ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

263 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program

A Comparative Sample of Available Residential Loans And the Senate Proposed Alaska Loan Program In Urban Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

Lending Agency	Downpayment [1]	Interest	Monthly Pymts	Insurance [2]	Total Cost
Federal National Mortgage Association	$ 5,000	9.5%	$ 378.39	$ 7,500.00	$ 148,720.40
State Veterans Loan Program	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority	1,500	8.5%	372.93	7,500.00	143,254.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	7,500.00	128,560.40
State Banks [3] (not available; pro forma only)	5,000	9.2%	368.21	7,500.00	145,055.60
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00

[1] All the programs have a 10% downpayment with the exception of the Federal Housing Authority which requires 3%.

[2] Insurance fees are computed at a .5% of the value of the home over a 30 year period and are approximate averages only. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest cost and covers the mortgage only.

[3] Interest quoted is taken from bank questionnaires received by the Senate Committee on the Permanent Fund

Sample A

A Comparative Sample of Available Residential Loans And the Senate Proposed Alaska Loan Program In Rural Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

Lending Agency	Downpayment[1]	Interest	Monthly Pymts	Insurance[2]	Total Cost
Federal National Mortgage Association	$ 5,000.	9.5%	$ 378.39	$ 30,000.00	$ 171,220.40
State Veterans Loan Program	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority	1,500	8.5%	372.93	30,000.00	165,754.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	30,000.00	151,060.40
State Banks [3] (not available; pro forma only)	5,000	9.6%	381.69	30,000.00	172,408.40
Farmer's Home Administration	NONE	8.0%	366.89	30,000.00	162,080.40
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00

[1] All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

[2] Insurance fees are computed at a 2% of value of the home over a 30 year period and is a low estimate. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest costs and covers the mortgage only.

[3] Interest quoted is taken from bank questionnaires received by the Senate Committee on the the Permanent Fund

Sample B

A Comparative Sample of Available Home Improvement Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: $10,000 Home Improvement Loan

Lending Agency	Interest	Monthly Payments	Total Cost
Farmer's Home (Rural AK only)	8.0%	$ 95.57	$ 17,202.60
AK Housing Finance Corporation (Rural AK only)	9.5%	104.43	18,717.40
State Bank [1] (not readily available; pro forma only)	9.6%	105.04	18,907.20 (Rural)
	9.2%	102.63	13,473,40 (Urban)
Alaska Loan Program	7.0%	89.89	16,180.20
Veterans Incentive	6.0%	84.39	15,190.20

1 Interest quoted is taken from bank questionnaire responses received by the Senate Committee on the Permanent Fund

Sample C

A Comparative Sample of Available Business Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: $125,000 business loan
(no equipment costs)

Lending Agency	Value Limitation	Interest	Monthly Payments	Total Cost	
Small Business Administration	90%	9.5%	$ 1,305.30	$ 234,954.00	
Bank (pro forma only)	75%	9.5%	1,305.30	234,954.00	URBAN
	75%	9.8%	1,306.50	235,170.00	RURAL
Small Business Loan Fund (State)	75%	8.0%	1,194.60	215,028.00	
State Veterans Loan Fund	75%	7.5%	1,158.80	208,584.00	
Alaska Loan Program	90%	7.0%	1,123.60	202,248.00	
Veterans Incentive	90%	6.0%	1,054.90	189,882.00	

The actual maximum loan amounts for each program listed as follows:

SBA guarantees	None given
Bank	Varies statewide
Small Business (state)	$ 300,000
Alaska Loan Program	$ 500,000 per individual $ 5 million for group of 10 individuals per project

Sample D

ILLUSTRATIONS

The following Illustrations have been prepared by the Senate Special Committee on the Permanent Fund and give examples of loans that could be made through the Alaska Loan Program and the Renewable Resources Division.

Loans Made in Conjunction with the Renewable Resources Division

Illustration A

Bottom Fish Processing Plant

Illustration B

Fishing Boat

Attachment 1

Cumulative amounts in the Renewable Resources Development Fund

Commercial Loans Made through the Alaska Loan Program

Illustration C

Retail Store and Housing Development Project

RENEWABLE RESOURCES DIVISION

Illustration A

PROJECT: Bottom Fish Processing Plant

			Alaska Loan Program	Equity
Real Estate	$ 3,000,000	90%	$2,700,000	$300,000
Equipment	2,000,000	80%	1,600,000	400,000
	$ 5,000,000		$4,300,000	$700,000

A 50% equity position by the Renewable Resources Development Fund = $350,000

Interest Cost = 7% over the life of the loan.

Note: With section 284 of the Alaska Loan Program, included in the above cost are:

1) Interest during construction (12 - 18 months)

2) Interest, costs, and working capital for 30 months

Therefore, the project has not paid anything from earnings for 48 months.

