

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8072
227 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

TYPE OF LOAN

Commercial Fishing

YEAR 1976

<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
VANEK, STEVEN	Vessel	College	11/19/75	Dec. 9, 1975	12,450	11,250		
YUNKER, MIKE	Improvements	Fairbanks	11/14/75	Feb. 2, 1976	46,000		46,000	Not Dependent on Fisheries

ROOSE DISTRICT SeattleYEAR 1975TYPE OF LOAN Commercial Fishing

<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
SUYDAM, GLENN C.	Capital	Seattle	5/8/74	Jan. 21, 1975	98,147		98,147	Doesn't Meet Requirements for Loan

TYPE OF LOAN

CHILD CARE FACILITY

YEAR 1977

<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
LITTLE RED SCHOOLHOUSE	Equipment	Eagle River	11-15-76	Dec. 14, 1976	10,000		10,000	Not enough collateral
LITTLE RED SCHOOLHOUSE	Equipment	Eagle River	11-15-76	Dec. 15, 1976	10,000	10,000		
SVENDSEN, DEBBIE	Equipment	Anchorage	12-27-76	Jan. 18, 1977	4,239	4,250		
BUTTERFLY CHILDREN'S CENTER	Equipment for center	Anchorage	4-15-77	May 31, 1977	10,000		10,000	Unsecured loan

YEAR 1977

<u>TYPE OF LOAN</u>	<u>HATCHERY</u>							
<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
PRINCE WILLIAM AQUA CORP.	Const. salmon incubation facilities	Cordova	7-15-76	July 22, 1976	600,000	600,000		
PRINCE WILLIAM SOUND AQUA	Const. salmon incubation facilities	Cordova	4-15-77	April 19, 1977	400,000	400,000	Additional money	

YEAR 1977

TYPE OF LOAN

FISHERIES ENHANCEMENT

<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
KAKE NON-PROFIT HATCHERY CORP.	Pre-planning (engineering const.)	Kake	5-31-77	June 7, 1977	15,000	15,000		

HOUSE DISTRICT 5YEAR 1977

TYPE OF LOAN

FISHERIES ENHANCEMENT

<u>NAME</u>	<u>PURPOSE OF LOAN</u>	<u>LOCATION</u>	<u>DATE RECV'D</u>	<u>DATE ACTION TAKEN</u>	<u>AMOUNT REQUESTED</u>	<u>AMOUNT APPROVED</u>	<u>AMOUNT DISAPPROVED</u>	<u>REASON DISAPPROVED</u>
PRINCE WILLIAM SOUND AQUACULTURE (Additional money requested)	Const. salmon incubation facilities	Cordova	7-15-76	Feb. 10, 1977	500,000	600,000		

vide information, inspections, and arrange for financing of energy improvements.

The Gov't Nat'l Mortgage Ass'n would purchase loans made by commercial lenders for insulation and other energy improvements to existing homes.

Up to \$3 billion of such loans would be at below-market interest and go to families with incomes not above the median for their area.

Maximum subsidized loan would be \$2,500. GNMA would have discretion to purchase another \$2 billion in unsubsidized loans to families above the median in places where financing at reasonable cost is not otherwise available.

Conferees approve \$280 million annually for 3 years for grants up to \$800 to help lower-income families buy insulation material.

Additional money would also be available to pay for installation. Program is aimed at families up to 125% of the poverty level.

BOOST IN HOUSING SPENDING URGED

An ad hoc coalition for low-income housing calls for a major expansion of subsidized housing programs, in a letter Friday to President Carter.

The coalition wants Carter to seek a supplemental appropriation for fiscal 1978 to bring the total of new subsidized housing up to 600,000 units, from about 465,000 units provided in the current budgets of HUD and Farmers Home Administration.

It asks a minimum level of 600,000 new and rehabilitated units and 600,000 existing under subsidy in the fiscal 1979 budget that is now being prepared.

Signing the letter are officers of 37 organizations, including heads of major labor, civic, and civil rights groups.

FNMA AUCTION--ARE LENDERS EDGY?

A creeping trend to increased volumes at the Fed'l Nat'l Mortgage Ass'n auction of future mortgage purchase commitments breaks open at the Oct. 17 auction. Volume of FHA-VA offerings is about 2 1/2 times Oct. 3, \$325.8 million.

Economists forecast increasing mortgage rates the rest of this year, while the Fed'l Reserve System has moved to tighten credit. There is also some criticism that the Fed has lost control of the money supply.

Volume is the highest since the maximum FHA-VA rate rose to 8.5% in May.

FNMA takes \$212.6 million, 65%. Average on acceptances is 97.59, for gross yield of 8.843%, up .075. Range is 8.944-8.82%, 96.9-97.75, compared to 8.861-8.757%, 97.-47-98.19 on Oct. 3.

Conventional offerings are \$242.7 million, up from \$187.3 million. Average yield is 9.109%, up .044, with range of 9.76-9.075.

FNMA raises to \$75,000 limits on conventional loans eligible for purchase. Exception is \$112,500 limit in Alaska and Hawaii. For loans higher than 90% loan to value ratio, new limit is \$60,000, or \$90,000 in Alaska and Hawaii.

FNMA also establishes two yields for purchase of FHA projects, for cash payoffs and for debenture payoffs by FHA.

FNMA: HOW NOT TO MANAGE A BUSINESS-GOVERNMENT-SOCIAL POLICY OPERATION

Somebody ought to write a book about it.

Not a, and more than, Harvard Business School case study--a chronology, analysis and interpretation of how every interest involved with this floundering behemoth of complex power has been bruised by the inability to pursue political reality in a timely, straightforward way.

Sniped-at Chairman-Pres. Oakley Hunter, under house watch by the new-power Democrats, says Wednesday FNMA "should not be made a political football."

That's just the problem. If it had been a political handoff, within a week of Pres. Carter's accession, with Hunter's own rise to the top as precedent, all would be settled by now.

But it isn't. The 2 comforting things about it, for all the reports we've contributed, are that (a) FNMA goes about doing its business much as before, which, while critics say this could be better, certainly isn't bad; and (b) the stock market just doesn't give a damn.

Wednesday, after FNMA itself released the story of a 11-1 vote to reject a move to dismiss Hunter and other top management, and more general newscoverage occurred, the market ended at 15 1/2, unchanged.

Here are some of the latest developments:

-House and Senate leadership may be splitting. House Speaker O'Neill's given adviser John Barriere (H/A 10/7p7) the go-ahead to pass the word as his choice for FNMA Pres.

Senate Majority Leader Byrd passes along, to Pres., backing of Sens. Proxmire and Cranston for FNMA board member Ray Lapin, Calif. Democrat ousted as FNMA Pres. by Nixon in 1970, and succeeded then by Republican Hunter.

HUD, which weighs 3-5 candidates for FNMA top posts, might prefer Lapin as Chief Exec Officer to Barriere, but its warmth to either hasn't been evidenced so far.

HUD officials deny being at odds with the

New Housing Law—Cont'd

Mobile Home Loan Limits Raised. Single units raised to \$16,000... double-width units to \$24,000. Maximum term for double units raised to 23 years.

Federally-Insured Savings & Loan Limits Raised. Single-family home mortgage ceilings increased from \$55,000 to \$60,000.

Secondary Mortgage Limits Changed. Limit on conventional mortgages eligible for purchase by *FNMA* or *FHLMC* set at approximately \$75,000. The *Tandem Plan* purchases (under *Brooke-Cranston*) is extended through fiscal '78... with a \$7.5 billion limit on purchases and commitments for the year.

Section 235 Mortgage Limits Raised. \$32,000 limit for basic unit and \$38,000 for 5 or more family units established. . . with \$38,000 and \$44,000 in high-cost areas.

Rehabilitation Program Extended. The *Section 312* program is extended through fiscal '79. . . and loan limit raised to \$27,000 per unit. Additional funds authorized.

Counseling Programs Extended. Counseling is authorized for all *FHA* home purchases.

Public Housing and Section 8 Authorizations. Contract authority for these programs set at \$1.160 billion. Of this amount: . . \$42.5 million is earmarked for *Public Housing* modernization. . . and \$102 million for *Section 202* projects.

Tax and Utility Subsidies for Section 236 Housing. Subsidy payments covering increased utility costs and local property taxes exceeding initial operating expense levels are authorized. These payments shall be used by the project owner only to reduce the basic rental level established for the project.

COMMUNITY DEVELOPMENT

Block Grant Program Changed. The primary vehicle for the *Community Development* aspect of revitalizing American cities is the *Community Development Block Grant Program*. This was enacted in 1975 with a 3-year authorization. It is extended for another 3 years in *Title I* of this *Act*. . . which also extends and authorizes appropriations for the *Residential Rehabilitation Loan Program (Section 312)* and the *Comprehensive Planning Program (Section 701)*. It also changes the formula for allocating *Block Grant Funds* so that older, distressed, cities receive additional help.

Program Extended. The 3-year extension carries with it authorizations of \$3.5 billion for fiscal year 1978, \$3.65 billion for fiscal year 1979, and \$3.8 billion for fiscal year 1980. A dual formula system is established for allocating funds. The current formula weights population at 25 percent, overcrowded houses 25 percent, and poverty 50 percent. The new formula weights growth lag decrease in population compared with the rest of the Nation at 20 percent, poverty at 30 percent, and age of housing at 50 percent. A metropolitan city or urban county is granted whatever sum is greater under the two formulas.

Special Settlement Fund Established. A maximum authorization of \$100 million for each of fiscal years 1978, 1979, and 1980 is established for grants to localities which need supplemental assistance, primarily to close out *Urban Renewal Projects*.

Hold 'Harmless' Provisions to be Phased Out. Communities which had been receiving categorical grants prior to establishment of the *Block Grant Program* in 1974 continued to receive equivalent amounts for the past 3 years (i.e. were held 'harmless'). In the next 3 years. . . there will be a phase-out period during which annual grants will be reduced by one-third each year. Smaller communities which did not receive benefits for all the old categorical programs, but had participated in *Model Cities*, *Urban Renewal*, or *Code Enforcement Programs*, will receive the same 'hold harmless' phase-out treatment.

Small Communities Discretionary Balances Allocation. The new law provides for the allocation of the discretionary balance for metropolitan areas on a State-by-State basis. (Prior law made this allocation for each metropolitan area.)

(Continued)

COMMERCIAL FISHING REVOLVING LOAN FUND

SCHEDULE OF LOANS RECEIVABLE

JUNE 30, 1974

<u>Loan in favor of</u>	<u>Type of business</u>	<u>Location of business</u>	<u>Date approved</u>	<u>Total amount of Loan</u>	<u>Interest rates</u>	<u>Loan balance June 30, 1974</u>
Nick P. & Virginia Aleck	Fishing	Chignik	2/22/74	\$ 33,750	7%	\$ 33,750
Richard D. Bishop	Fishing	Ketchikan	4/18/74	22,500	7%	22,500
James J. & Alice Cooper	Fishing	Sitka	3/12/74	33,500	7%	33,500
Richard & Harween Edie	Fishing	Petersburg	5/21/74	100,000	7%	100,000
Arlot & Gloria Hall	Fishing	Cordova	12/ 4/73	22,500	7%	22,500
Houston & Kathleen Hannifious	Fishing	Sitka	1/31/74	7,000	7%	7,000
Dennis L. Humdahl	Fishing	Petersburg	4/18/74	18,000	7%	18,000
Steven V. Hatch	Fishing	Haines	7/25/73	19,000	7%	19,000
Charles & Lois Jack, Jr.	Fishing	Hoonah	5/21/74	5,100	7%	5,100
Martin & Betty Kasser	Fishing	Indian	5/ 6/74	25,000	7%	25,000
Donald & Florence Kenney	Fishing	Pelican	3/24/73	9,500	7%	8,153
Jeffery & Mark Lenan	Fishing	Anchor Point	1/14/74	20,000	7%	20,000
Donald & Myrtle McCallern	Fishing	King Cove	4/18/74	100,000	7%	100,000
William Mark	Fishing	Pelican	12/28/72	2,000	7%	1,500
Zane & Florence Newsom	Fishing	Pelican	2/ 7/74	37,500	7%	37,500
Otto & Gloria Peterson	Fishing	Sitka	3/12/74	35,500	7%	35,500
Michael & Viola Rose	Fishing	Sitka	2/ 8/74	20,000	7%	20,000
Daniel & Carol Sims	Fishing	Petersburg	4/ 9/74	22,500	7%	22,500
Gary & Susan Stevens	Fishing	Hoonah	5/21/74	100,000	7%	100,000
Darwin & Kaye Waldsmith	Fishing	Ninilchik	4/18/74	10,800	7%	10,671
Joseph & Mary Zarembo	Fishing	Valdez	4/ 9/74	17,250	7%	17,250
				<u>\$ 661,400</u>		<u>\$ 659,424</u>

SMALL BUSINESS REVOLVING LOAN FUND

SCHEDULE OF LOANS RECEIVABLE

JUNE 30, 1974

(continued)

<u>Loan in favor of</u>	<u>Type of business</u>	<u>Location of business</u>	<u>Date approved</u>	<u>Total amount of loan</u>	<u>Interest rates</u>	<u>Loan bal. June 30,</u>
K. S. R. M.	Radio Station	Soldotna	4/21/72	\$ 60,000	8%	\$ 53,845
Kalmbock	General Contractor	Wasilla	10/26/72	60,000	8%	57,370
L. Ames & Martha Luce	Attorney	Anchorage	8/14/73	60,000	8%	58,900
Ly-Ver-Kay, Inc.	Retail Sales	Juneau	4/10/74	60,000	8%	60,000
W. G. & Reba Mahurin	Motel	Soldotna	12/ 4/73	50,000	8%	49,460
William E. Marks	Pest Control	Ketchikan	5/15/72	60,000	8%	48,330
Lester O. Maxim	Painting Contractor	Anchorage	7/ 3/72	60,000	8%	56,900
Moe-Buck-Hotes & Assoc., Inc.	Retail Sales, motel	Anchorage	10/10/73	60,000	8%	57,050
Lou E. & Barbara Montgomery	Sawmill	Haines	3/24/73	25,000	8%	24,060
Joseph C. & Winnifred McHenry	Mining	Nenana	4/29/74	15,000	8%	15,000
Walt Pedersen	General Contractor	Soldotna	5/15/72	18,000	8%	14,400
James E. Portwood	Restaurant	Seward	10/10/73	27,000	8%	26,530
S & S Welding, Inc.	Welding	Anchorage	12/ 7/73	60,000	8%	59,350
Errol P. Simmons	Trailer Park	Anchorage	12/ 7/73	60,000	8%	59,410
G E. Smalley	Body Shop	Fairbanks	4/30/74	60,000	8%	60,000
Robert J. Thibodeau	Retail Sales, groceries	Juneau	3/18/74	60,000	8%	59,745
Roy & Laura Van Kirk	Trailer Park, Sunset Terrace	Juneau	10/10/73	40,000	8%	37,980
				<u>\$ 1,613,875</u>		<u>\$ 1,540,278</u>

