -- VRLF	2	98,000	7½%	11%	7,350	10,780	3,430	1,715
PERSONAL	88	749,429	7½%	10%	56,207	74,943	18,736	212
HOME & MULTI DWELLING UNITS	98	40,572,311	7½%	9 3/4%	3,042,923	3,955,800	912,877	1,144
SMALL BUSINESS -- SBRLF	34	2,400,000	8%	10½%	192,000	252,000	60,000	1,765
-- VRLF	57	3,739,534	7½%	10½%	280,465	392,651	112,186	1,968
AGRICULTURE	51	587,600	6%	11%	35,256	64,636	29,380	576
STUDENT *	2087	4,100,000	5%	7%	205,000	287,000	82,000	39

TOTAL LOAN FUND PROGRAM FY 1976--$1,385,609**

* This is a deferred loan program whereby the payment of interest and principal may be postponed up to 5 years.

** It should be noted that if the state employed commercial rates of interest, it could increase its annual revenues by as much as $1.39 million dollars. This figure is based on the assumption that there would not be a significant decline in the demand for state loans at commercial rates of interest.

*** These interest rates were obtained from the loan department of Behrends Bank.

Loans Approved Since 1972
(as of March 15, 1977)

Loan Program	Number of Loans	Amount
Small Business	192	$11,695,575
Water Resources	1	450,000
Child Care	2	14,250
Tourism	35	14,328,150
Commercial Fishing	271	11,446,445
Fisheries Enhancement	1	1,000,000

Outstanding Portfolio Total
(as of March 2, 1977)

Loan Program	Number of Loans	Amount
Small Business	129	$ 7,365,036
Commercial Fishing	184	7,082,941
Tourism	24	9,501,768
Water Resources	1	450,000
Child Care	2	14,250
Fisheries Enhancement*		
Alaska State Developme[illegible]	14	2,042,541
Small Business Develop[illegible] Corp.	20	389,913
TOTALS	374	$26,846,449

Commitment for $1,000,[illegible] [illegible]ds are not disbursed.

Districts on p. 136 Blue Book

	Commercial Fishing				Small Business				Tourism			
istrict	Granted	#	Denied	#	Granted	#	Denied	#	Granted	#	Denied	#
1	$ 1,133,039	29	$ 468,100	11	$ 1,164,350	16	$ 295,000	5	$ 751,600	2	$ 916,000	2
2	1,611,968	40	655,017	15	265,000	3	63,500	3	345,000	3		
3	1,250,261	27	36,000	2	886,000	16	141,000	6	1,752,000	3		
4	2,059,532	57	1,074,750	24	3,389,050	58	1,173,500	25	2,795,600	5	1,000,000	1
5	2,792,845	60	564,877	19	298,000	7	232,000	4	2,028,000	3	2,414,225	4
6					253,400	5	100,000	1	199,000	2		
7-12	732,000	18	417,745	8	3,952,060	54	2,333,448	46	6,071,327	11	2,226,500	11
13	4,873,618	50	296,400	11	2,261,718	34	1,749,500	21	160,000	1	449,153	5
14	2,072,750	29	265,100	6	326,500	8	105,000	3				
15	674,175	14	82,500	1	100,000	1	57,000	1				
16	100,900	4	45,000	3	75,000	1	100,000	1	254,950	2		
17					83,000	3	10,000	1	1,000,000	1		
18					10,000	1						
19					25,000	3	160,000	2	115,000	2	185,000	3
20	11,250	1	46,000	1	2,206,700	30	440,750	8	3,472,000	6	1,561,900	4
21					20,000	1			1,000,000	1		
22					120,000	2						
eattle			98,147	1	23,000	1			532,000	3		
OTAL	$ 17,312,068	329	$ 4,049,636	102	$ 15,458,778	244	$ 6,960,698	127	$ 20,476,447	45	$ 8,752,778	30

	Fisheries Enhancement				Child Care				Water Resources			
District	Granted	#	Denied	#	Granted	#	Denied	#	Granted	#	Denied	#
1									$ 420,000	1		
2	$ 15,000	1							1,210,000	2		
5	1,600,000	3										
7-12					$ 14,250	2	$ 20,000	2				
14									420,000	1		
TOTAL	$1,615,000	4			$ 14,250	2	$ 20,000	2	$ 2,050,000	4		