RENEWABLE RESOURCES DIVISION

Illustration B

PROJECT: Fishing Boat

		Alaska Loan Program		Equity
Fishing vessel	$ 150,000	90%	$ 135,000	$ 15,000
Equipment	30,000	80%	24,000	6,000
	$ 180,000		$ 159,000	$ 21,000

Division of Renewable Resources may: 1) supply an interest incentive

2) hold 50% equity position equal to $ 10,500.

YEAR END	YEARLY INCOME	CUMULATIVE AMOUNT RENEWABLE RESOURCES DEVELOPMENT FUND	PERMANENT FUND	COMBINED TOTAL
1977	.7	.7	3.3	4.0
1978	10.3	11.0	54.8	65.8
1979	19.4	30.4	152.0	182.4
1980	29.5	59.9	299.6	359.5
1981	32.0	91.9	459.4	551.3
1982	34.5	126.4	632.1	758.5
1983	37.2	163.6	818.2	981.8
1984	48.9	212.5	1062.5	1275.0
1985	52.3	264.8	1323.8	1588.6
1986	55.8	320.6	1603.0	1923.6
1987	59.6	380.2	1901.2	2281.4
1988	56.3	436.5	2182.5	2619.0
1989	51.3	487.8	2438.7	2926.5
1990	52.9	540.7	2703.5	3244.2
1991	38.9	579.6	2898.0	3477.6
1992	29.9	609.5	3047.3	3656.8
1993	23.8	633.3	3166.5	3799.8
1994	22.9	656.2	3280.7	3936.9
1995	31.0	687.2	3436.2	4123.4
1996	32.3	719.5	3597.6	4317.1
1997	33.6	753.1	3765.6	4518.7
1998	24.4	777.5	3887.5	4665.0
1999	23.5	801.0	4004.8	4805.8
2000	22.1	832.1	4115.5	4938.6
2001	21.5	844.6	4222.7	5067.3
2002	22.1	866.7	4330.3	5197.0
2003	22.1	888.8	4444.2	5333.0
2004	23.8	912.6	4562.8	5475.4
2005	24.9	937.5	4687.2	5624.7

Prepared by the Senate Special Committee on the Permanent Fund
Based on revenue projections from Milt Barker, Division of Legislative Finance

ALASKA LOAN PROGRAM

COMMERCIAL LOANS

Illutration C

PROJECT: Retail Store

		Alaska Loan Program		Equity
Real Estate	$ 400,000	90%	$ 360,000	$ 40,000
Equipment	100,000	80%	80,000	20,000
	$ 500,000		$ 440,000	$ 60,000

PROJECT: Housing Development *

		Alaska Loan Program		Equity
Real Estate	$5,000,000	90%	$ 4,500,000	$ 500,000

* Project has participation of 10 individuals each assuming individual liability.

GRAPHS

The following Graphs A through D have been prepared by the Senate Special Committee on the Permanent Fund and are based on revenue projections prepared by Milt Barker, Division of Legislative Finance.

Graph A

Charts 30% Permanent Fund (includes the 5% for the renewable resources development fund) and the General Fund (minus the Native Claims).

Graph B

Same illustration as Graph A with a different set of assumptions.