SMALL BUSINESS REVOLVING LOAN FUND

SCHEDULE OF LOANS RECEIVABLE

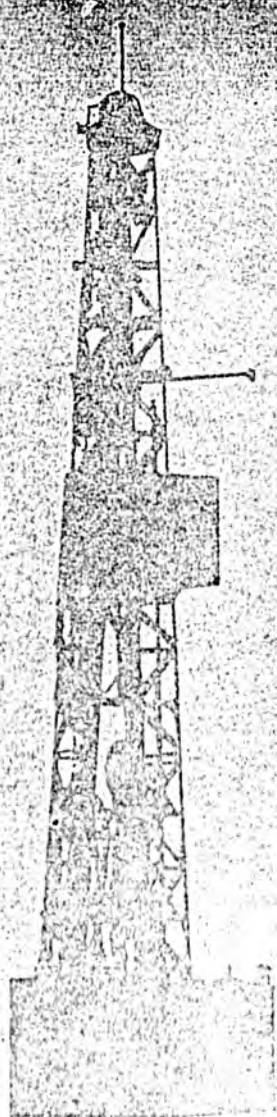
JUNE 30, 1974

<u>Loan in favor of</u>	<u>Type of business</u>	<u>Location of business</u>	<u>Date approved</u>	<u>Total amount of loan</u>	<u>Interest rates</u>	<u>Loan balance June 30, 19</u>
ARC Industries	General Contractor	Anchorage	8/14/73	\$ 32,000	8%	\$ 28,001
William & Donna Ackiss	Cocktail Lounge	Fairbanks	3/ 7/73	60,000	8%	57,514
Bethel Drilling & Welding	Drilling Contractor	Bethel	12/14/73	40,000	8%	38,318
Jim Bookey	Repurchased, foreclosure on Ackerson property	Kenai	11/14/73	25,000	8%	22,497
Roderick & Virginia Bradley	Hotel	Seward	9/18/73	37,500	8%	37,132
Rufus Barnell & Rebecca Bragg	Handcrafts & Sales	Delta Junction	4/29/74	10,000	8%	10,000
Dalton W. Buchanan	Hardware	Soldotna	5/22/73	55,000	8%	53,220
C & R Window Cleaners	Janitor Service	Anchorage	1/ 9/73	17,000	8%	13,391
Vernon H. Carlson	Retail Sales, general	Juneau	10/30/73	15,000	8%	12,870
Charles J. & Jacqueline Conlan	Dental Supply	Anchorage	7/25/73	51,000	8%	48,571
Craig & Miller	Cocktail Lounge	Fairbanks	3/12/74	49,000	8%	49,000
Thomas Curran	Attorney	Anchorage	8/14/73	60,000	8%	58,889
Flacon Aviation, Hudson	Airtaxi & Maintenance	Kenai	5/31/73	56,250	8%	54,428
Jerry L. & Lynne Franklin	Cocktail Lounge	Fairbanks	1/ 4/74	30,000	8%	29,104
Lowell B. & Elaine Goodwin	Retail Sales, clothing	Juneau	9/ 1/72	40,000	8%	37,115
Haines Transfer	Trucking	Haines	7/ 3/72	35,000	8%	30,598
E. L. Holloway	Motel	Juneau	12/ 7/73	60,000	8%	58,358
Homestead Ind.	Retail Sales, draperies	Anchorage	12/21/73	20,000	8%	19,695
Joe Hatch	Fishing	Klukwan	8/ 1/72	8,625	8%	7,667
Interior Telephone	Utility	Anchorage	2/16/73	60,000	8%	58,137
Harold Jacobsen	Retail Sales	Juneau	3/ 1/74	17,500	8%	17,386

TOURISM REVOLVING LOAN FUND
SCHEDULE OF LOANS RECEIVABLE
JUNE 30, 1974

<u>Loan in favor of</u>	<u>Type of business</u>	<u>Location of business</u>	<u>Date approved</u>	<u>Total amount of loan</u>	<u>Interest rates</u>	<u>Loan balance June 30, 1974</u>
Alaska Tour & Marketing Service	Tour Promotion	Nome	3/12/74	\$ 85,000	8%	\$ 85,000
Baranof Hotel	Motel	Juneau	3/ 7/73	1,000,000	8%	1,000,000
Robert Burns	Guided Expeditions	Skagway	5/31/73	24,000	8%	23,996
Gerald & Corrine Colrud	Campground	Healy	11/16/72	115,000	8%	115,000
John & Margaret Garry	Lodge	Dillingham	10/10/73	105,000	8%	104,690
Bruce & Mae Kendall	Motel	Anchorage	7/30/73	600,000	8%	586,858
Julian & Catherine Longoria	Motel	Valdez	1/30/73	231,000	8%	227,374
E. L. McNabb, Jr.	Hotel	Juneau	12/ 1/72	864,000	8%	847,539
Sourdough Tours, Inc.	Gold Dredge	Fairbanks	12/28/72	80,000	8%	80,000
Trader Ed's, Inc.	Vessel	Whittier	3/24/73	52,200	8%	48,024
				<u>\$ 3,156,200</u>		<u>\$ 3,118,481</u>

State Loan Programs & The Permanent Fund: Some Basic Considerations



PERMANENT
FUND



GENERAL FUND
GOVERNMENT SERVICES



STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH D - JUNEAU 9011

December 16, 1976

Mr. Robert McFarland
Chairman of the State
Investment Advisory Committee

Dear Bob:

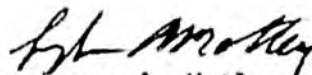
At the request of the committee I have attached a report on some of the State loan programs. The request was timely for two reasons: First, we were in the final stages of doing some in-house analysis of the programs, that for the first time attempted to establish some more comprehensive comparative measurement criteria; and secondly, as a member of the committee, I have been doing a considerable amount of thinking regarding how to translate the basic constitutional requirements into performance standards for the Permanent Fund.

While all agree that "duplication" efforts should be avoided, I am not convinced that this fact alone automatically qualifies any loan program as a Permanent Fund "vehicle." I believe that further examination of statutory purpose and actual performance - on an individual basis - should be undertaken before those determinations are made.

Paramount in importance to the committee (I believe) is an agreement on the definition of "Permanent Fund" and "Income Producing," as they appear in the constitution. Once having defined these two, translating the definitions and associated performance standards into law are necessary. The second part of the report addresses this matter and hopefully offers some food for thought.

If I can be of any further assistance in this matter, please do not hesitate to contact me.

Sincerely,



Langhorne A. Motley
Commissioner

STATE LOAN PROGRAMS
and
THE PERMANENT FUND:
SOME BASIC CONSIDERATIONS

A special presentation by Langhorne A. Motley, Commissioner, Alaska
Department of Commerce and Economic Development, to the State Investment
Advisory Committee, December 16, 1976.

State Loan Programs

The purpose of this portion of the report is informational regarding some of the loan programs of the State within the context of current deliberations on the Permanent Fund. It will list all the programs, but in the interest of brevity only analyze a few representative ones within the purview of the Department of Commerce and Economic Development. The purposes of the loan programs will be discussed, and an attempt will be made to measure their performance.

Scope of Activities: There are 13 loan programs within the State government. Ten of these fall within the general purview of the Department of Commerce and Economic Development.

<u>Commerce and Economic Dev.</u>	<u>Natural Resources</u>	<u>Community and Regional Affairs</u>	<u>Education</u>
Veterans'	Agricultural	Senior Citizen	Student
Commercial Fishing		Housing**.	Aid
Small Business			
Water Resources**			
Child Care**			
Fisheries Enhancement**			
ASDC*			
SBDC*			
AHFC*			

* Limited line authority

** FY '77 legislation or initial appropriation

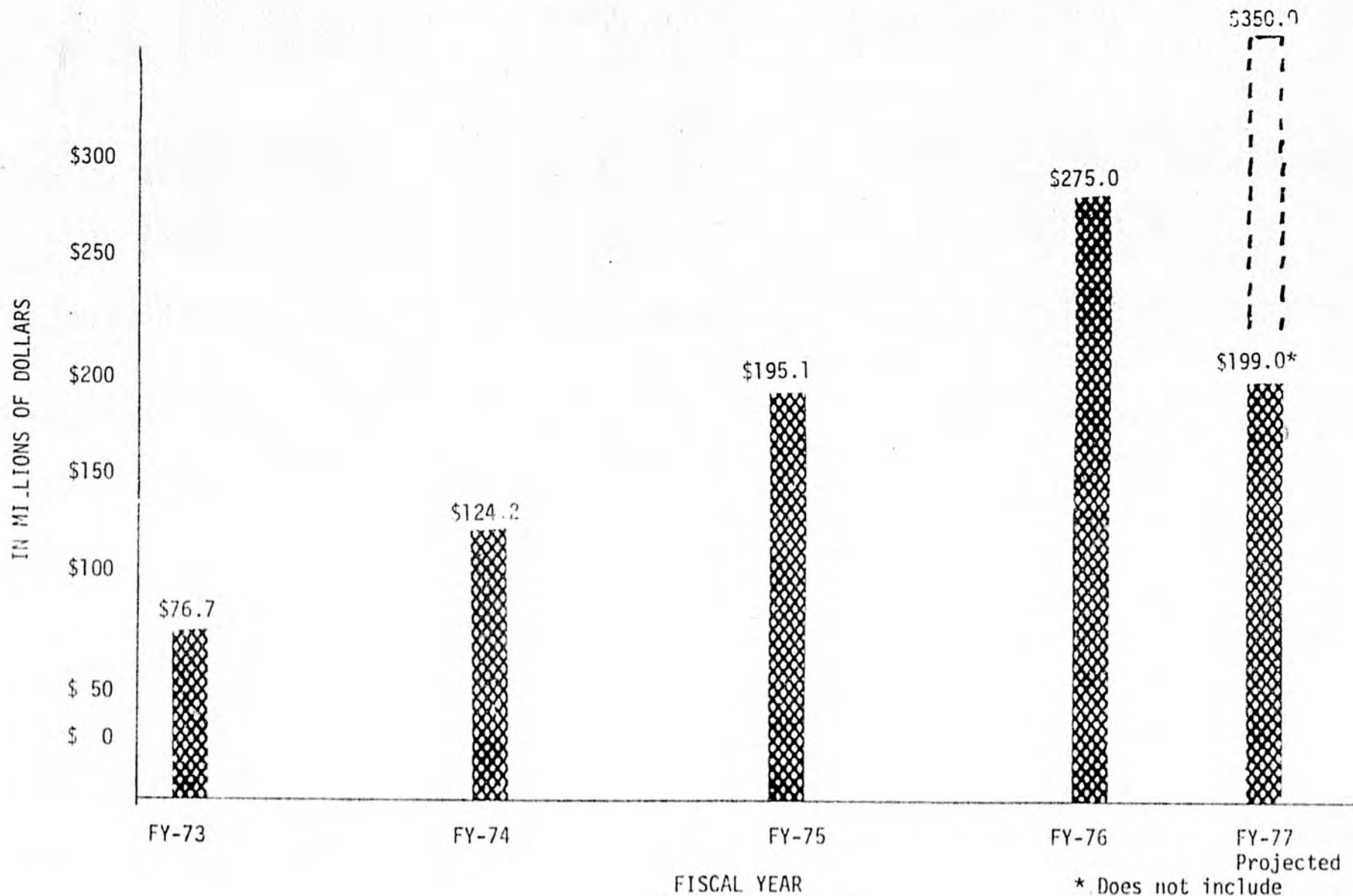
Purposes: The purpose of each loan program varies with the specific applicable statute. With a possible exception of the Veterans' program, most loan programs were conceived to fill void in the private money market, where the private financial structure of the State would not, or could not, meet the needs of the people. Most of the programs were directed to the enhancement of small entrepreneurs 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 was lower than that rate charged by banks, and loans were usually considered to be of a "higher risk" nature than that normally undertaken by private banks.

There is a certain vagueness in the purpose and function of the specific programs. Some allow for departmental discretion on interest rates, terms, etc. None set specific performance standards or goals. This is not stated as criticism, because a certain latitude should be allowed to the managers to point the program in the proper direction without undue statutory constraints. Nevertheless, there is an overall vagueness, especially as to the goals.

There has been a recent attempt by the Department of Commerce and Economic Development to quantify the performance of the various loan programs as to their "yield" to the State treasury. Recognize that "maximizing yield" does not appear to be the primary purpose of any of the loan programs. However, both the Commissioner of Commerce and Economic Development and the Commissioner of Revenue feel that the loan programs should insure a yield commensurate with efficient loan administration and the purpose of the program. The following then, is a recent attempt at determining precisely what the yield is today.

For purposes of comparative analysis, we have chosen three basic loan programs. First was "business loans" which are administered by the Division of Business Loans and is an aggregate of three programs: the Commercial Fishing Revolving Loan Fund, the Tourism Revolving Loan Fund, and the Small Business Revolving Loan Fund. The second program chosen was the "Veterans'." This includes all single family, and multiple family dwellings, personal, and business loans made to Alaskan veterans under the Veterans' Program. The third program shown is that of the Alaska Housing Finance Corporation (AHFC). AHFC is a "secondary" lender that buys Alaskan mortgages from banks and receives its capitalization from independently offered bonds. On this latter point, it is distinctly different from the other loan programs, which receive their capitalization from the general fund in accordance with their applicable statutes. AHFC is also run by a board of five directors, four being appointed by the Governor and the fifth one, required by statute, being the Commissioner of Commerce and Economic Development. Therefore, its direction, while generally being "under" the Department of Commerce and Economic Development and having the Commissioner as the Governor's link, is in fact independent to a certain degree. These three programs were chosen for two reasons: first because they are the largest programs in the State and are fairly representative, and secondly because they are in the purview of the Department of Commerce and Economic Development and the data was more readily at hand. The next two charts (charts 1 and 2) address themselves to the dollar volume of the programs at fiscal year end for the last four years and projections for 1977. Note that there is no projection for Alaska Housing Finance Corporation for FY '77. Assuming that AHFC will stay at least equal to the FY '76 level (a very conservative, if not inaccurate assumption) the total volume of these three programs in FY '77 will well exceed \$350 million. Chart 3 depicts total number of loans in portfolio.