628 loans approved totalling $ 56,926,543

261 loans denied totalling 19,783,112

889 total loan applicants $ 76,709,655 total dollars requested*

* This figure is a rough estimate as some individuals actually requested a greater or lesser amount than was granted. All the above data was received from the Division of Loans, Department of Commerce and Economic Development on September 28, 1977.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

ALASKA UTILITIES ASSOCIATION

2700 E. Tudor Road • **Anchorage, Alaska • Phone 277-6591**

April 1, 1977

The Honorable Clark Gruening
House Finance Committee
State Capitol Building
Juneau, AK 99811

HB - 356
Re: An Act to the water resources revolving loan fund corresp

Dear Representative Gruening;

We feel that the utilization of state revenues available from non-renewable resource development and placed in the "permanent fund" can be used by public utilities to the benefit of the Alaska population. The existing bill makes loan funds available for electric and water utilities only. Our recommendation would be that all public utilities as defined in AS 42.05.701(2)(A) and (C) be eligible to obtain financing under this proposal.

Of paramount importance is that the legislature recognize utilities for what they really are--cost plus contractors. If the state can assist in making funds available at reasonable rates, the ratepayer who is also the Alaska taxpayer will be the one who ultimately benefits.

We find that the interest range being offered in the bill (not less than 3% or more than 5%) is extremely generous. The utilities are familiar with having to pay the market interest rate for their money and are prepared to continue to do so, if this low rate of return on state money is object to.

In summary, we feel a bill offering state monies to certain types of utilities should be expanded to all state regulated utilities. The money made available under a revolving loan concept would enable the rapidly expanding utilities in the state to finance their needed expansion and upgrading with a loan whose term approximate the life of the assets being equipped. The money is obtained in Alaska and spent in Alaska for Alaskans. Any reduction in the interest rate over that currently being paid by the utilities will reduce their revenue requirements, thereby providing for lower rates which impact the Alaskan ratepayer.

If you desire further information, please feel free to contact me.

Sincerely,

Robert B. Smith

Robert B. Smith
President

mb

Introduced: 3/16/77
Referred: Commerce and Finance

IN THE HOUSE

BY GARDINER, DUNCAN, ELIASON, FREEMAN, HAUGEN, MILLER, SNIDER, AND SPECKING

HOUSE BILL NO. 356

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the water resources revolving loan fund."

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

* Section 1. AS 45.86.010 is amended to read:

Sec. 45.86.010. FUND ESTABLISHED. There is established as a separate fund the water resources revolving loan fund. Loans from this fund are to be used to develop and conserve in the public interest the water resources of Alaska, using state revenues from <u>nonrenewable resource</u> [MINERAL] development.

* Sec. 2. AS 45.86.020 is repealed and re-enacted to read:

Sec. 45.86.020. FUND UTILIZATION. (a) Loans from the fund shall be for a term not to exceed 50 years, and the rate of interest shall be not less than three nor more than five per cent per year on the unpaid balance. The repayment schedule shall be as determined by the department. Repayment of a loan shall commence at the date of commercial operation of the project or 10 years from the date the loan is granted, whichever is sooner.

(b) The loans may be used for capital construction projects, for hydroelectric generation and potable water supply including surface storage and groundwater sources and transmission of water from surface storage to the existing distribution system, and development of hydroelectric generating facilities including transmission of power to the load center. Loans may be made to applicants for new or existing projects including feasibility and preconstruction engineering studies, expenses incurred in securing necessary permits and licenses, design of the project and construction of capital improvements. Existing hydroelectric and water supply projects may be expanded or rehabilitated with loan funds under this chapter if the rehabilitation and expansion is a capital improvement project.

(c) Loans shall be repaid to the fund by the borrower from revenue derived from the sale of electric power or water.

* Sec. 3. AS 45.36.040(b) and (c) are repealed and re-enacted to read:

(b) There is created within the department the Water Resources Revolving Loan Fund Committee chaired by the commissioner or his deputy, and including as members the director of the division of energy and power development and the director of the division of business loans. The committee shall review all applications referred to it for approval by the department.