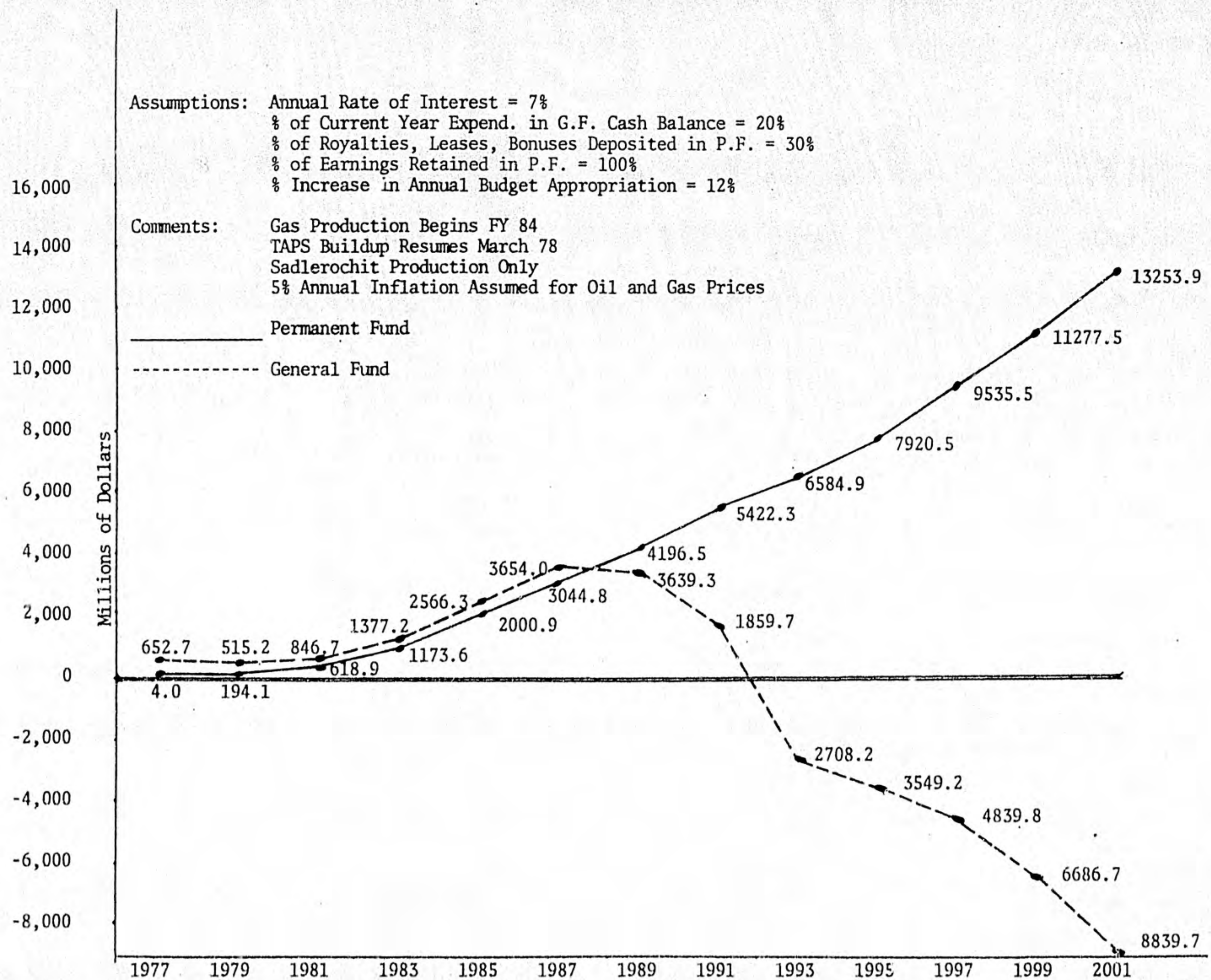
Graph C

The Senate Permanent Fund legislation proposes that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay within the General Fund and used to finance non-recurring expenditures. This graph illustrates projected growth of the capital outlay reserve and the General Fund (minus the Native Claims). Permanent Fund projections have not been included.