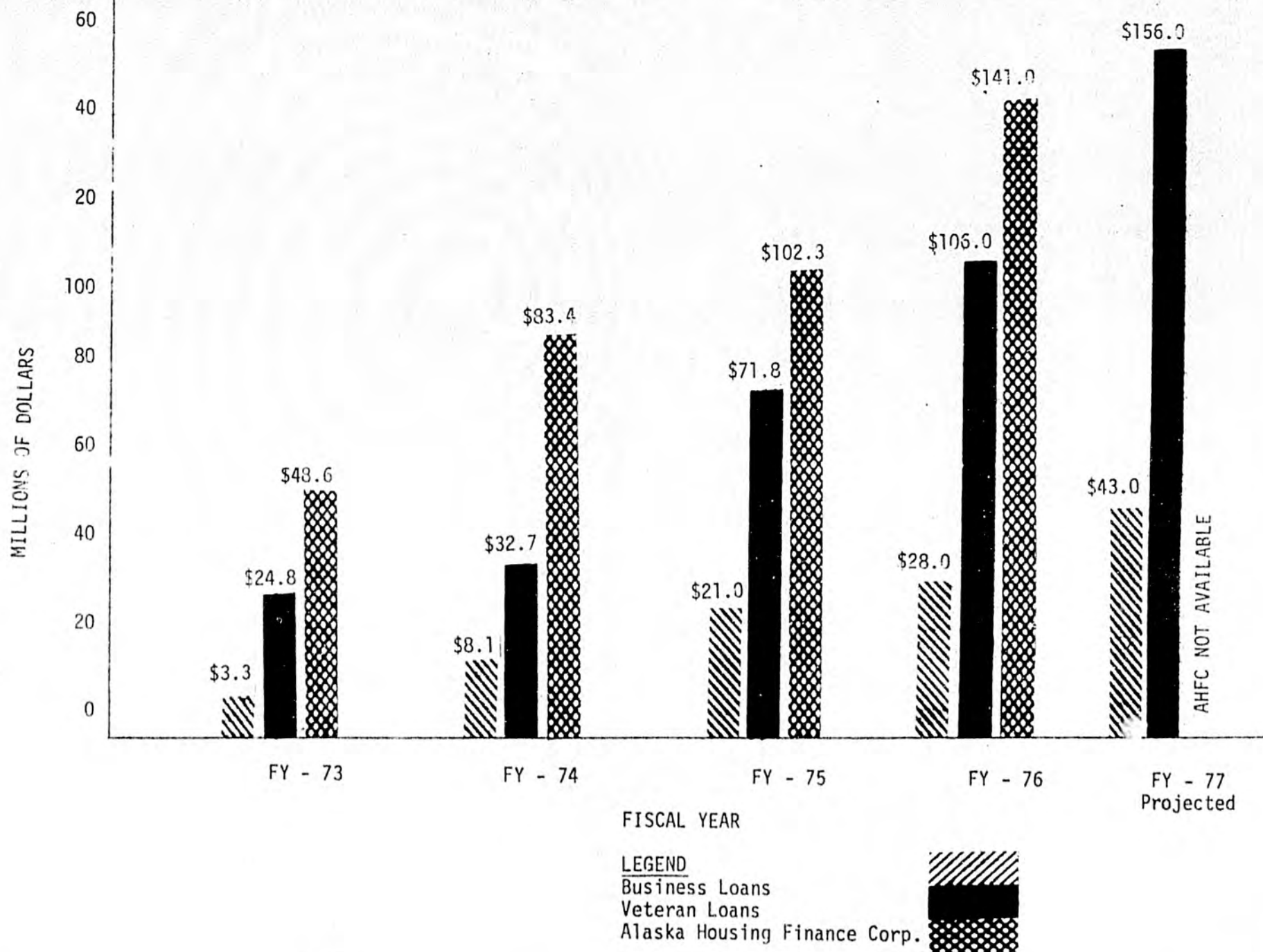
TOTAL DOLLAR VOLUME OF LOAN PORTFOLIO



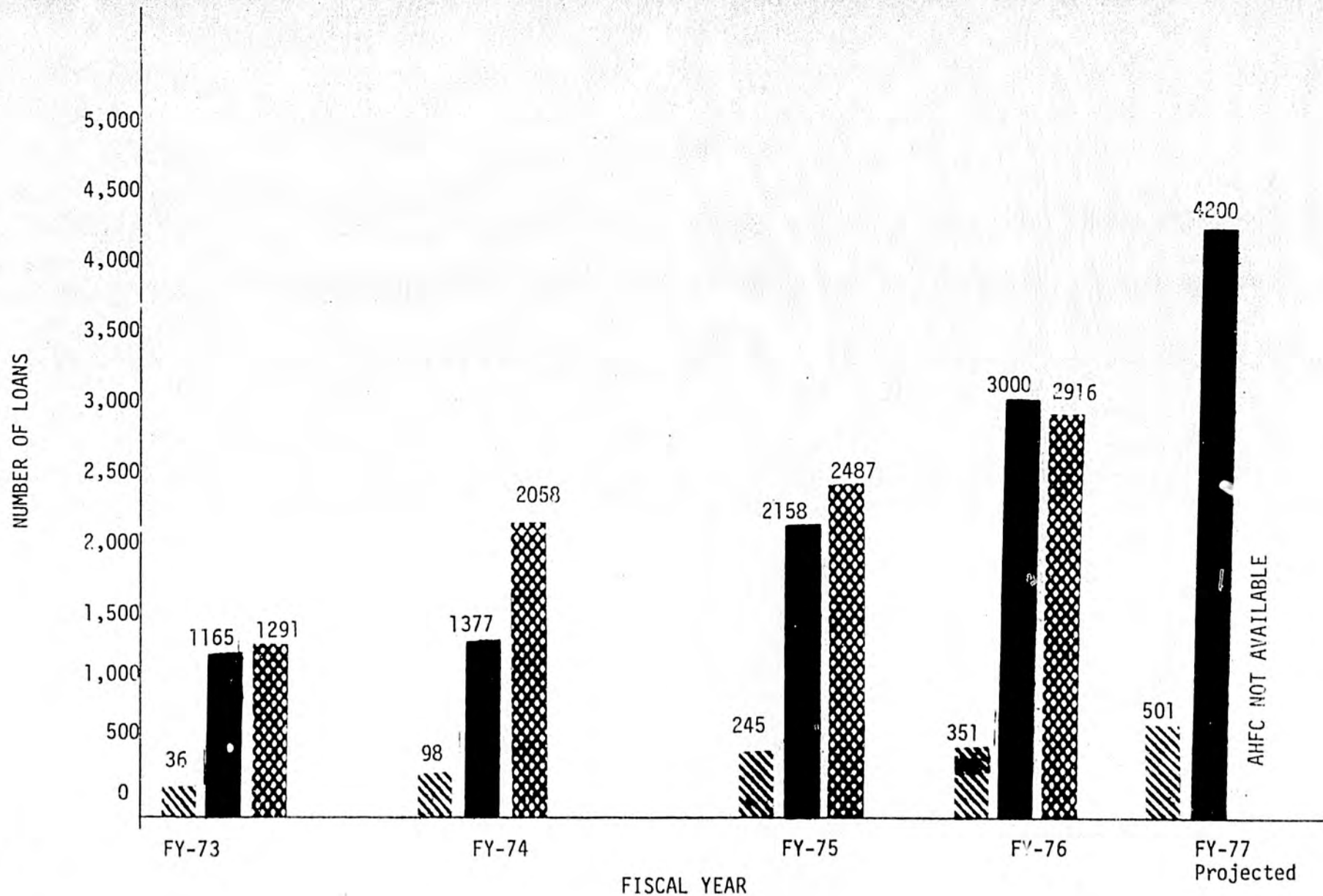
LEGEND
 Business Loans
 Veteran Loans
 Alaska Housing Finance Corp

* Does not include
 Alaska Housing Finance Corporation

TOTAL DOLLAR VOLUME OF LOAN PORTFOLIO



TOTAL NUMBER OF LOANS



LEGEND

Business Loans
 Veteran Loan
 Alaska Housing Finance Corp



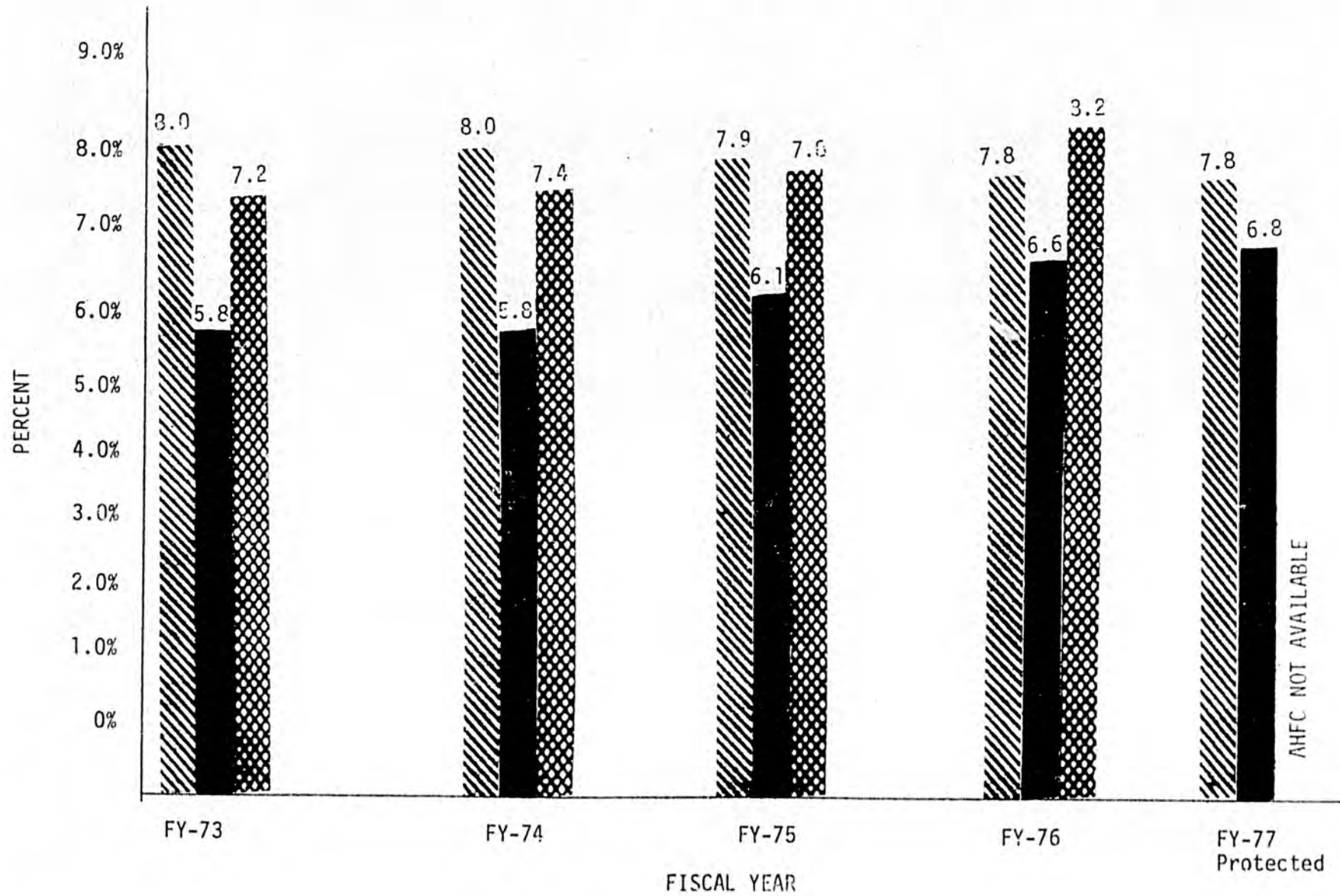
In order to start an analysis of the performance of the funds, it was decided to examine what was the "gross return" to the State on its "investment." It is important to recognize certain points in this comparative analysis:

- A. The three different programs used different accounting methods.
- B. AHFC does not "return" to the State; it "returns" to itself, and it must "buy" its capitalization in the bond market.
- C. The historical record keeping, especially in the earlier periods, did not contemplate an analysis as to yield, so a certain amount of interpolation and computation was necessary.
- D. There are different rates of interest charged for the different programs. For instance, tourism, fishing, and business loans are set by statute at 8%, 7.5% and 8% respectively. Therefore, as the volume of fishing loans goes up in relation to the other programs, the yield comes down. The Veterans' interest rate is set by the Commissioner, and is currently 7.5%. The portfolio does include many early loans at 6% (and still on the books) so this factor coupled with a dramatic decrease in delinquencies has resulted in an increased yield in the past 1.5 years. AHFC's rate "floats" with the "price" of bond money and the prevailing mortgage market money rate. Generally we attempt to keep the rate at 3/4% - 1% below the prevailing private market.

These caveats notwithstanding, the basic formula used in arriving at "gross" yield was basically followed by dividing the income received in any given point in time (year) by the amount of money invested in that point in time. "Income" was defined as all principal and interest payments, loan application fees, service fees, late charges, etc. Therefore the basic formula used in chart 4 was:

$$\frac{\text{Income}}{\text{Investment}} = \text{Gross Income}$$

GROSS YIELD ON LOAN PROGRAMS



LEGEND

Business Loans
 Veteran Loans
 Alaska Housing Finance Corp.



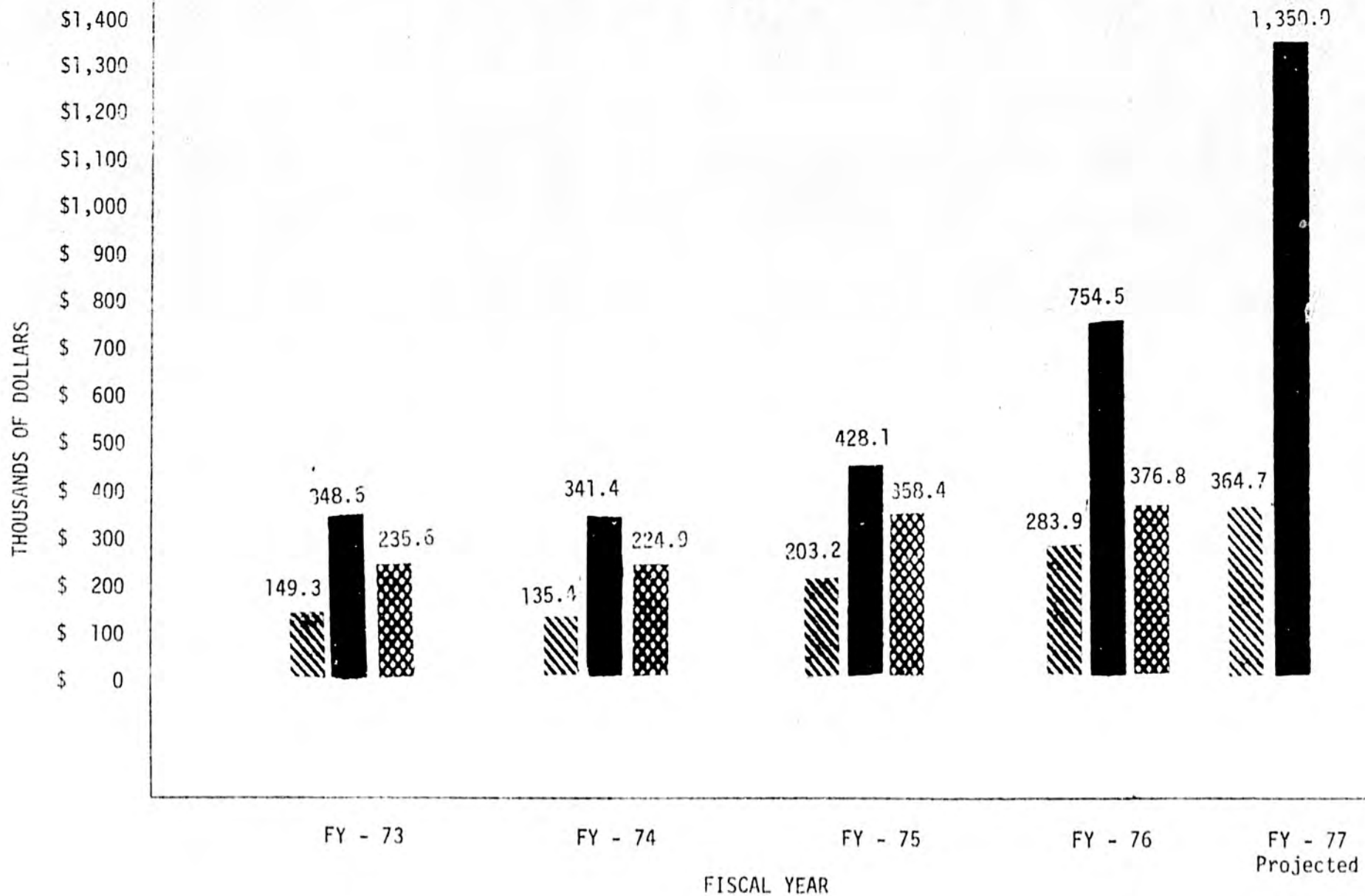
The comparisons of gross yield are not completely intellectually honest, in that they do not address themselves to the efficiency of the management of the programs. A more thorough analysis must address the expense of operating these programs. In most of these programs the expenses involved are operating expenses, as very little permanent acquisition or "capitalized" items occur. Again there are certain caveats in comparing the various programs:

- A. AHFC does not make "retail" loans; it buys loans already made by private financial institutions. Therefore it does not have the expenses associated with initial loan applications, servicing, etc. These costs are borne by the private market and accounted for in a "servicing fee" they retain prior to selling the loan to AHFC.
- B. There is a certain amount of economies of scale. During the significant gearing up for the business loan programs (FY '74) the ratio of expenses to income was understandably high. Obviously, as the amount of loans and dollar volume of income and investment go up, a more efficient ratio can be established. There are two other governing criteria: first, a cost efficiency trade-off as to "hand posted" accounts vs. computerized billing and servicing will be eventually reached; and secondly, with both of these methods ("hand" and "computerized") there is a plateau of cost per loan that is reached. The increase in the Veterans' expenses in FY '77 over FY '76 is attributed to just that--we are in the process of converting billing and servicing to a computerized system. While in normal accounting practices one would "capitalize" such expenses, we have included it in one year under operating expenses. FY '78 expenses, therefore, will be less than FY '77. (see chart 5)

The relationship of income to expenses and their relationship to investment is addressed in the next two charts. Chart 5 deals only with the expenses involved, and these expenses are normally operating expenses. In the Alaska Housing Finance Corporation chart we did not include the "expense" of bond money. Chart 6 arrives at a "net" yield. For purposes of definition, the income used in previous examples, less all the associated operating expenses to run the program, divided by the investment (as described in previous examples) equals net yield, therefore:

$$\text{Net Yield} = \frac{\text{Income} - \text{Expenses}}{\text{Investment}}$$

LOAN PROGRAMS - OPERATING EXPENSE



LEGEND

Business Loans

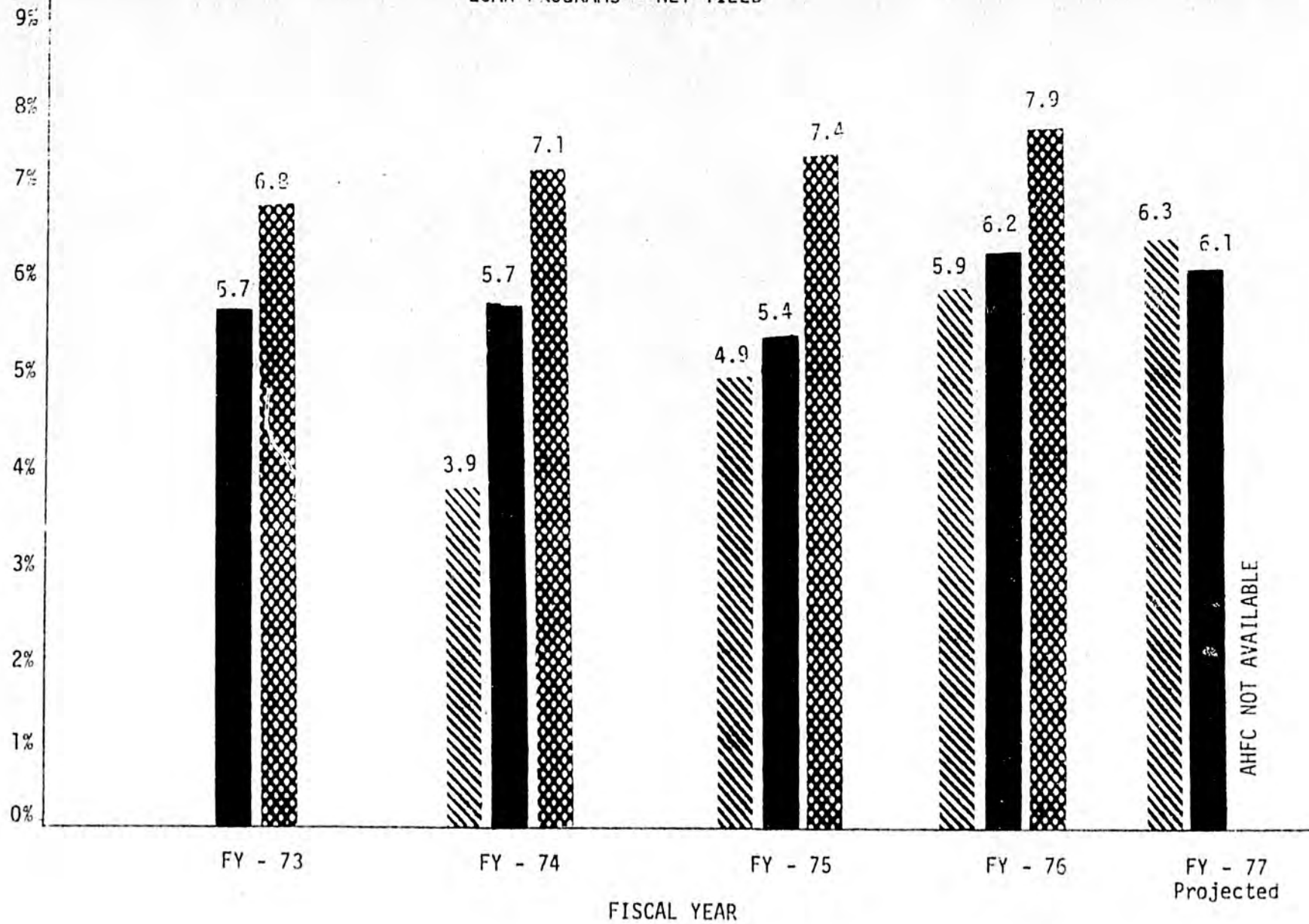
Veteran Loans

Alaska Housing Finance Corp.



CHART 5

LOAN PROGRAMS - NET YIELD

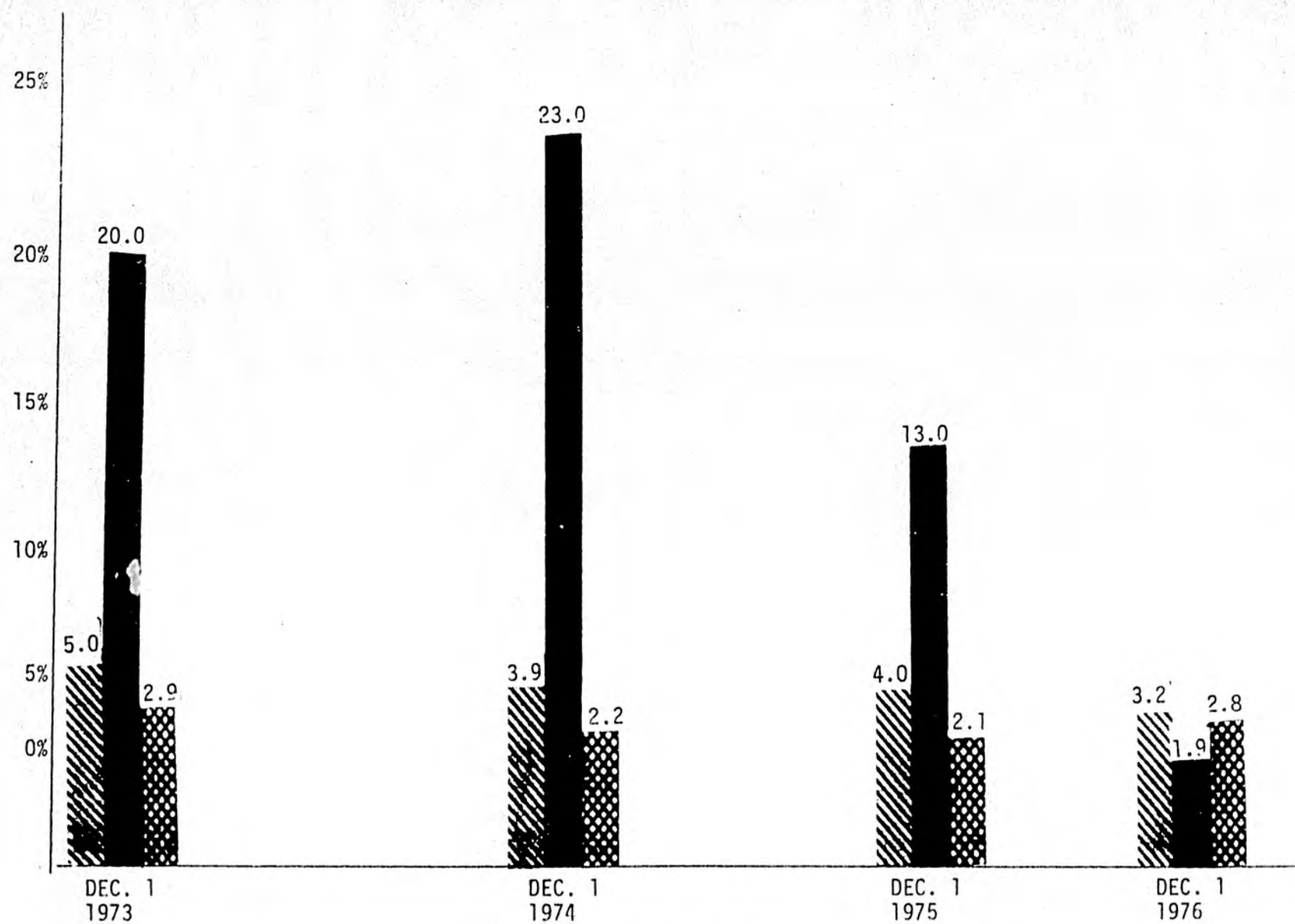


LEGEND
 Business Loans
 Veteran Loans
 Alaska Housing Finance Corp.



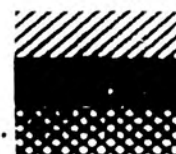
The final chart (7) in this portion addresses itself to the delinquency rate of the programs. Generally speaking, a high delinquency rate is symptomatic of one or more of the following: poor underwriting criteria, poor servicing procedures, and poor loan portfolio evaluations. It is generally reflected in a reduced "earned income" as a result of poor "collected income." This is then translated into lower gross and net yields. For purposes of definition, a loan is delinquent when 31 days or more have transpired without the receipt of an expected periodic payment. A quick look at chart 7 reveals two things: first a significant decrease in the delinquency rate of the Veterans' program in the last two years. While arguably, a small share of this could numerically be accounted for by the overall growth of the portfolio, the major reduction was a result of a targeted effort on the part of the division and management to reduce, what was in December of 1974, an intolerable situation. The second point that comes to mind is that the 1976 level for all these programs is within acceptable limits. Each in its own sphere ("business" or "home loans") is at least competitive, if not superior, to the levels maintained by private institutions in Alaska.

LOAN DELINQUENCIES



LEGEND

Business Loans
 Veteran Loans
 Alaska Housing Finance Corp.



Permanent Fund

The idea and concept of the Permanent Fund received much deliberation and debate prior to its passage by a respectable majority of the people on November 2. What the people voted on and is now embodied in two sentences with 94 words in the Constitution was:

SECTION 15. ALASKA PERMANENT FUND. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a PERMANENT FUND, the principal of which shall be used only for those INCOME-PRODUCING investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

We have highlighted two phrases in that section for your consideration. This is because, of all the important guidance contained in that section, those two phrases probably have as much importance, if not more than any other, while at the same time being the two phrases with possibly the most relative absence of legal definition or precedents. Because the proper definition of these two phrases, or a least an agreement on their intent, may affect other important deliberations regarding mechanisms, programs to be invested in, etc., we believe the resolution of a definition of these phrases to be paramount. To this end we have attempted to lay out a methodology for definition which should be embodied in law.

"Permanent Fund":

"Permanent" implies the need for protection, because "permanent" means it's going to be with us for a long period of time.

"Fund" implies principal or investment, or the receptacle for the dedicated 25%.

Therefore, protection (permanent) of the principal (fund) is a critical criterion.

"Income Producing":

"Income Producing" means that in addition to the return of the initial investment something more (let's say "x") is contemplated. The magnitude of "x" will be the income produced. This income (x), expressed in the percentage, is usually defined as "yield" or "return."

Therefore:

$$\frac{\text{Income}}{\text{Investment}} = \text{Gross Yield}$$

However, as we stated earlier, gross yield is not completely honest. One should take into account administrative and operating expenses to arrive at a truer yield.

Therefore:

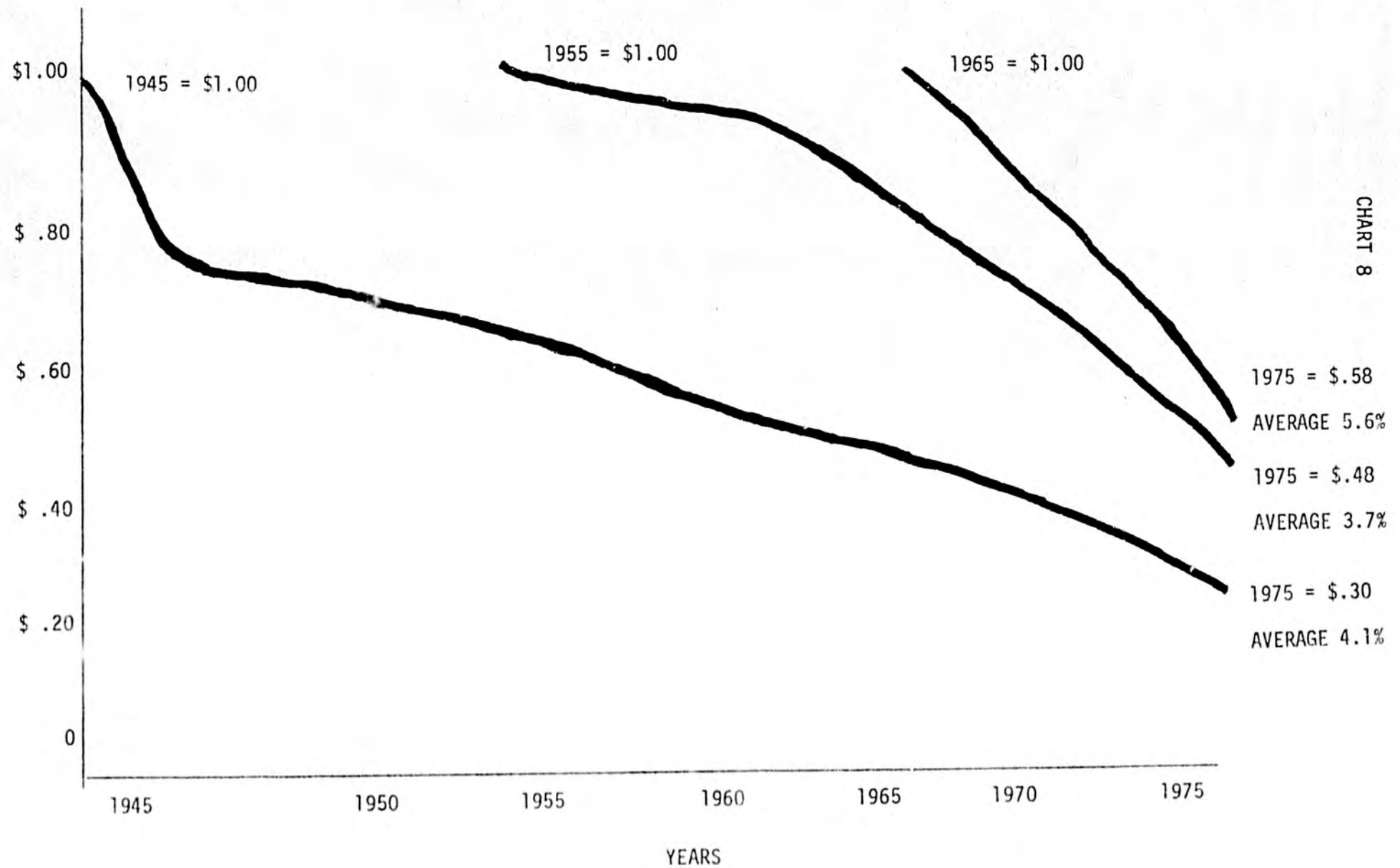
$$\frac{\text{Income} - \text{Expenses}}{\text{Investment}} = \text{Net Yield}$$

Have we provided for the "protection of the fund?"