(c) The department shall establish a priority list for the approval of project applications based upon a determination of which projects will better serve the interests of the state. An applicant may appeal the level of priority assigned to his application by requesting a review of the list of priorities by the committee. The committee, upon sufficient notice and a public hearing, may change an assigned priority. Applications not approved due to a lack of funds will retain the priority assigned and may be held for reconsideration.

* Sec. 4. AS 45.36.040 is amended by adding a new subsection to read:

(d) If the committee finds that preconstruction feasibility and engineering studies establish that a project is not feasible from either a technical, economic or financial viewpoint, the department may waive repayment of loans granted to conduct the studies.

* Sec. 5. AS 45.36.050 is amended to read:

Sec. 45.36.050. ELIGIBILITY FOR PROJECT LOANS. A public utility is an eligible borrower for a project loan under this chapter if

(1) it is a public utility as defined in AS 42.05.701(2)(A), and (C);

(2) the utility can demonstrate in its loan application that the project is economically and technically [AND] feasible and, taking into account the low interest on loans under this chapter, is the most economical means of furnishing the proposed service.

* Sec. 6. AS 45.86 is amended by adding a new section to read:

Sec. 45.86.060. DEFINITIONS. In this chapter,

(1) "commissioner" means the commissioner of the Department of Commerce and Economic Development;

(2) "department" means the Department of Commerce and Economic Development.

of ALASKA

TO: Ronald D. Lehr, Deputy Director
Division of Budget and Management
Office of the Governor

DATE: October 11, 1976

FROM: James Stey, Budget Analyst
Division of Budget and Management
Office of the Governor
J. Stey

SUBJECT: State Loan Programs

In FY 76 the State of Alaska loaned $56.8 million dollars to its residents. Farmers, fishermen, and businessmen used twenty percent of this sum to develop their respective industries. Veterans borrowed seventy three percent of this total to finance personal expenditures and to build or buy new homes. Students used the remaining seven percent of the funds to attend vocational schools and universities. During the next ten to twenty years, the state shall receive roughly $4.1 million dollars in annual interest payments on the value of loans issued in FY 76. Excluding the costs of delinquent notes, defaults and administrative expenses, this represents approximately a seven and a third percent return on the original investment. Some financial analysts estimate that the state could obtain a higher return on their reserve revenue by investing it in first class bonds and federal securities. This suggests that the State's loan programs are more than just another investment portfolio. The purpose of this memo is to provide a brief examination of these loan programs. Specific attention is given to the legislative intent administrative goals and the organization of these programs. Information concerning the value of outstanding loans, statutory loan limitations and program accomplishments is available in the attachments at the end of this memo.

The state maintained six revolving loan funds in FY 76: Small Business Development, Tourism, Commercial Fishing, Veteran's Affairs, Agriculture, and Student Financial Aid. In addition to these programs, four new loan funds (Water Resources, Fisheries Enhancement, Senior Citizen Housing Development, Child Care Facilities) were established and funded for operations in FY 77. The Alaska State Development Corporation, and the Small Business Development Corporation maintain revolving loan funds. However, today these loan funds are inactive. The Power Project Development Loan Fund is also a new loan fund in FY 77. It is administered by the Power Development Authority. However, those loan funds whose operations are outside the control of line agencies are not a subject of this memo. Attachment A lists the goals and objectives, as defined by program managers, of these ten loan fund programs. In several instances these goals and objectives are quite broad and fail to identify the ultimate aims (end products) of the given program. Generally, program managers are more concerned about the manner and not the reasons for operating their loan programs. The legislative intent pertinent to each loan fund underscores the significance of function over purpose. Only five of the ten loan fund legislative acts state the intentions (goals) of the established fund. (see Attachment B) However, each act precisely