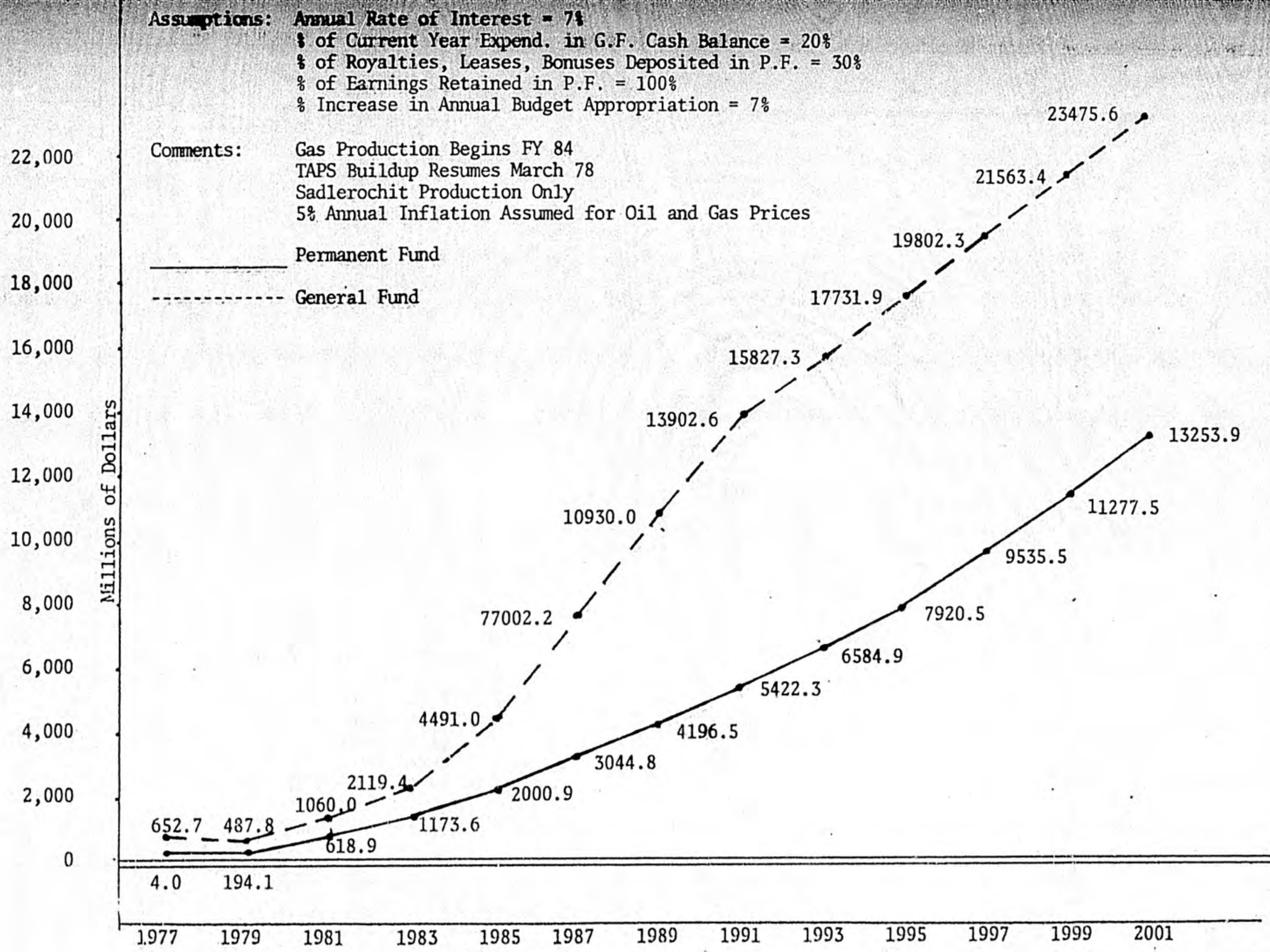
Graph D

Same illustration as Graph C with a different set of assumptions.

GRAPH A



Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties, Leases, Bonuses Deposited in P.F. = 30%
% of Earnings Retained in P.F. = 100%
% Increase in Annual Budget Appropriation = 12%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
Permanent Fund
General Fund
Millions of Dollars
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
-2,000
-4,000
-6,000
-8,000
652.7
515.2
846.7
1377.2
2566.3
3654.0
3639.3
1859.7
2708.2
3549.2
4839.8
6686.7
8839.7
4.0
194.1
618.9
1173.6
2000.9
3044.8
4196.5
5422.3
6584.9
7920.5
9535.5
11277.5
13253.9
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001



Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties, Leases, Bonuses Deposited in P.F. = 30%
% of Earnings Retained in P.F. = 100%
% Increase in Annual Budget Appropriation = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
Permanent Fund
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
652.7
487.8
1060.0
2119.4
4491.0
77002.2
10930.0
13902.6
15827.3
17731.9
19802.3
21563.4
23475.6
4.0
194.1
618.9
1173.6
2000.9
3044.8
4196.5
5422.3
6584.9
7920.5
9535.5
11277.5
13253.9
1977
1979
1981
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1985
1987
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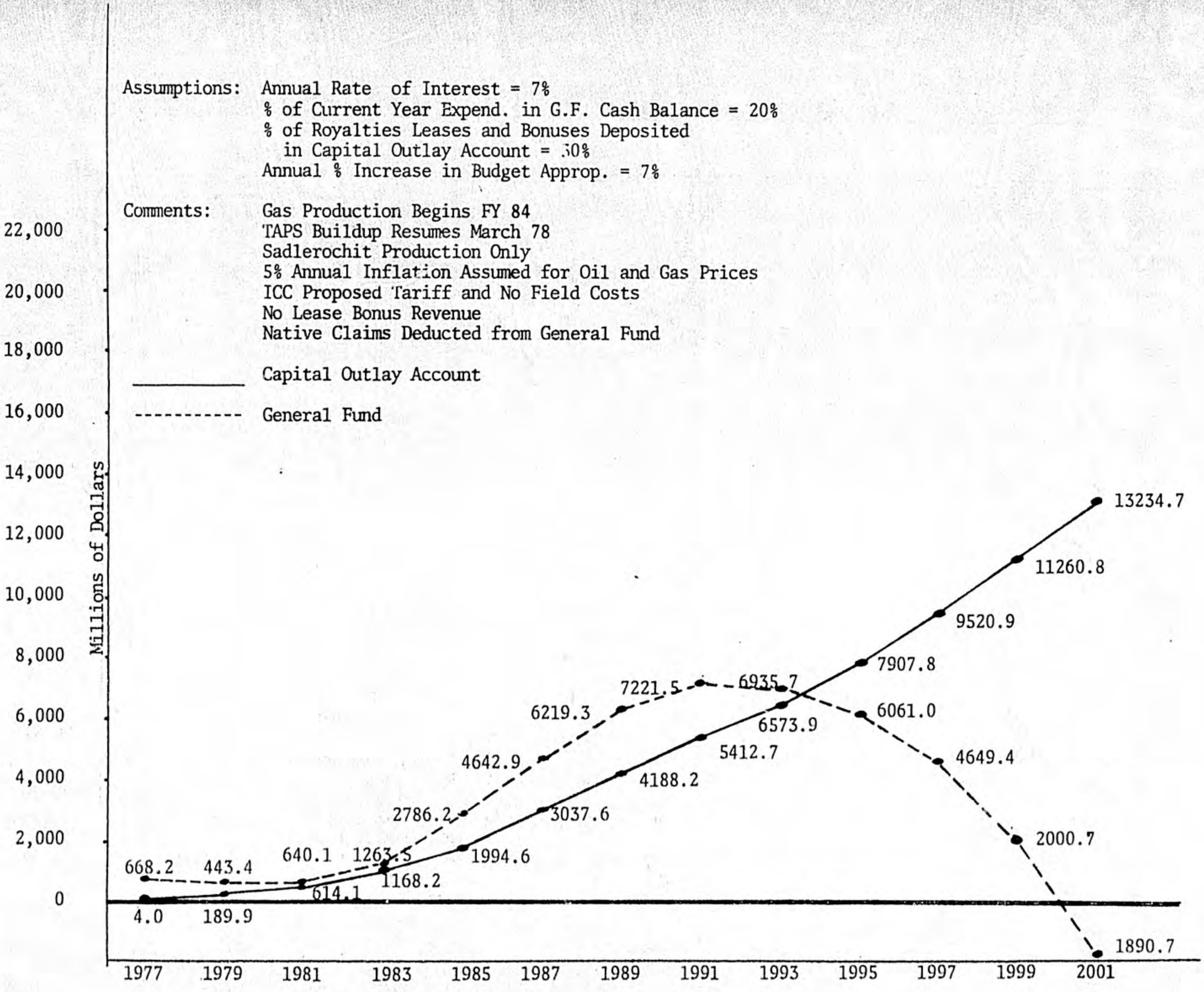
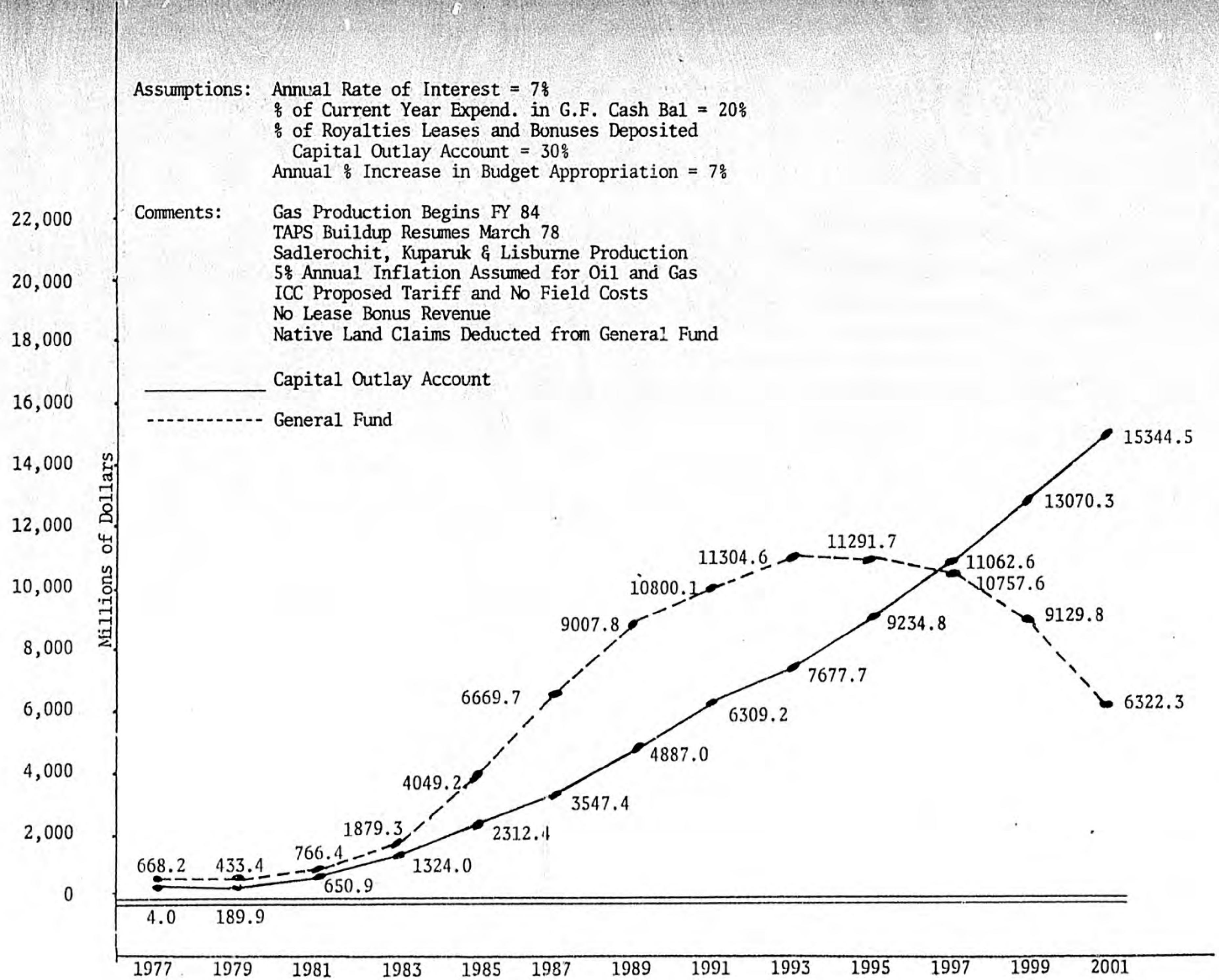
1991
1993
1995
1997
1999
2001