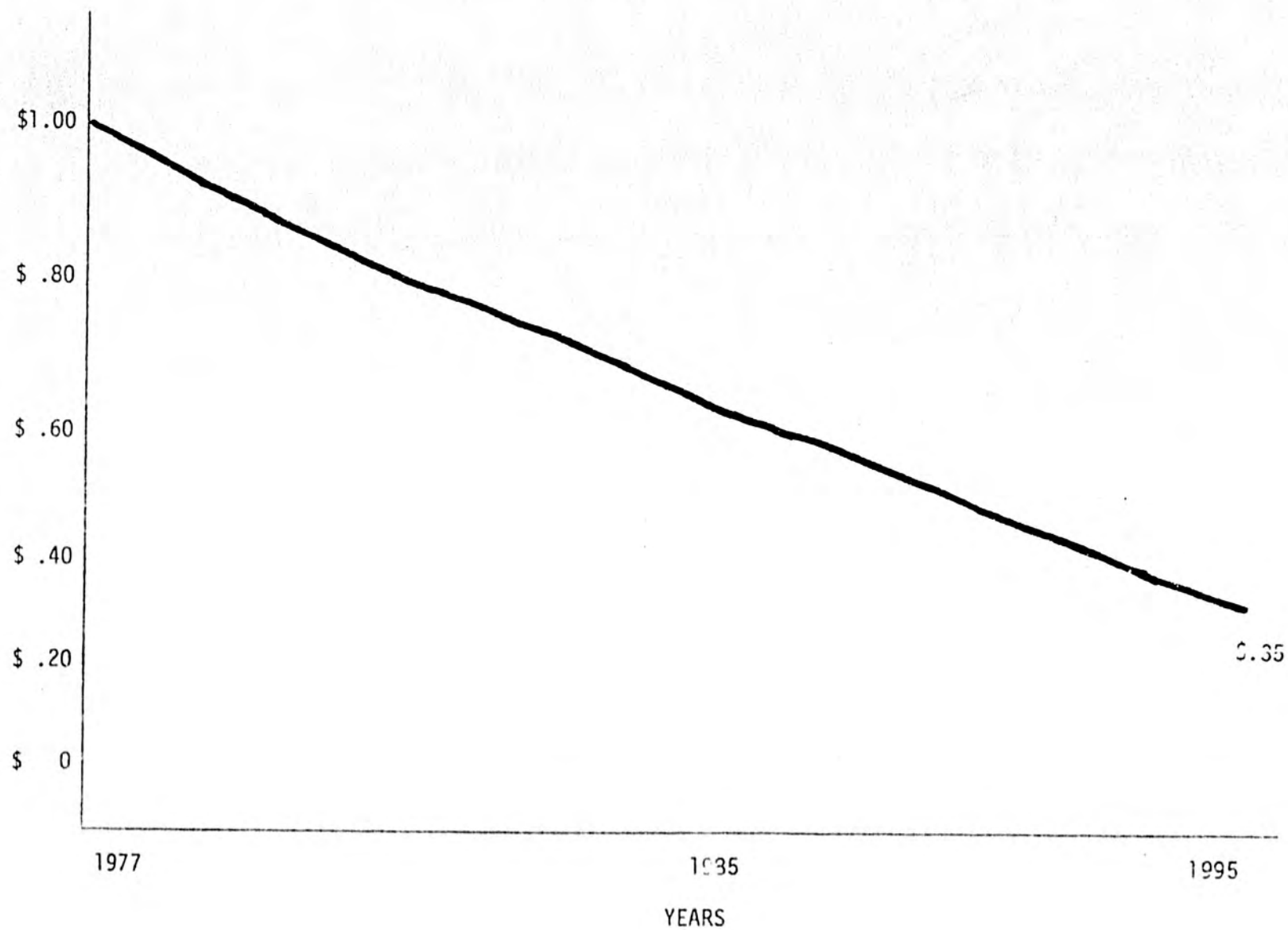
What about the long-term rate of inflation?

Persons involved in the management of trust funds or similar permanent type funds have long battled to "protect" the principal amount of the fund from erosion or inflation. Charts 8 and 9 show what has happened and what possibly will happen to the producing power of the dollar over a period of time. Chart 8 shows what has happened to the purchasing power of the dollar in the last 30, 20, and 10 years respectively. One dollar in 1945 is worth 30¢ today or has an average long-term rate of inflation of 4.4%. One dollar in 1955 is worth 48¢ today or has an average long-term rate of inflation of 3.7%. One dollar in 1965 is worth 68¢ today, or has an average long-term rate of inflation of 5.6%. Chart 9 shows what the value of a dollar will be over the next 18 years (1977 through 1995) assuming the long-term rate of inflation to be 6%. That shows that a dollar today will be worth 35¢ in 1995.

ACTUAL PURCHASING POWER OF THE DOLLAR

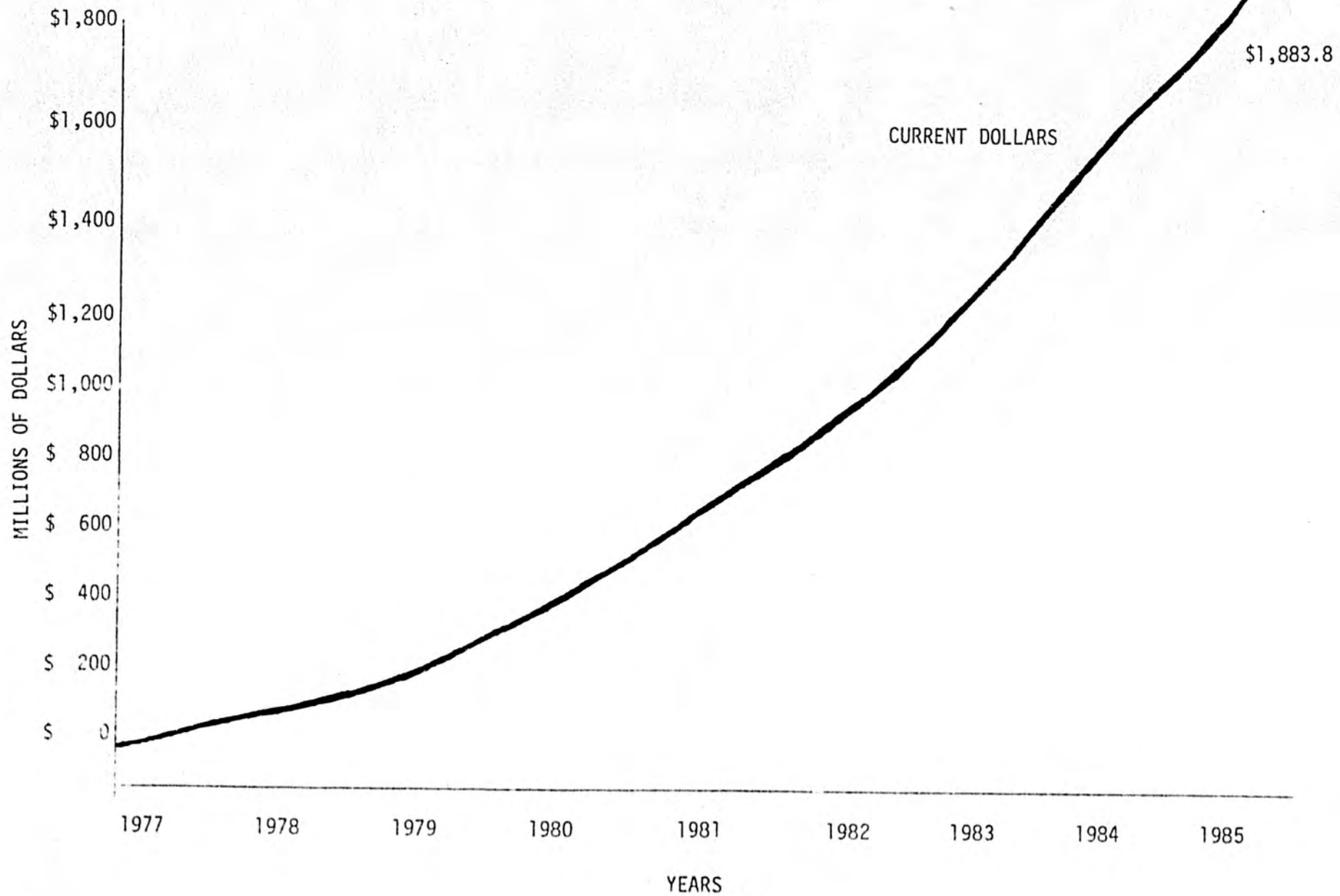


THE PURCHASING POWER OF THE DOLLAR
ASSUMING A 6% RATE OF INFLATION



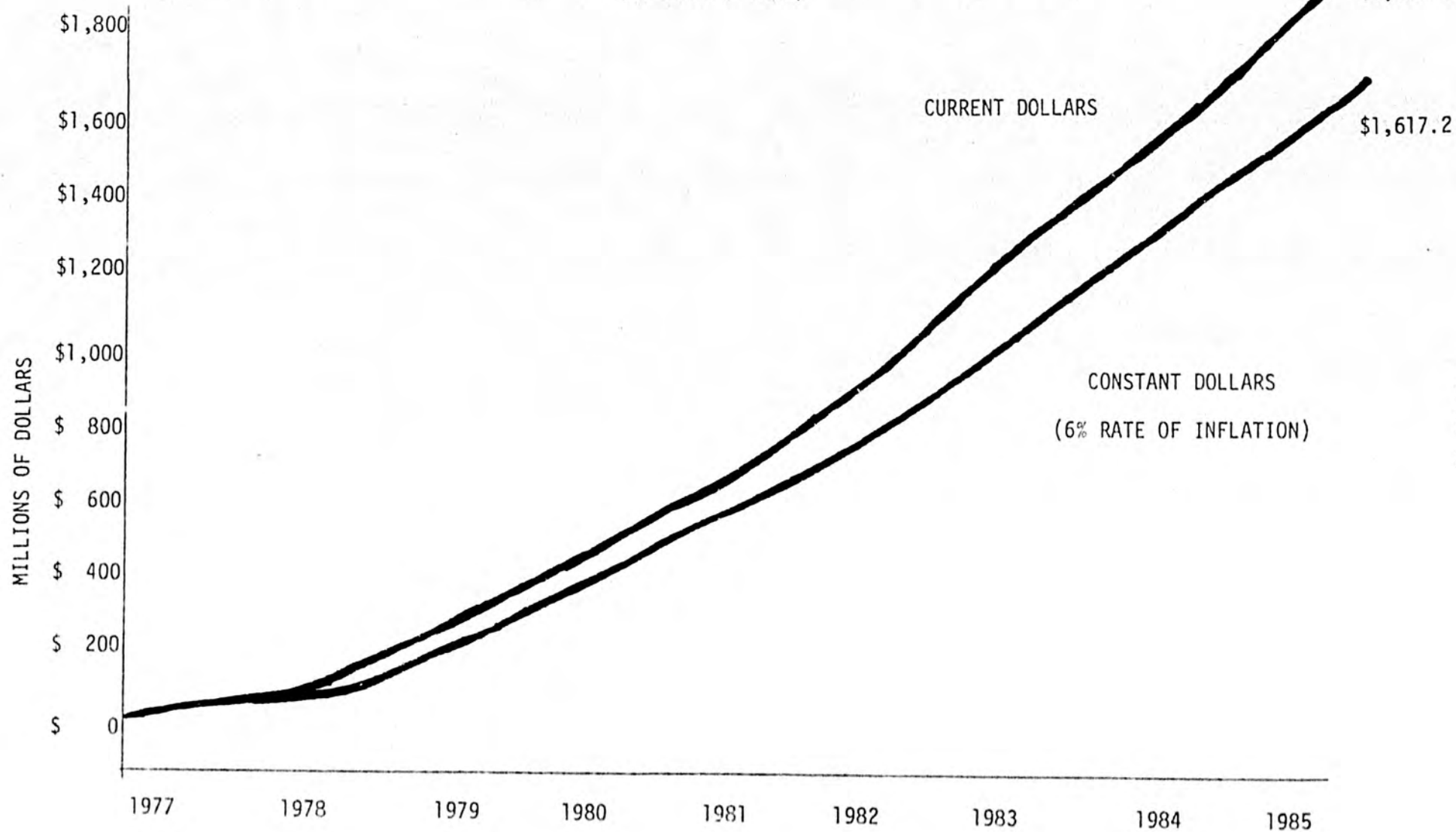
If one was to apply the factor of a long-term rate of inflation to the contemplated revenues to be received by the Permanent Fund, it can be quickly seen that, short of mitigating measures, the fund would erode very rapidly. In order to make the analysis meaningful, we have chosen the revenues projected for the Permanent Fund as depicted in Revenue Journal, Vol. I. No. 2, October 1976, by the Department of Revenue. Chart 10 shows gradually increasing funds starting from \$2.8 million in FY '77 and totaling \$1,883.8 million in FY 1985. This assumption (and ours) contemplates "current" dollars and includes only money deposited in the Permanent Fund.