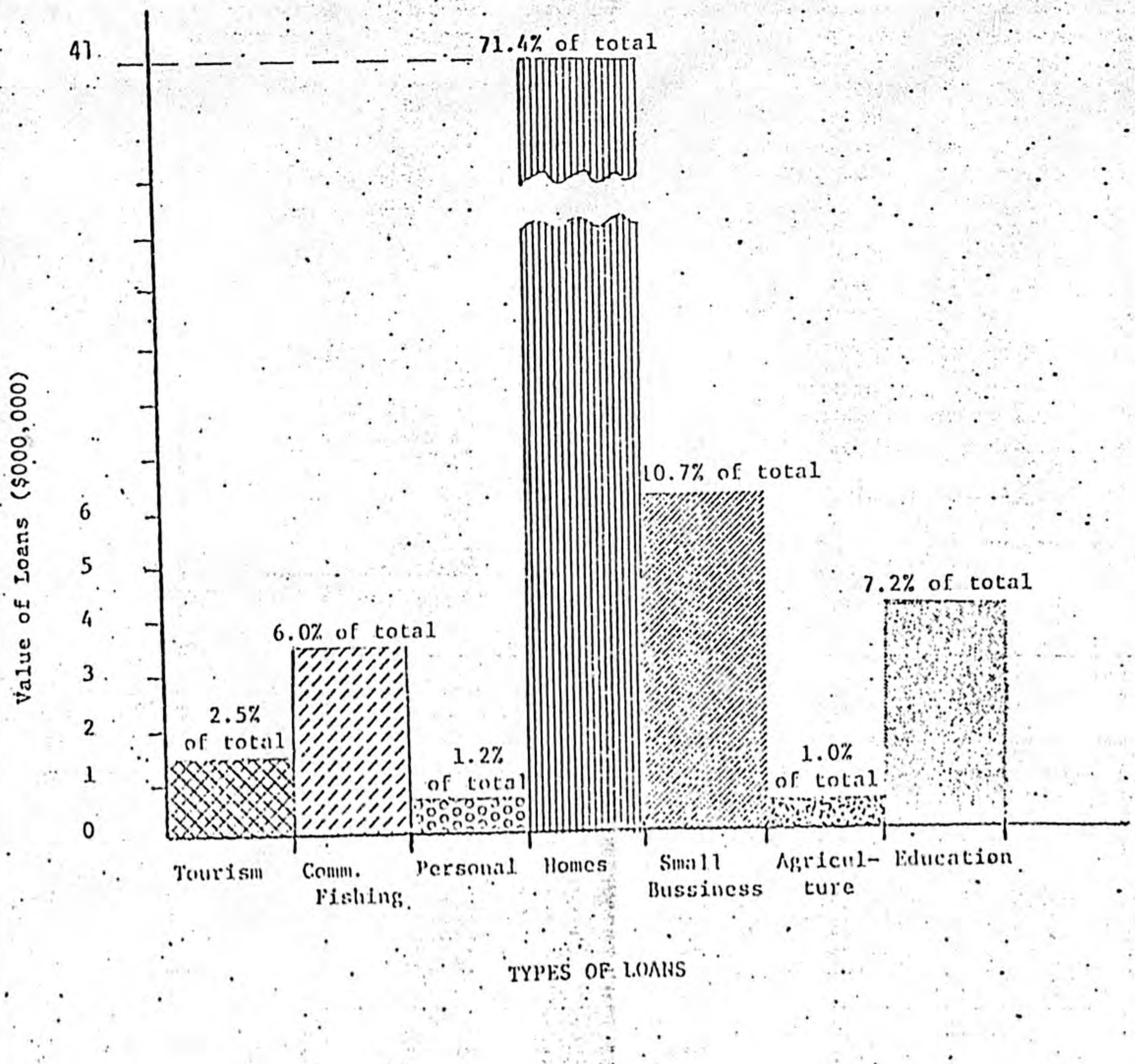
defines the duties and powers of the commissioner relative to each loan fund. Thus it is not unusual for program managers to confuse program activities (making loans) with what would seem to be the real program objectives, social or economic development. For example, some program managers argue that their objective is to make as many good loans as possible simply because the law compels them to do so. This is demonstrated on attachment C, which delineates the performance measures of the loan fund programs that were active in FY 76. These workload measures provide very little information with which to evaluate the extent to which each fund contributes to the development of Alaska or its citizens.