GRAPH B


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties Leases and Bonuses Deposited in Capital Outlay Account = 50%
Annual % Increase in Budget Approp. = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
ICC Proposed Tariff and No Field Costs
No Lease Bonus Revenue
Native Claims Deducted from General Fund
Capital Outlay Account
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
13234.7
11260.8
9520.9
7907.8
7221.5
6935.7
6219.3
6061.0
6573.9
5412.7
4642.9
4649.4
4188.2
2786.2
3037.6
2000.7
1994.6
668.2
443.4
640.1
1263.5
1168.2
614.1
4.0
189.9
1890.7
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001

GRAPH C


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Bal = 20%
% of Royalties Leases and Bonuses Deposited Capital Outlay Account = 30%
Annual % Increase in Budget Appropriation = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit, Kuparuk & Lisburne Production
5% Annual Inflation Assumed for Oil and Gas
ICC Proposed Tariff and No Field Costs
No Lease Bonus Revenue
Native Land Claims Deducted from General Fund
Capital Outlay Account
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
668.2
433.4
766.4
1879.3
4049.2
6669.7
9007.8
10800.1
11304.6
11291.7
10757.6
9129.8
6322.3
4.0
189.9
650.9
1324.0
2312.4
3547.4
4887.0
6309.2
7677.7
9234.8
11062.6
13070.3
15344.5

~~$~~ charts —

2. Shows existing structure of all Ln programs —
→ reduced to one see pgs. ~~20~~ 18-22

3. Shows Senate plan design —
– it is a graphically cleaner design

4. AK Ln Program P.16

Will allow easier entry into Ln. program by indiv ~~Akn~~.

Capitalization —
Leveraging —
interest held in reserve to pump $ to Ln Program
fund for Ln program 10 : 1 $ from interest

SJR 37 — Passed
Extend Fed guarantees on Fish btr.
does not help Aks → holds any U.S. Fish. (no Akn. offices)
→ AK Ln. Program provides for fishing loans better
provides residents w/advantage

One Stop shopping center.

Critize using PF $ to expand Ln programs.
• There is a back log of ln apps. in Com Buss Ln
• not a proper use of funds.
→ easy money theory, Anch Times
Snt — VA loans have ~~many~~ 5000 lns & 1.9% default rate
we wd. do the same.
SB only 7 delinquent ~~500~~ 10,000 : 1 loss rate → not easy money

Control:
Audit rept.
Investmt plan

April 26, 1978

ALL LEGISLATORS,
STATE OF ALASKA

Honorable Sirs:

In reference to Senate Bill #429.

As a veteran of longstanding I am opposed to only one section of the bill, and that is the Veteran's Loan Program, which, as you are aware, is sponsored by the The Permanent Fund Interim Committee.

If this part of the bill is passed, you may readily see the irreparable and permanent injury it can do the Veteran's Loan Fund, which has been in effect since the beginning of 1946.

We earnestly hope that the fund remain as it is, with a stipulation that the rate of interest be at least 1% lower than presently. Also, that the Alaska State Senate and House of Representatives oppose the bill adamantly and unequivocally any movement that would, or may abolish The State Division of Veteran's Affairs.