PERMANENT FUND BALANCE
IN CURRENT DOLLARS
(BY FISCAL YEAR)



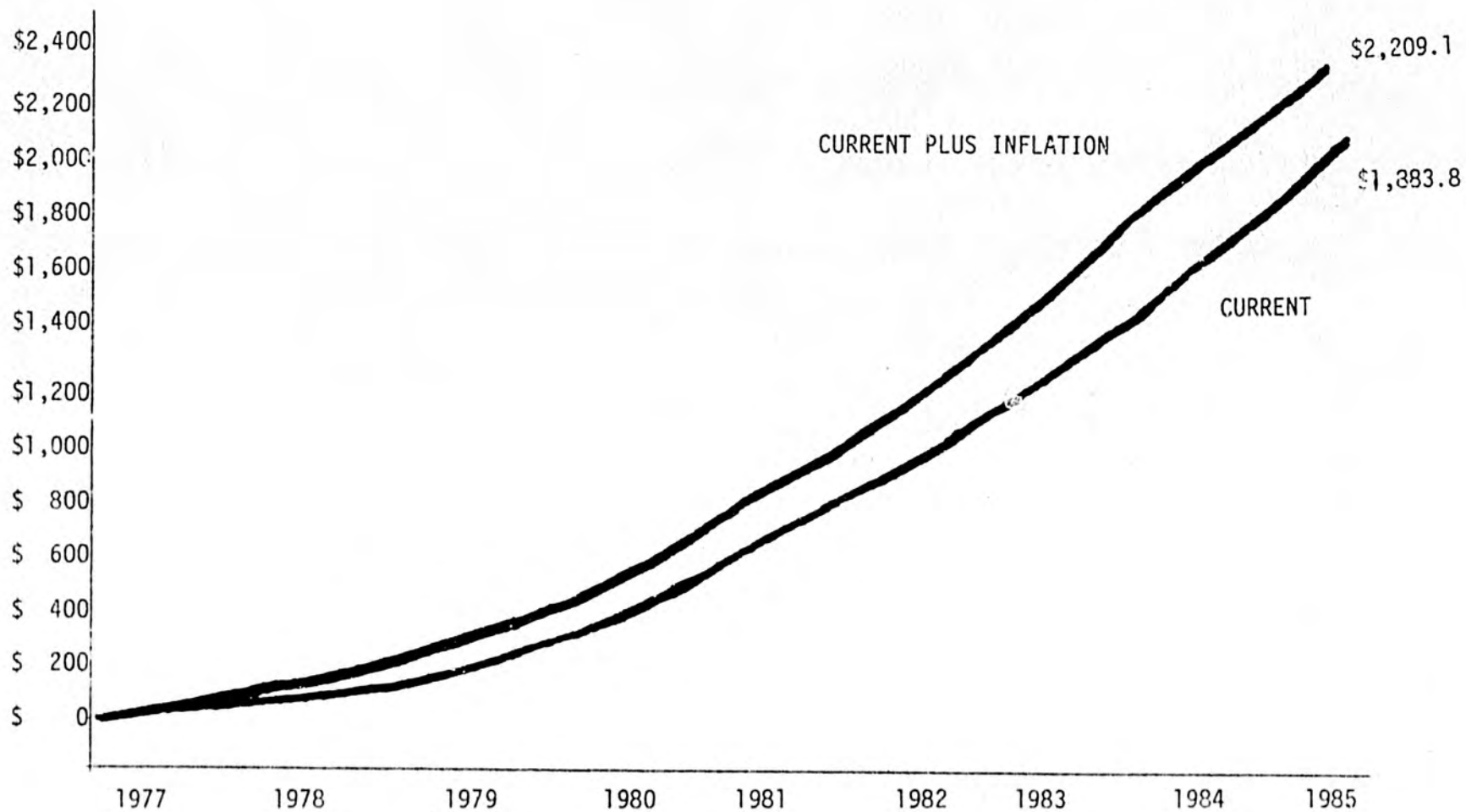
In chart 11, we have added a second line that represents "constant" dollars that have suffered an erosion at the rate of 6% per year in purchasing power. One can note that the differential is not much because the majority of the money was added to the fund in later years.

PERMANENT FUND BALANCE
IN CURRENT AND CONSTANT DOLLARS
(BY FISCAL YEAR)



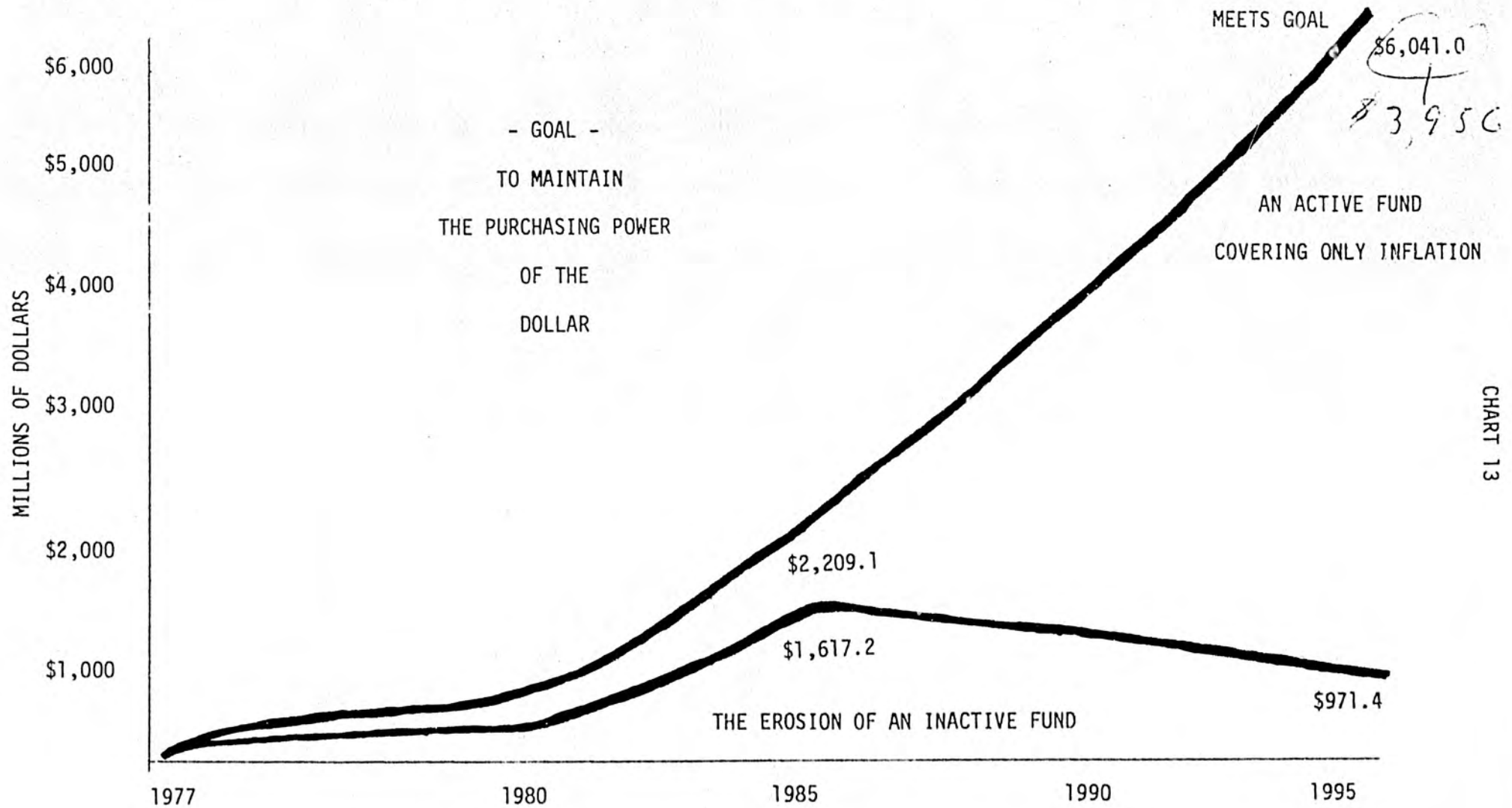
If it was determined to add to the Permanent Fund at a rate equal to the erosion factor (assuming a 6% rate of inflation), then the fund would have to have \$2,209.1 million in 1985 to equal the \$1,883.8 million purchasing power that we envisioned in 1977 (see chart 12).

PERMANENT FUND BALANCE
IN CURRENT AND INFLATIONARY DOLLARS
(BY FISCAL YEAR)



If the goal is to maintain the purchasing power of the dollar as we envision it today, and assuming a 6% long-term rate of inflation, then the Permanent Fund total in 1995 would have to be \$6,041.6 million. If no action is taken, then that Permanent Fund as envisioned by us to be "worth" \$1,883.8 million in 1985, will in fact erode to a "worth" half that, or \$971.4 million in 1995. (See chart 13)

PERMANENT FUND



It becomes abundantly clear then that short of statutory action "...unless otherwise provided by law", there will be an erosion of our nonrenewable nest-egg to the point that the income generated from it - in the time period when it will be most needed - would neither sustain government-provided services or provide a dividend to the people.

Therefore, it is felt by some that not only for practical reasons, but more importantly, to achieve satisfaction of the basic Constitutional criteria, a formula similiar to the following should be enacted into law:

$$\begin{array}{l} \text{Permanent Fund} = \frac{\text{Income} - \text{Expenses} - \text{LTRI}}{\text{Investment}} = \text{Yield} \\ + \\ \text{Income Producing} \end{array}$$

If the foregoing has any merit, and in the form of a summary or conclusion, we believe the priority goals of this committee should be:

- I. Arrive at a proper legislative definition of "permanent fund" and "income producing" as an overall policy guide to "Permanent Fund Inc."

This should:

- A. Be expressed in layman's terms.
- B. Have periodic accountability standards to the public (in simple terms) in addition to the required annual audits. The test might be:

"For year 19--, was it "income producing" and did it remain "permanent"?"

- II. Select the appropriate mechanism to manage the Permanent Fund.
 - A. Determine selection and composition of the governing body (bodies).
 - B. Delineate the Authority and responsibilities of the governing body and "staff".
- III. Discuss the investment criterias and directions beyond the "income producing" "permanent fund" definitions.

ALASKA LOAN PROGRAMS FUND

010. Creation of Fund. There is created within the Department of Commerce the Alaska Loan Program Fund.

020. Declaration of Purpose. There exists within state government numerous loan funds serving specific, single purposes. Efficient use of the capital resources of the state would be promoted by creating a single loan fund which would provide a single source from which potential users could acquire a state loan and obtain information about existing federal or private loan programs which would better serve the needs of the user or which would be complementary with a proposed state loan. A single state source of lending would provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. The policy of the Alaska Loan Program Fund is to provide the lowest possible interest costs to Alaska borrowers consistent with sound financial practices and to make available to all sectors of the Alaska economy loans including long-term financing not presently available from existing Alaska financial institutions. A strong, single loan source by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector.

040. Revenue Bonding Authority. Boiler Plate Sections as Required, e.g. 18:57:050 - 110

050. Tax Exemption. Standard full exemption.

060. Investments. All investments of the fund cash balances and of reserves for specific bond issues or statutorily required reserves are managed by the fund by the division of treasury. The division shall manage the investments of the fund under the same criteria applicable to other state investments it manages.

070. Accounting. Accounting for the fund shall be provided by the Department of Administration. Reports shall be made by the department to the Department of Commerce and to the Legislative Budget and Audit Committee on at least a quarterly basis. These reports shall include an itemization of each loan which has been in default for a period in excess of 30 days and the measures taken for each to insure compliance with terms and conditions of the loan. Other reports shall be made as prescribed by the Department of Commerce.

080. Collections. The loans not brought current within a 60 day period shall be transferred to the Department of Revenue for collection. A quarterly report of the status of the collection effort will be made to the Budget and Audit Committee. The total principal and interest due shall be transferred from the Permanent Fund Loss Reserve Account to the Alaska Loan Program Fund upon assignment of each loan to the Department of Revenue.

090. Loan Purposes. The fund may make loans for residential housing, commercial purposes, public purposes, airports and education.

100. Residential Housing Loans. (a) Loans substantially as authorized in AS 18.56.090.

(b) Housing development fund substantially as in AS 18.56.100 attached copy.

(c) Mortgage insurance substantially as in AS 18.56.095.

110. Commercial Loans. The fund may make loans for:

(a) development of farms, storage and processing of farm produce, livestock, machinery and equipment, farm irrigation and working capital for farm operation;

(b) vessels and gear used in fishing, fish processing plants and equipment and working capital for fishing and fish processing (substantially as in AS 16.10);

(c) logging operations and equipment, forest products manufacturing or processing plants and working capital for logging operations and forest products manufacturing or processing;

(d) equipment and operations of other businesses engaged in harvesting, manufacturing and processing of other renewable resources harvested in the state.

120. Public Purposes. The fund may make loans for senior citizens' housing, public utilities and hospitals.

130. Education. Substantially as in AS 14.40.751 - 806.

140. Veterans' Loans. In addition to other loans made under this chapter, the fund may make the following loans to veterans:

Substantially AS 26.15.040

150. Tourism, Historical and Open Space Loans. (a) Substantially AS 29.48.

(b) Substantially AS 41.22.010.

160. Eligibility. (a) In order to be eligible for a loan under this chapter a person must have been a resident of the State of Alaska for at least five years on the date of application for the loan, be 18 years of age or older and be a registered Alaskan voter. A corporation is eligible for a loan if more than 60 percent of its shareholders have been residents of the state for at least one year on the date of the application for the loan, the chief executive officer and all members of the governing board of the corporation have been residents of the state for at least one year on the date of application for the loan and the chief executive officer and members of the governing board assume full individual liability for repayment of the loan. A loan to a corporation is immediately due and payable if it ceases to meet these eligibility criteria.

(b)

170. Maximum Loan Amounts. The following shall be the maximum amounts of loans which may be made under this chapter:

(a) Residential loans:

1. owner occupied single family dwelling - \$75,000
2. owner occupied multiple dwelling containing four (4) units or less - \$40,000 per unit
3. other multiple dwellings - \$500K per individual

(b) Commercial loans (general):

1. commercial buildings - \$500K per individual - limit 10
2. business activity - \$500K per individual - limit 10
3. non-renewable resource extraction or any activity not specifically outlined in any other category - \$500K per individual - limit 10

(c) Commercial loans (renewable resources):

1. agriculture

- (a) farm development - \$200K per individual
- (b) chattel - \$110K per individual
- (c) irrigation - _____
- (d) working capital -

(1) 10 percent prior years' gross receipts

(2) maximum \$250K

2. fishing

(a) manufacturing and processing - \$500K per individual - limit 10

(b) vessel and gear - \$200K per individual

(c) working capital

(1) 10 percent prior years' gross receipts

(2) maximum \$250

3. timber

(a) operations and equipment

(1) \$500K per individual

(2) limit 10 individuals

(b) manufacturing process

(1) \$500K per individual

(2) limit 10 individuals

4. education

(a) undergraduate studies - \$4K per year/per individual

(b) graduate studies - \$5K per year/per individual

(c) vocational studies - _____

(d) work studies - _____

(e) \$15K maximum outstanding loan balance

(d) Number of loans: No more than three loans may be made to any person under this chapter. "A loan to an associate of the borrower as defined in _____ of this chapter is considered to be a loan to the borrower. (Definition is substantially as in take over bid statute, AS 45.57.110(7)).

180. Additional Loan Limitations. (a) The maximum loan authorized in each case in sec. 160 of this chapter is limited based upon residence of the borrower in the state as follows:

(i) 5 or more years - 100 percent of authorized maximum

(ii) 4 years - 90 percent of authorized maximum

(iii) 3 years - 80 percent of authorized maximum

(iv) 2 years - 70 percent of authorized maximum

(v) 1 year - 50 percent of authorized maximum

(applicable only if residency eligibility is set at one year)

and the maximum determined after application of the residency limitations is further limited based upon actual experience of the borrower as follows:

(i) 5 or more years - 100 percent of maximum authorized after residency limit

(ii) 4 years - 90 percent of maximum authorized after residency limit

(iii) 3 years - 80 percent of maximum authorized after residency limit

(iv) 2 years - 70 percent of maximum authorized after residency limit

(v) 1 year - 50 percent of maximum authorized after residency limit

(b) The additional limitations of this section do not apply to loans for residential or educational purposes.

190. Maximum Term of Loans. The term of a loan made under this chapter may not exceed:

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

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

(c) 7 years or the life of the chattel on a loan secured by other chattels;

(d) one year on a loan for working capital.

200. Value Limitation. A loan made under this chapter may not exceed 90 percent of the appraised value of real property pledged as security for the loan or 80 percent of equipment pledged as security for the loan.