As an alternative measure of importance, it might seem that a review of the capitalization limits (total appropriated dollars) of each revolving fund would suggest the priority of each loan fund. However this is not the case with our revolving loan funds because they do not genuinely revolve, i.e., they are not self-supporting. Each revolving fund contains a basic appropriation. In addition to this, most funds have a "back door" financial agreement with the Department of Revenue. Through this arrangement, loan fund managers may sell virtually all of their loans (mortgages) to this Department. Hence loan fund managers and loan fund committee members in effect set the state's loan policy by deciding on the type, quality, and value of loans that are issued. The bar graph on the following page summarizes the result of loan fund activity in FY 76. Note that the value of housing loans made to veterans is roughly two and a half times the value of loans made to the tourist, fishing and small business industries.

The size and value of the loan programs have increased steadily since 197(Still, there does not appear to be any legislative or administrative checks on the quality and/or volume of loans administered by the revolving funds. Attachment D contains a list of the value of outstanding loans and the holders of these loans, i.e., the revolving funds and the Treasury Department. It also identifies the capitalization limits (general appropriations made to each revolving fund) and the statutory limits placed on the value of loans sold to the state Treasury. At the present time only 4 out of 10 loan funds have limits placed on the total value of loans which could be sold to the Treasury.

Although the State does receive interest on these loans, these programs are not primarily intended to be income-producing assets. A good deal of these loans have been made to what banks would rate as high risk industries, e.g., commercial fishing and agriculture. Furthermore the rate of interest which the state charges its borrowers tends to be significantly lower than the interest rates of commercial banks for similar loans (see attachment E). It is generally argued that the state operates loan programs to enhance economic development through the provision of goods and services which otherwise would not be available in the private sector. Yet, there is virtually no concrete information to confirm that these programs have influenced development.

LOAN FUND ACTIVITY IN FY 76



In 1973 the consolidation of the various loan programs was a subject of issue analysis. It was thought that; "consolidation would lead to more uniform procedures, decision criteria, and result in clearer public understanding and less arbitrariness in granting loans." Managers of the loan programs resisted the consolidation, maintaining that it would: (1) raise operating costs without producing commensurate savings, and (2) undermine the unique services provided by each loan program. It appears that the bulk of the information presented to the Budget Review Committee was simply a compilation of memos from loan fund managers. Evidentally, this information was persuasive enough to cause the BRC to recommend against merger at that time.

Some of the factors which precipitated this examination in 1973 are germane to issue analysis today. For instance there are 10 active loan programs which often share common objectives, i.e., economic development, personal financial assistance, and education and social service developments. These programs are controlled by 5 independent management units. For example, the Developmental Loans budget request unit (BRU) envelopes six loan funds while each of the remaining four loan funds; Senior Citizen Housing Development, Student Aid, Veterans' Affairs, Agriculture, is a separate BRU.

Furthermore, there are very few uniform procedures, standard decision criteria, output measures etc. for each loan program. For example several loan funds have different definitions for the rate of delinquency, or for the factors which constitute a "good" or "bad" loan. Consequently it is extremely difficult to compare even the most basic loan fund activity.

The purpose of this memo has been to provide background on our loan fund programs. As the state continues to expand its loan programs, it would seem appropriate that the state do the following things:

1. devote some of its resources to the development of a solid policy concerning the objectives and the administration of loan fund programs.

2. develop a mechanism for evaluating the effectiveness (impact) of each loan fund program on the overall economic and social development in Alaska.

3. study the administrative efficiency of our loan fund programs.