I write this as an individual, and I am sure that many members of our Post will write individual requests to our legislators, as well as other veterans throughout the State of Alaska.

I hope that letters of this type may have some influence over the Senate and House of Representatives, and that the part in the bill referring to the Veteran's Loan Fund be ommitted.

Thanking you in advance for your coutesy and consideration, I wish to remain,

Respectfully yours,

Harry J. Simmons

Harry J. Simmons,
Senior Vice Commander
Taku Post V.F.W. #5559
212 No. Franklin
Juneau, Alaska 99801

6

March 24, 1978

To: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

FR: Clark Gruening
House of Representatives

RE: SB 429

SB 429 has not passed as of 3/24/78 but the House bill - HB 596 has passed. I expect the Senate will substitute their version, SB 429 for HB 596 sometime next week. This means HB 596 is headed for a free conference committee. Since SB 429 proposed the repeal of a number of loan programs, the House is not going to approve any compromise version untillall affected parties have an opportunity to be heard and I doubt whether any such repeal will evan then be approved. Contact your favorite Senators and complain.

Clark CG

STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

JAY S. HAMMOND, GOVERNOR

907-465-2855
Pouch F — State Office Building
Juneau 99811

Send memo as written and attached to

M E M O R A N D U M

TO: The Honorable Clark Gruening
Alaska House of Representatives

FROM: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

RE: SB 429

DATE: March 24, 1978

The Senate has passed SB 429 creating the Alaska loan programs fund utilizing Permanent Fund resources. I do not know if it has been assigned to your subcommittee yet, but I am assuming it will. In any case, Section 45.96.350 deals with educational loans for attendance of postsecondary educational institutions. Unfortunately, I was not informed of the hearings being held on this bill on the Senate side, so I had no opportunity to offer inputs on this section of the bill.

Since this bill would repeal the present state student loan program and replace it with a new and slightly different program, I would greatly appreciate discussing some of the details with you and your committee (or the entire Finance Committee, if that is now it is to be handled). Please let me know if you are handling SB 429 or if there is to be a hearing.

Representative
CLARK GRUENING
940 Tyonek Drive
Anchorage, Alaska
99501

907-274-2446

Alaska State Legislature

Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

April 4, 1978

Mr. Wallace E. Utley
Department Commander
The American Legion -
Department of Alaska
P. O. Box 250
Juneau, Alaska 99802

Dear Mr. Utley:

I appreciate the Legion having taken a stand on the Senate Permanent Fund bill, SB 429, and think that massive reorganization such as this provides for would prove upsetting to all loan functions under State administration, not just the Veteran's Loan Program.

The House and Senate versions have a long way to go before emerging this session and I am fairly certain that the issue will go to a Free Conference Committee where differences such as this may be worked out.

Please be sure to send this resolution to Senator Hohman of the Senate Permanent Fund Committee.

Thank you for sending this resolution to me. Please contact me if you or the Legion have any questions about the House version of the permanent fund enabling legislation, HB 596 or any other legislative concerns.

Cordially,

Clark Gruening

Representative Clark Gruening

CG:jl

THE AMERICAN LEGION - DEPARTMENT OF ALASKA

P. O. BOX 250 JUNEAU, ALASKA 99802

March 11, 1978

Resolution passed by the Department Executive Committee
at Anchorage, Alaska

RESOLUTION NO. 78-14

WHEREAS, Senate Bill 429, a proposal to merge the existing Veterans Loan Program with other similar programs, is pending; and

WHEREAS, This act would eliminate an agency which is dedicated to veterans' programs and benefits; and

WHEREAS, Funds which are dedicated to the use of the veteran could be depleted by non-veteran related programs; and

WHEREAS, Such an act would seem, in effect, to put the State in a position of non-recognition of a debt to its veterans; now, therefore, be it

RESOLVED, That the American Legion, Department of Alaska, in Executive Committee Meeting assembled in Anchorage, Alaska on March 11, 1978, opposes passage of Senate Bill 429 unless amended to remove all reference to the Veterans Revolving Loan Fund; and be it further

RESOLVED, That The American Legion, Department of Alaska, opposes any act or movement to abolish, merge or incorporate the State Division of Veterans Affairs with any other agency of the State; and be it further

RESOLVED, That a copy of this resolution be sent to each memb[illegible] of the Alaska Legislature and to the Governor of Alaska.