210. Rate of Interest. The rate of interest charged to borrowers under this chapter shall be sufficient to cover anticipated cost of money to the fund and may not exceed one percent over the anticipated cost plus the amount necessary for loan insurance. Rates of interest less than that required may be charged provided that the Renewable Resource Development Fund or another state fund agrees to pay the difference between cost and the interest rate to be charged or provided that appropriation for the purpose of paying the difference has been made.

220. Reports From Borrowers. The fund shall require submission of a report at least annually from each borrower showing the use for which proceeds of the loan were expended, the financial condition of the borrower and the residency status of the borrower and any other obligors on the loan.

230. Resident Hire. Adapt AS 38.40.030 - 090. (Pipeline leasing resident hire provisions)

300. Citizens Advisory Board. (a) There is hereby created an Alaska Loan Programs Fund Citizens Advisory Board consisting of _____ members appointed by the Governor and _____ members appointed by the Legislative Council. Members of the board serve at the pleasure of the appointing authority. A majority of the members of the board constitute a quorum and shall elect from their membership a president and may elect other officers the board finds desirable.

(b) The duty of the board is to periodically observe operations of the fund and at least annually prior to convening of the legislature report to the governor and legislature:

(i) Any indication of favoritism in any loan program

(ii) Any apparent mismanagement

(iii) Any apparent procedures which result in preventable difficulties in obtaining loans or securing other services the board was established to provide

(iv) Other matters the board finds appropriate to include in the report.

(c) Staff support to the board shall be provided by the Division of Legislative Audit.

310. District Loan Offices. The commissioner shall establish district loan offices within each judicial district of the state headed by a district loan officer. The district loan

officer is authorized to approve loans made under this chapter. The office shall provide information concerning the loan programs under this chapter, other state loan programs or grant programs, federal loan or grant programs and, to the extent feasible, private loan information.

320. Appeal. The decision of the district loan offices in granting or denying a loan or in setting conditions or terms of a loan may be appealed to the commissioner, or if the commissioner in his discretion establishes a loan review board, to that board. The commissioner or board may affirm, reject or modify a decision of the district loan officer.

330. Time Limitations on Processing. (To Come)

340. Cooperation With Other Agencies. All departments, agencies and public corporations of the state shall provide information, services and facilities to the fund on its request. The fund shall reimburse the department, agency or corporation for expenses reasonably incurred on the fund's behalf.

350. Loan Insurance. Substantially AS 18.56.095 with collection of loan charge for fund limited to 1/2 of 1 percent of loan.

360. Capital Reserve Account. For the purpose of securing any one or more issues of its obligation, the fund may establish one or more special accounts called capital reserve accounts. That portion of the income from the permanent fund equal to 10 percent of the outstanding issues of the fund shall be paid to the commissioner of revenue for the purpose of establishing the capital reserve funds. Other money may be appropriated to the capital reserve fund.

Senate Committee on the Permanent Fund

Policy Direction

Based on prior inventory sheet - goals and objectives

Are there any existing programs which should not be continued in some form in the state loan programs?

_____ Yes _____ No

List those to be dropped.

Alaska Loan Program Fund

The direction given assumes that the source of funds would be through revenue bonds and the Permanent Fund would be maintained as a savings fund invested in high grade securities.

The following are per the draft legislation.

160. Eligibility

Veterans resident eligibility is currently 5 years. There is no uniformity in residency requirements in the various state loan programs.

What should the initial residency requirement be? 5 years

170. Maximum Loan Amounts

1. FHA loan insurance for single residential units in Alaska was recently increased from \$67,500 to \$90,000. The initial proposed limit for resident housing was \$75,000 in the draft legislation.

Should this be raised to \$90,000?

_____ Yes _____ No

If no, what amount would you recommend?

2. Owner occupied multiple dwellings up to 4 units were initially proposed in the draft legislation at \$40,000. A larger figure of \$70,000 may be more realistic.

What limit do you feel should be placed in this category? \$ _____

3. The commercial loan limit per the draft legislation is \$500,000 in all categories.

Is this level acceptable? _____ Yes _____ No

If no, what limit would you recommend? \$ _____

Note: The maximum total loan is \$5,000,000 with involvement of 10 individuals as mandated by Federal regulations concerning Industrial Revenue Bonds.

Is this limit acceptable? _____ Yes _____ No

170. Maximum Loan Amounts (continued)

4. It is proposed that student loans be increased from \$2,500 to \$4,000.

Do you approve of this increase? _____ Yes _____ No

If no, what would you suggest? \$ _____

The maximum amount outstanding has been raised from \$10,000 to \$15,000.

Do you approve of this increase? _____ Yes _____ No

If no, what would you suggest? \$ _____

(d). This section limits the number of different loans an individual may acquire from the state to a maximum of 3 loans regardless of the category. This may be somewhat high.

What would you suggest? _____ # of loans

Possibly a dollar limitation would also be reasonable. What limitation would you suggest? \$ _____

180. Addition of Loan Limitation

(a). Based upon a one year residency, should a loan limitation be provided?

_____ Yes _____ No

(b). Should an experience limitation be provided?

_____ Yes _____ No

190. Maximum Term of Loans

Do you approve of the maximum term of loans per the draft legislation?

_____ Yes _____ No

If no, what would you suggest?

200. Value Limitations

Do you approve of the value limitations per the draft legislation?

_____ Yes _____ No

If no, what would you suggest?

210. Rate of Interest

Do you approve of the rate of interest per the draft legislation?

_____ Yes _____ No

If no, what would you suggest?

Note: What rates of interest do you wish to establish for those loans that may be made on an interim basis from other funds or the Permanent Fund?

6.5 7.0 7.5 8 Other _____

230. Residential Hire

As a condition of the loan, it appears a residential hire provision may be possible.

Do you wish the maximum possible resident hire be incorporated into the legislation for all categories where applicable?

_____ Yes _____ No

300. Citizens Advisory Board

It is suggested this board have 4 members appointed by the Legislative Council and 3 appointed by the Governor. All would be confirmed by joint session of the Legislature.

Is this combination acceptable? _____ Yes _____ No

The Legislative method of selection may be changed, ie. President of the Senate may choose 1 member, Speaker of the House may choose one member. Any suggestions?

310. District Loan Office.

Do you approve of the district loan office per the draft legislation?

_____ Yes _____ No

Note: Sub-offices in other population centers on either a permanent of visitation basis may be provided. Do you agree?

_____ Yes _____ No

320. Appeal

Do you agree with the initial concept for appeals?

_____ Yes _____ No

Note: Possibly the Legislature could provide for an advisory group to the Commissioner of Commerce for certain loan categories as illustrated in Section 3 of work packet, for assistance to the appeals board.

Would you like to incorporate these advisory groups to the appeals board in the legislation?

_____ Yes _____ No

Collection

It is proposed that all delinquent collection effort be placed in a Division of Collections, Department of Revenue. Experience indicates that the present method of collection is not effective.

Do you feel collection should be done by the Department of Revenue?

_____ Yes _____ No

Cost Differential

The cost of construction is such in Alaska that it is recommended a formula and procedure be worked into the legislation which would adjust the basic loan levels to reflect this fact.

Do you approve of this concept?

_____ Yes _____ No

Subsidies

Some of the present loan programs have below money cost interest rates, ie. Student Loans at 5%. A procedure in the legislation can be developed to continue these efforts

Do you approve of a continuance or implementation of a subsidy program?

Agriculture	_____ Yes	_____ No
Fisheries	_____ Yes	_____ No
Other Renewable Resources Loans	_____ Yes	_____ No
Veterans	_____ Yes	_____ No
Other	_____ Yes	_____ No

Bank Participation

While the 18 banking institutions have been asked for input only six banks have responded to date.

Do you support providing an alternate avenue for those who would rather borrow through the bank?

_____ Yes _____ No

Some Approaches May Be

Banks could originate loans through their branch offices in the rural areas and sell them to the Alaska Loan Program Fund. This is similar to what is presently done by Alaska Housing Finance Corporation.

Do you approve legislating such an approach?

_____ Yes _____ No

Required bank participation on certain projects when a specific dollar limitation is reached?

_____ Yes _____ No

Provide guarantees similar to those provided by SBA?

_____ Yes _____ No

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JUN 22 1977

TO: Ron Lehr, Deputy Director
Division of Budget & Management

DATE: May 19, 1977

FILE NO:

TELEPHONE NO:

POLICY DEVELOPMENT
& PLANNING

FROM: Jim Stey, Budget Analyst
Division of Budget & Management
Office of the Governor

SUBJECT: Agriculture Revolving Loan
Fund, Project VII-5

This memo is a response to the inquiry by the Budget Review Committee concerning the Agriculture Revolving Loan Fund (ARLF).

1. Given an increase in capital funds, has the interest rate been raised to parity with commercial loan rates?
2. What are the benefits of the ARLF to the agriculture industry?

The Territory Legislature established the ARLF in 1953 (Sec Ch. 122, 1953). The aim of this legislation was to "promote the more rapid development of agriculture as an industry throughout Alaska by means of long-term low-interest loans." The initial capitalization of this fund was \$200,000. Over the years, the fund's holdings have grown considerably. On December 31, 1976, it had \$4,816,306 in assets. This money was invested in the following types of loans:

1. Short terms: \$263,455 @ 6%
2. Chattel loans: \$624,882 @ 6%
3. Farm Development loans: \$3,167,887 @ 6%
4. Irrigation loans: \$306,355 @ 4%

In its FY 78 budget, the Division of Agriculture requested \$680,000 for the ARLF. The BRC approved a \$200,000 G.F. increase and a \$480,000 increase from the Incremental General Fund (IGF). Furthermore, this increase in loan capital was approved with the understanding that the Division introduce legislation to raise the interest rates of the fund to parity with commercial loan rates or corporate bond interest rates. This information was conveyed to the Division via the budget form 7C i.e., Analysis of Governors Decision.

On April 7, I met with Dr. Honsinger, local representative of the ARLF. We discussed the idea of increased interest rates for agriculture loans. He was not aware that the BRC had made its budget decision conditional to higher interest rates. He stated that a low interest rate is far more critical to agriculture development than the small business industries, which is a high capital investment industry. Furthermore, farm income was below fishing, or business income, hence it was vital to maintain

a low interest rate to prevent farmers from leaving the agriculture industry.

Although he had no supporting data, he seemed confident that the ARLF (with its low interest rates) has sustained this industry. "Otherwise," he said, "Agriculture would have died." Dr. Honsinger mentioned that Alaska is on the fringe of a break-through in improving the economic scale of agriculture. For this reason, any attempt to raise the ARLF interest rates at this time, would disrupt the progress of agricultural development.

We discussed the benefits of the ARLF. Dr. Honsinger felt that the greatest benefit of the program is the retention of farmers in the industry. Again, there is no hard data to support this assertion. Actually, there is a real dearth of information concerning the results of ARLF loans to farmers. For instance, do farmers who receive ARLF loans, become more efficient in their farming operations? Do they increase their portion of gross state agriculture output? Do they achieve higher farm income? Does the ARLF help new farmers enter the industry? Such information is just not available at this time. Further attempts to identify the benefits of the ARLF led to broad discussions on the benefits of large scale agriculture development. As you are aware, there is a substantial amount of uncertainty surrounding the costs and benefits of large scale food production in Alaska.

On April 14, I discussed the issue of increased interest rates with Doug Jacobson, Program Director of ARLF. He affirmed the comments of Dr. Honsinger and stressed the long-term low-interest loan policy embodied in the ARLF legislation.

Actually, there is reason to suspect this is not the case. I think the authors of this low interest policy never intended that the interest rate be, "so low" relative to commercial loan rates. The attached table traces the history of changes in ARLF interest rates relative to commercial loan interest rates for similar long term investments.

It is conceivable that commercial interest rates and FHA mortgage rates in Alaska were much greater than the 4 1/2% ARLF rates in 1953. This information is not available at this time. The inherent weakness of this table is the comparison of ARLF rates with commercial or FHA low rates in the USA. Nevertheless, I believe that even a rough comparison of Alaska and the USA data is sufficient to underscore the following point. I feel that the ARLF was established to satisfy a loan money shortage for high risk, high investment agriculture loans, hence the availability of loan money per se was the object of this 1953 legislation. It appears that the legislature intended that the interest rates be in parity with commercial lending rates in Alaska, otherwise they would have set the ARLF rates considerably lower than commercial rates.

The State has expanded the use of loan fund programs as development tools. Today there is a large variety of such programs (commercial fishery loans, business loans child care facilities loans, etc).

May 19, 1977

With the exception of student loans, all of the remaining State loan fund programs have interest rates greater than 6%. Even the commercial fishing loan fund, which makes high risk, high investment loans for the development of renewable resources, has an interest rate greater than the ARLF. Under these circumstances, it appears that the ARLF's interest rates are out of line and need to be adjusted to parity with interest rates in other state development loan funds.

Doug Jacobson appears to be sympathetic to the BRC's request to raise the ARLF rates. I feel that he would have proposed the proper change in legislation earlier this legislative session, but he was not aware of the BRC's concern in this subject. Apparently the information on the Budget form, 7C never filtered down to him. Incidentally the Department of Natural Resources may be opposed to a change in ARLF rates, however they did not rebut the issue.

COMPARISON OF ARLF INTEREST RATES WITH COMMERCIAL
AND FHA INTEREST RATES FOR SELECTED YEARS

YEAR	ARLF FARM LOANS	Aaa* CORP BONDS	SHORT. TERM * BUS. LOANS U.S.A.	FHA MORTGAGES U.S.A.	AK. COMMERCIAL LOAN RATES
1953	Chattel 5% Farm Dvlp. 4 1/2%	3.2%	3.7%	4.6%	NA
1966	Chattel & 5% Farm Dvlp	4.7%	6.0%	6.3%	NA
1967	Chattel & Farm Dvlp 6%	5.5%	6.0%	6.6%	NA
1970	Chattel & Farm Dvlp 6% Irrigation 4%	8.0%	8.5%	9.1%	10%
1975	Chattel & Farm Dvlp 6% Irrigation 4%	8.8%	8.3%	9.4%	10%

Summary change in interest rates 1953-1975: +33% +175% 124% 104%

Note that the ARLF interest rate in 1953 was significantly higher than average commercial loan rates in the U.S.A. Today the ARLF interest rate is far below average commercial or FHA loan rates in the lower 48 states. Where other lending institutions have progressively raised their interest rates, ARLF rates have practically remained constant. (Compare the summary changes in interest rates.)

*Economic Report of the President, January 1976

7C Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
78-1 Agriculture Revolving Loan Fund	680.0	GF	Recommend approval of increasing the funding of the agriculture revolving loan fund in the amount of \$200.0 from the general fund and \$480.0 from the incremental general fund for a total increase of \$680.0. The recommendation is dependent upon the loans bearing an interest rate at least equal to the prevailing rate on high grade corporate issues.
Recommendation	(480.0)	GF	
	200.0	GF	
	480.0	IGF	
	680.0	GF & IGF	

CATEGORY Natural Resources AGENCY Agriculture Loans PROGRAM ARLF Capitalization

A REVIEW OF
ALASKA AGRICULTURE REVOLVING
LOAN FUND
DEPARTMENT OF NATURAL RESOURCES

July 1, 1975 - June 30, 1976

A REVIEW OF
ALASKA AGRICULTURE REVOLVING
LOAN FUND
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July 1, 1975 - June 30, 1976

Commissioner of Natural Resources
Deputy Commissioner of Natural Resources

Robert LeResche
Jack Roderick

Agriculture Revolving Loan Fund Board of
Directors:

Chairman
Member
Member
Member
Member

James H. Reaves
Lewis J. Beaty
Robert J. Gillas
Stephen K. Hamilton
Paul B. Nistler

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PURPOSE OF THE REVIEW

In accordance with the provisions of Title 24 of the Alaska Statutes, we reviewed the Alaska Agriculture Revolving Loan Fund to determine if the financial statements for the fiscal year 1975-76 are fairly presented.