JS/mjc
Attachments

ATTACHMENT A

LOAN FUND	GOAL	OBJECTIVE
Commercial Fishing	To maintain a reasonable standard of living in Alaska by developing the commercial fishing industry.	1. To produce more fish 2. To increase fishing in undeveloped fisheries
Tourism	To maintain a reasonable standard of living in Alaska by developing the local tourist industry.	1. To create new jobs
Agriculture	To improve the quality and nutritional value of food products grown in Alaska. To supply these food products at the lowest price by developing the Agriculture Industry.	1. To assist farmers who cannot obtain loans at a reasonable interest rate in the private sector. 2. To improve farming efficiency and increase the quality of the product.
Veterans Affairs	To reward Veterans and Alaskan guardsmen for military service.	1. To make loans to all veterans and guardsmen.
Small Business	To maintain a resonable standard of living in Alaska by developing small businesses.	1. To increase local bank participation in small business loans. 2. To provide information on the loan fund program.
Student Financial Aid Revolving Loan Fund	To assist students to secure a post secondary education and to encourage the students to live in Alaska after their schooling.	1. To make loans to needy students 2. To collect loan repayments.
Child Care Facilities Revolving Loan Fund	No expressed goal or intent.	- not stated -
Fisheries Enchancement Loan Program	To produce fish for common property fisheries.	- not stated -
Water Resources Revolving Loan Fund	To assist the development of hydroelectric and water supply projects.	- not stated
Alaska Municipal Bond Bank Authority	To help municipalities market their bonds at a lower Cost.	1. To purchase $10,000,000 in municipal bonds in FY 77.
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Senior Citizen Housing Development.	HB 815 -- for developing senior citizen housing.

ATTACHMENT C.

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FY 76

LOAN FUND	MEASURE	PLAN	ACTUAL
Commercial Fishing	No. of Salmon hatcheries contracted	3	1
	No. of fishing loan applications processed	120	143
	No. of fishing loans made	80	71
	% of total fishing loan assisting fisherman in new fisheries	8%	3% (2 of 71)
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	No. of tourist attractions financed	10	4
	No. of loan applications	9	9
	No. of loans made	4	4
Agriculture	No. of loan applications processed	120	74
	No. of loans made	46	51
	Value of loans issued	$700,000	$587,600
	No. clients/no. loans outstanding	134/235	127/222
	Value of outstanding loans supervised	$4,400,000	$4,311,500
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	No. clients in litigation/value loans in litigation	8/NA	14/$506,028
Veteran's Affairs	No. loan applications processed	1800	1147
	No. loans made	1500	945
	Value of loans approved	55,000,000	45,159,275
Small Business	% of business loans involving local bank participation	6%	20% (7 of 34)
	No. of loan seminars held	12	8
	No. of loan applications processed	120	97
	No. of loans made	80	34
Student Financial Aid	No. loans made.	2200	2087
	Value loans made	$4,100,100	$4,100,000
	No. student making payments	900	NA
	Value of collections	$ 308,500	NA

ATTACHMENT D

HOLDERS OF STATE LOANS

Loan Fund		Loan Fund	% of Loans Held By Revenue	Other	Statutory Limits on Loans Sold To Treasury
Commercial Fishing	$ 5,724,919	14%	86%		$5,000,000
Tourism	8,611,947	2%	98%		no limit
Agriculture	4,311,495	83%	14%	3%	no limit
Veterans	112,316,584	7%	92%	1%	no limit
Small Business	6,160,805	5%	95%		no limit
Student Aid	12,642,554	100%	____	____	$-0-
TOTALS	$149,768,304	17.3%	82.1%	0.6%	
		($25,946,482)	($122,921,823)	($900,000)	

New Loan Funds in FY 77	Loan Fund Capitalization Limits	Limits on Loans Purchased By the Treasury Department
Water Resources	$2,500,000	Not Stated
Fisheries Enhancement		$200,000,000
Child Care Facilities	$ 50,000	$ 300,000
Senior Citizen Housing Development	6,000,000	Not Stated

ATTACHMENT E

INTEREST SAVINGS -- DIFFERENCE BETWEEN ANNUAL INTEREST PAID TO LOAN FUNDS AND COMMERCIAL BANKS

Type of Loan	# of Loans in FY 76	Value of Loans Made in FY 76	Interest Rates State	Interest Rates Banks	Approximate Interest paid to: State	Approximate Interest paid to: Banks***	Increased Revenue Total Savings	Average Annual Savings per Loan
TOURISM	4	$1,400,000	8%	10½%	$ 112,000	$ 147,000	$ 35,000	$8,750
COMMERCIAL -- CFRLF	71	3,300,000	7%	11%	231,000	363,000	132,000	1,860
FISHING -- VRLF	2	98,000	7½%	11%	7,350	10,780	3,430	1,715
PERSONAL	88	749,429	7½%	10%	56,207	74,943	18,736	212
HOME & MULTI DWELLING UNITS	98	40,572,311	7½%	9 3/4%	3,042,923	3,955,800	912,877	1,144
SMALL BUSINESS -- SBRLF	34	2,400,000	8%	10½%	192,000	252,000	60,000	1,765
-- VRLF	57	3,739,534	7½%	10½%	280,465	392,651	112,186	1,968
AGRICULTURE	51	587,600	6%	11%	35,256	64,636	29,380	576
STUDENT *	2087	4,100,000	5%	7%	205,000	287,000	82,000	39

TOTAL LOAN FUND PROGRAM FY 1976--$1,385,609**

* This is a deferred loan program whereby the payment of interest and principal may be postponed up to 5 years.

** It should be noted that if the state employed commercial rates of interest, it could increase its annual revenues by as much as $1.39 million dollars. This figure is based on the assumption that there would not be a significant decline in the demand for state loans at commercial rates of interest.

*** These interest rates were obtained from the loan department of Behrend's Bank.

STATE
of ALASKA

MEMORANDUM

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

TO: The Honorable Clark Gruening
Chairman
Alaska Permanent Fund Committee

DATE: March 17, 1977

FILE NO:

TELEPHONE NO:

FROM: H. Phillip Hubbard
Commissioner

SUBJECT: State Loan Programs

The following is in reply to your request for information on the State loan programs administered by this department.

Purposes: The purpose of each loan program varies with the specific applicable statute. With a possible exception of the Veterans' program. most loan programs were conceived to fill a void in the private money market where the private financial structure of the State would not, or could not, meet the needs of the people. Most of the programs were directed to the enhancement of small enterpreneurs and/or expansion of certain developmental industries or business. A couple of them had the enhancement of social benefits as their goal. Generally, the interest rate charged is lower than that rate charged by banks, and loans are usually considered to be a "higher risk" nature than that normally undertaken by private banks.

Division of Veterans' Affairs

The division administers the World War II Veterans Revolving Loan Fund, providing eligible veterans with home, multiple dwelling, business and personal loans.

Loan Type	Interest Rate	Maximum Dollar Amount	Participation Requirement	Maximum Term
1. Farm & Home	7.5%	$55,000	10%	30 years
2. Multiple Dwelling	7.5%	$80,000	25%	25 years
3. Business Loans	7.5%	$100,000	25%	15 years
4. Personal Loan	7.5%	$10,000		5 years

Qualified veterans may apply for more than one type of loan, but the aggregate amount may not exceed a total of $100,000 at any one time.

The program has been in existence since the early part of 1946. As of January 20, 1977, the loan portfolio consisted of 3500 loans at a dollar figure of $130 million. These figures do not include 100 approved construction loans in the amount of $5,126,200.00.

Year	Loans Made	No. of Loans	Amount
7/1/76-1/20/77	669	3500	$130,000,000.00
7/1/75-7/1/76	1,056	2927	105,922,158.00
7/1/74-7/1/75	1,164	2158	67,786,057.00
7/1/73-7/1/74	469	1377	32,744,181.00
7/1/72-7/1/73	318	1165	24,794,410.00
7/1/71-7/1/72	303	1000	17,560,007.00
7/1/70-7/1/71	177	939	11,376,613.00
7/1/69-7/1/70	111	848	9,034,584.00
7/1/68-7/1/69	83	851	8,416,525.00
7/1/67-7/1/68	71	858	8,239,461.00
7/1/66-7/1/67	74	867	8,205,162.00
7/1/65-7/1/66	203	905	8,367,265.00
7/1/64-7/1/65	180	888	7,081,414.00
7/1/63-7/1/64	149	869	6,519,411.00
7/1/62-7/1/63	208	900	6,440,093.00
7/1/61-7/1/62	173	851	5,671,835.00
7/1/60-7/1/61	197	858	5,422,954.00
7/1/59-7/1/60	215	840	4,983,995.00

The above figures do not include 100 approved construction loans in the amount of $5,126,200.00.