ORGANIZATION AND FUNCTION

The Agriculture Revolving Loan Fund (ARLF,) operating under the authority of AS 03.10.010-060 since 1953, provides low interest, generally long-term financing for the rapid development of agriculture in Alaska. The Fund has been capitalized since inception by direct appropriations from the general fund totalling \$3,440,000. Additional cash for lending has been obtained, from time to time, by sale of assigned notes to the Alaska Department of Revenue.

The Fund is administered by a five member Board of Directors appointed by the Governor and confirmed by the Legislature in joint session. No loan in excess of \$25,000 may be made by the Fund without board approval.

As specified by statute, the following four types of loans are made:

<u>Type</u>	<u>Limit</u>	<u>Term</u>	<u>Purpose</u>
Short-term	\$ 25,000	1 year	Seed, feed, fertilizers
Chattel	100,000	7 years or useful life of Chattel	Animals, equipment
Farm Development	200,000	Not to exceed 30 years	Land, improvements, buildings
Irrigation	As determined by the Commissioner		Irrigation equipment

ARLF records at June 30, 1976 show 122 borrowers with a total of 220 loans outstanding distributed as follows:

<u>Type</u>	<u>No. of Loans</u>	<u>Amount</u>
Short-Term	40	\$ 307,576
Chattel	58	627,804
Farm Development	92	3,109,579
Irrigation	30	319,536
Total Outstanding	220	<u>\$4,364,495</u>

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

ARLF should establish an Allowance for Uncollectable Loans.

Currently, losses on uncollectable loans are written off entirely in the year the loan is finally determined uncollectable: a process that often takes several years.

The allowance account, normally established as a percent of loans outstanding allows more uniform matching of loan losses with interest income. Losses are spread over all periods affected rather than being absorbed entirely in the write-off year.

Use of the allowance method is required by generally accepted accounting principles in order for ARLF financial statements to be presented fairly. ARLF balance sheet as of June 30, 1976, shows retained earnings of \$384,535 since inception of the fund. This amount is based on the assumption that all loans outstanding will be collected.

We reviewed all delinquent loans as of June 30, 1976, in order to assess the probability of collection. We computed an allowance amount based upon this assessment and included twelve loans written off March 24, 1977. A schedule illustrating the allowance computation follows.

Based upon our allowance computation in the amount of \$640,480, ARLF has a retained earnings deficit of \$255,945, rather than a surplus.

Each of the two prior audit reports on ARLF, FY 1972 - Division of Legislative Audit, and FY 1974 - Ernst & Ernst, recommended the allowance method be used.

We strongly recommend an Allowance for Uncollectable Loans be established, retroactive to July 1, 1976.

AGRICULTURE REVOLVING LOAN FUND
COMPUTATION OF ALLOWANCE FOR UNCOLLECTABLE LOANS
June 30, 1976

	Current Loans	Loans with Payments Past Due More Than:				Allowance for Uncollectable Loans
		30 Days	90 Days	6 Months	1 Yr or More	
	\$2,941,814	\$33,005	\$67,888	\$139,572	\$1,182,215	
Subtract:						
Twelve loans written- off March 24, 1977	(1,714) (1)				(38,931)	\$ 40,645
Five loans where collection appears very unlikely					(356,373)	356,373
Subtotal	\$2,940,100	\$33,005	\$67,888	\$139,572	\$ 786,911	
Allowance Percent	1%	2%	4%	10%	25%	
	<u>\$ 29,401</u>	<u>\$ 660</u>	<u>\$ 2,716</u>	<u>\$ 13,957</u>	<u>\$ 196,728</u>	<u>\$243,462</u>
Recommended Allowance For Uncollectable Loans at June 30, 1976						<u>\$640,480</u>

(1) ARLF has not been in contact with maker for several years. Loan is current only as a result of foreclosure and sale of security.

Recommendation No. 2

ARLF should establish effective procedures to insure financing statements are not allowed to lapse on outstanding loans.

Financing statements are filed with the Department of Administration pursuant to the Uniform Commercial Code in order to perfect security agreements covering borrowers chattels such as equipment, crops, or livestock. The initial filing is effective for a period of five years and during that time serves as notice of the ARLF interest in the chattels. Financing statements may be renewed six months prior to expiration if the loan is still outstanding.

During our review of the loan files we found one financing statement not filed initially and six which had been allowed to lapse while the loans remained outstanding. In one instance, the borrower had sold the secured chattels after the financing statement had lapsed and the loan was seriously delinquent at the time of our review.

Timely renewal of financing statements is essential to protect collateral on ARLF loans.

Recommendation No. 3

ARLF should seek legislation to require loans to be repaid in full if borrowers permanently cease agricultural activities.

Our review of the loan files of twenty-seven borrowers, which represented forty-seven loans, disclosed that nine borrowers were no longer engaged in agricultural activities. Thirteen loans were outstanding to these nine borrowers totalling \$231,087 as of June 20, 1976.

ARLF statutes do not require that persons remain active in agriculture during the life of ARLF loans. AS 03.10.020 merely requires persons be engaged in agriculture at the time loans are made.

Loans outstanding to persons no longer actively engaged in the industry represent a reduction in the resources available to carry out the purpose of ARLF. The effect on the

agricultural industry of such non-participating loans can be measured in terms of lost opportunities for farmers, ranchers, or dairymen with genuine needs for development capital.

Recommendation No. 4

ARLF should require title insurance and property appraisals on all large loans secured by real property.

Title insurance is necessary in order to establish the order of preference of creditors with liens against a particular price of real property. It also demonstrates the borrower is the legal owner of the property being pledged.

Real estate appraisals provide evidence of the market value of the property and are essential in determining the degree to which the loan is protected.

Although not required by statute or regulation, title insurance is currently acquired in most cases, appraisals however are never acquired.

In addition to providing a greater degree of protection to ARLF loans, title insurance and appraisals will add a measure of objectivity to the loan making process at the onset of the loan. These items are mandatory at all commercial lending institutions and other state loan programs such as small business, tourism and veteran's loans.

Title insurance should be required on all loans secured by real property. We recommend property appraisals be mandatory on all large loans secured by real property. Loans should be considered large if they exceed a predesignated amount, such as \$25,000. Appraisals should be acquired on loans not exceeding \$25,000 where, in the judgement of ARLF management, the value of pledged real property is not otherwise sufficiently evident.

Recommendation No. 5

ARLF authority to guarantee loans by commercial lending institutions should be limited.

ARLF will, from time to time, guarantee in writing loans to farmers by commercial banks. The bank loans are short term, one to three months, and are repaid from the proceeds of ARLF loans. The guarantees are considered necessary on those occasions when the ARLF loan process cannot respond quickly enough to a farmer's emergency working capital needs. It is a useful interim financing procedure.

In order to add a measure of administrative control to this procedure we recommend the scope of the Loan Administrator's authority to issue guarantees be limited as follows:

- A. Not to exceed a reasonable amount, \$10,000 for example.
- B. For a limited period of time, such as 90 days.
- C. All guarantees must be reviewed by the Board either in advance or at the next regular meeting.
- D. The sum of loan guarantees plus ARLF loans outstanding must not exceed the statutory loan authority of \$5,000,000 at any time.

Recommendation No. 6

ARLF should improve the accuracy and format of statistical reports.

ARLF statistical reports contain a number of errors. For example, approximately twenty percent of the delinquent amounts reported on the June 30, 1976 loan resume were incorrect. Moreover, additional statistical information should be included to more fully disclose the status of loans outstanding.

Currently, the loan resumes compare total outstanding loan balances with scheduled payments delinquent to derive a percent of loans delinquent. This comparison results in an artificially low percent of loans delinquent. It would be more appropriate to also include a comparison of the balance of total loans outstanding with the balance of those loans with payments delinquent.

Recommendation No. 7

ARLF should properly account for service fees and collections on loans sold to the Treasury.

Currently, ARLF credits interest income for interest collected on loans sold to the Treasury and charges interest expense as interest is transmitted to the Treasury. As a result, interest income and interest expense for FY 1976 were each overstated by \$34,019. In addition, the service fee retained by ARLF for handling the collections (one-half of one percent of principal and interest collected) is accounted for as interest income.

Cash collected on loans sold to the Treasury should be credited to a liability account until transmitted to the Treasury. Service fees should be allocated to a separate receipt code rather than included with interest income.

Recommendation No. 8

ARLF should compute interest based on a 365 day year.

ARLF computes interest based upon a 360 rather than a 365 day year. As a result, they collect in some cases, slightly more interest than the maximum allowed by statute. Interest on farm development loans and chattel loans is limited to six percent by AS 03.10.030. Stated interest on many of these loans is six percent however, the use of a 360 day year results in payment of approximately 6.01% interest.

Recommendation No. 9

Individual loan files should be maintained in a current and complete fashion.

We were unable to find basic information in thirteen of twenty-seven delinquent loan files, such as:

- A. Current mailing address.
- B. Current employment.
- C. Current financial status.
- D. Current repayment plan.
- E. Follow-up procedures employed for delinquent loans.

Much of the contact between ARLF and borrowers is via telephone and this problem results, in a large part, from a lack of notes on the conversations being placed in the loan files.

Effective management of this loan program is contingent on having complete and current information readily available. All contact with borrowers should be noted in the files and information listed above in particular should be kept current.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF—STATE CAPITOL

JUNEAU 99801

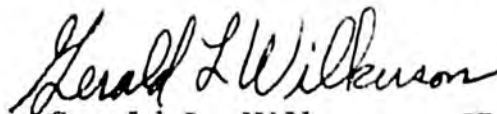
April 27, 1977

Members of the
Legislative Budget and Audit Committee:

We have examined the Balance Sheet of the Agriculture Revolving Loan Fund-Cash Basis, as of June 30, 1976, and the related Statement of Operations-Cash Basis and Analysis of Retained Earnings-Cash Basis for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the financial statements, the Fund has not established an allowance account to give recognition to potential loan losses in the financial statements. Because of this departure from generally accepted accounting principles, as of June 30, 1976, net income, loans receivable, retained earnings, and fund balance are overstated in the estimated amount of \$640,480.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the Agriculture Revolving Loan Fund at June 30, 1976, or the results of operation for the year then ended in conformity with generally accepted accounting principles.



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

AGRICULTURE REVOLVING LOAN FUND
COMPARATIVE BALANCE SHEET - CASH BASIS
June 30, 1976 and June 30, 1975

ASSETS	June 30, 1976	June 30, 1975 (UNAUDITED)
Cash in Transit	\$ 43,525	\$ -0-
Cash in Treasury (Note 1)	166,715	108,599
Loans Receivable:		
Agriculture Loans	3,894,959	3,723,405
Irrigation Loans	319,536	333,926
Total	4,214,495	4,057,331
Loans Sold to State Treasurer (Note 1)	(600,200)	(662,645)
Net Revolving Fund Loans	3,614,295	3,394,686
Kodiak Slaughter House Loan	150,000	150,000
Total Loans Receivable (Note 2)	3,764,295	3,544,686
Total Assets (Note 3)	<u>\$3,974,535</u>	<u>\$3,653,285</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities: (Note 3)		
Due General Fund	\$ 150,000	\$ 150,000
Reserve for Encumbrances	-0-	106
Total Liabilities (Note 4)	150,000	150,106
Fund Balance:		
Fund Principal (contributions from General Fund)	3,440,000	3,240,000
Retained Earnings	384,535	263,180
Total Fund Balance (Note 2)	3,824,535	3,503,180
Total Liabilities and Fund Balance	<u>\$3,974,535</u>	<u>\$3,653,286</u>

AGRICULTURE REVOLVING LOAN FUND
COMPARATIVE ANALYSIS OF RETAINED EARNINGS - CASH BASIS
June 30, 1976 and June 30, 1975

	Fiscal Year Ended June 30, 1976	June 30, 1975
Beginning Retained Earnings Balance	\$ 263,180	\$ 187,617
Net Income (Note 2)	121,355	75,563
Ending Retained Earnings Balance (Note 2)	<u>\$ 384,535</u>	<u>\$ 263,180</u>

See Accompanying Notes to the Financial Statements

AGRICULTURE REVOLVING LOAN FUND
COMPARATIVE STATEMENT OF OPERATIONS - CASH BASIS
For the Fiscal Years Ended June 30, 1976 and June 30, 1975

	Fiscal Year Ended June 30, 1976	June 30, 1975 (UNAUDITED)
Revenue:		
Interest on Agriculture Loans (Note 5)	\$214,940	\$210,316
Interest on Irrigation Loans	9,852	12,891
Interest on Slaughter House	6,000	-0-
Gain on Sale of Property	-0-	194
Prior Year Recovery	-0-	6,000
Re-establish Prior Year Encumbrance	105	-0-
Total Revenue	<u>230,897</u>	<u>229,401</u>
Expense:		
Administrative Expenses:		
Personal Services	63,079	61,286
Travel	6,022	6,739
Contractual	4,683	10,264
Commodities	976	444
Equipment	-0-	495
Inter-agency Charges	762	-0-
Total Administrative Expenses	<u>75,522</u>	<u>79,228</u>
Other Expenses:		
Interest Expense (Note 5)	34,019	42,566
Losses on Loans	-0-	2,281
Adjustment to Surplus	-0-	2,329
Adjustments to Loan Balances	-0-	7,707
Encumbrances	-0-	105
Adjustment to Cash in Transit	-0-	19,617
Total Other Expenses	<u>34,019</u>	<u>74,605</u>
Total Expenses	<u>109,541</u>	<u>153,833</u>
Net Gain to Retained Earnings (Note 2)	<u>\$121,356</u>	<u>\$ 75,568</u>

See Accompanying Notes to the Financial Statements

AGRICULTURE REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1976

Note 1

Cash in Transit and Loans Sold to Treasury

A disbursement to the treasury during fiscal year 1976, in the amount of \$4,303.98, was improperly charged to the subsequent fiscal year. The disbursement represented transmittal of loan principal collected by ARLF for the treasury. As a result, cash in treasury and loans sold to state treasurer are each overstated by \$4,303.98.

Note 2

Allowance for Uncollectable Loans

ARLF financial statements do not include a provision for future uncollectable loans. Our review of loans outstanding indicates a provision is necessary and we estimate it should be in the amount of \$640,480 as of June 30, 1976.

Note 3

Contingent Liability

The ARLF was contingently liable at June 30, 1976 for a loan in the amount of \$45,000 made by the Alaska Bank of Commerce. The contingent liability results from a letter to the bank from ARLF, dated May 5, 1976, which guaranteed repayment of the loan in the event of default. The loan was subsequently paid in full on July 1, 1976.

Note 4

Interest Income and Expense

Interest income (Agriculture Loans,) and interest expense, are each overstated by \$34,019. This results from accounting for collections on loans sold to the State Treasury as interest income, and amounts transmitted to the treasury as interest expense, rather than passing these amounts through a liability account.