Funding for the program is via a revolving loan account whereby the Department of Revenue is required to purchase the mortgages. Administrative costs are offset by a service fee of .5% on each loan.

Division of Business Loans

The primary goal of the Division of Business Loans is to provide Alaskans with the goods and service necessary to maintain a reasonable standard of living through long-term, low-interest loans to the local small businesses and commercial fishermen providing the goods and services.

Types of Loans:

(1) The Small Business Revolving Loan Fund enables the division to make loans to small businesses in order to acquire, finance or refinance, or equip businesses, including mining, fishing, and farming equipment. Loans under this program must be secured by acceptable collateral and may not exceed $100,000 per borrower.

(2) The Commercial Fishing Revolving Loan Fund enables the division to make loans to individual commercial fishermen for the repair, restoration or upgrading of existing vessels and gear, the purchase of limited entry permits, and the construction or purchase of fishing vessels. Loans must be secured by a first lien and are limited to $100,000 per borrower.

(3) The Tourism Revolving Loan Fund enables the division to make loans for the development of tourist related facilities. Under this program the division is authorized to make direct loans up to $150,000 and participation loans up to $1,000,000.

(4) Fisheries Enhancement Loan Program, providing loans up to $3 million for construction of hatcheries.

(5) Child Care Revolving Loan Fund, providing loans of up to $10,000 to enable child care centers to comply with licensing standards.

(6) Water Resources Revolving Loan Fund, providing loans for seven community hydroelectric projects, specified by legislative intent. They are Petersburg, Petersburg/Wrangell, Sitka, Ketchikan, Kodiak, Anchorage, and Cordova.

(7) Alaska State Development Corporation's activities have been limited to portfolio maintenance due to available funds being too limited to allow for further lending. Federal rulings make it unlikely that a new bond issue will be made. The corporation will dissolve in 1983.

(8) The Small Business Development Corporation grants loans in participation with the Federal Small Business Administration under "502" program. These are high risk development loans and the S.B.D.C. portion is five percent of the total loan.

Loans Approved Since 1972
(as of March 15, 1977)

Loan Program	Number of Loans	Amount
Small Business	192	$11,695,575
Water Resources	1	450,000
Child Care	2	14,250
Tourism	35	14,328,150
Commercial Fishing	271	11,446,445
Fisheries Enhancement	1	1,000,000

Outstanding Portfolio Total
(as of March 2, 1977)

Loan Program	Number of Loans	Amount
Small Business	129	$ 7,365,036
Commercial Fishing	184	7,082,941
Tourism	24	9,501,768
Water Resources	1	450,000
Child Care	2	14,250
Fisheries Enhancement*		
Alaska State Development	14	2,042,541
Small Business Development Corp.	20	389,913
TOTALS	374	$26,846,449

Commitment for $1,000,000 funds are not disbursed.

Funding: Department of Revenue is required to purchase all small business and tourism loans and $9 million in commercial fishing loans. After July 1, 1977, Revenue will be required to purchase all commercial fishing loans.

Revenue is required to purchase $3 million in fisheries enhancement loans this fiscal year and $9 million the following fiscal year. The ceiling will go up to $200 million in FY 79.

Fifty thousand dollars ($50,000) was appropriated for the child care program. Revenue is required to purchase $200,000.

A $2,500,000 appropriation was passed last year for the water resources loan fund.

Alaska Housing Finance Corporation

The Alaska Housing Finance Corporation is a tax-exempt public corporation and governmental instrumentality created by the Alaska Legislature to assist in the financing, development, sale and rental of dwelling units for persons of lower and moderate income and for persons in remote, underdeveloped or blighted areas of the State.

The Corporation's activities principally involve the purchase of mortgage loans on single family dwellings.

AHFC's principal funds are derived from the sale of tax-exempt bonds to private investors. Most of these funds are used to purchase FHA and VA insured mortgages from commercial banks, savings and loan associations, and mortgage bankers.

All operating costs of the agency are derived from revenue of portfolio investments.

The attached charts show graphic comparisons between the various programs and years. Please note, however, that the figures for Business Loans only include small business, tourism and commercial fishing loans.