/s/ Wallace E. Utley
WALLACE E. UTLEY
Department Commander

ATTEST:

William C. Kelm

WILLIAM C. KELM
Department Adjutant

Representative
CLARK GRUENING
94ʳ Tyonek Drive
An·iorage, Alaska
99501

907-274-2446

Alaska State Legislature

Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

April 4, 1978

Mr. Louis F. Fiorella
Department Adjutant
Veterans of Foreign Wars of the U. S.
Department of Alaska
P. O. 670
Juneau, Alaska 99801

Dear Mr. Fiorella:

I appreciate the Veterans of Foreign Wars having taken a stand on the Senate Permanent Fund bill, SB 429, and think that massive reorganization such as this provides for would prove upsetting to all loan functions under State administration, not just the Veteran's Loan Program.

The House and Senate versions have a long way to go before emerging this session and I am fairly certain that the issue will go to a Free Conference Committee where differences such as this may be worked out.

Please be sure to send this resolution to Senator Hohman of the Senate Permanent Fund Committee.

Thank you for sending the resolution to me. Please contact me if you or your organization have any questions about the House version of permanent fund enabling legislation, HB 596 or any other legislative concerns.

Cordially,

Clark Gruening

Representative Clark Gruening

CG:jl

RESOLUTION NO. 78-1

WHEREAS, money for the Veterans Revolving Loan Fund was raised from citizens of the Territory of Alaska by means of a cigarette tax, and

WHEREAS, the Veterans Loan Program has worked successfully and has benefitted thousands of veterans in the Territory and State since its inception in 1946 by providing farm, home and business loans, and

WHEREAS, there has been proposed and presently pending before the State Legislature S.B. 429, which, if approved, would do irreparable damage and permanent injury to the integrity of the concept of veterans rights and benefits, and

WHEREAS, if implemented, S.B. 429 would, through the creation of the Alaska Loan Program Fund, eventually eliminate the Veterans Revolving Loan Fund and in effect, the State Division of Veterans Affairs, and

WHEREAS, the Division of Veterans Affairs has been the sole agency, since 1946, dedicated to carrying out veterans programs and benefits approved by the State Legislature, and

WHEREAS, the establishing of the Division of Veterans Affairs and subsequent enactment of hard fought for rights and benefits represents the State's recognition of its debt to her veterans,

BE IT RESOLVED, by the Department of Alaska, Veterans of Foreign Wars of the United States, that we actively and vigorously strive to attain the following objectives by administrative changes , legislation or other means:

1. Urge our Legislators to delete from S.B. 429 that portion of the bill which refers to the Veterans Revolving Loan Fund.

2. Maintain the Veterans Revolving Loan Fund as is - but with the rate of interest to be at least 1% lower than that charged by the proposed Alaska Loan Programs Fund.

3. Oppose adamantly and unequivocally any movement that would, or may, abolish the State Division of Veterans Affairs.

4. Urge the members of the Veterans of Foreign Wars to notify their Senators and Representatives of our total opposition to any and all proposals which could be construed as dismembering, dismantling, or in any way diminishing the integrity of the programs of veterans rights and benefits administered by the State Division of Veterans Affairs.

This resolution passed by the Council of Administration, Department of Alaska, Veterans of Foreign Wars of the United States, Juneau, February 25, 1978.

ATTEST:

Louis F. Fiorella
Department Adjutant

M E M O R A N D U M

To: Clark Gruening

From: JoAnn Lesh

Date: 3/2/78

Re: Senate Finance Hearings on SB 429

The Senate Finance Committee met 3/1/78 to consider SB 429. Mr. Bob Dupere highlighted "A Narrative on SB 429" for the Committee.

Discussion resumed on 3/2/78 with Deputy Commissioner of Revenue presenting HB 298 to the Committee. This is the bill the Administration supports. He mentioned that amendments had been presented to the House Permanaent Fund Comm. that would make HB 596 also acceptable to the Administration. One important amendment was the creation of the Investment Oversight Committee which the House accepted. (Ed. note: This was suggested by the House Comm. and adopted as an amendment to HB 298.)

Paraphrased notes on the discussion of SB 429 that followed:

Sen. Sackett: Could you comment about the simplicity vs. complexity of two versions.

Edenso: I disagree that 429 is simple, 298 is simple and direct. SB 429 is: complex; presents sweeping changes for State's liability and asset balance sheet; it disrupts <u>many</u> departments; at present the State is authorized to bond <u>$839.5 mill.</u> and is bonded for 709.1 mill. therefore it would be disruptive to change method of issuance. I applaud concept of using PF in Alaska. I have a problem with reorganizing investment management in the State.

Sen. Orsini: Could you comment about establishing a Division of Collections - is it disruptive or detrimental?

Mr. Edenso: It is a good practice <u>not</u> to remove the person who makes loans from collection. It tends to reduce care of lender and separates him from thorough responsibility to examine loans. In response to further questions the possibility of giving the loan officer administrative responsibility and collections taking managerial/collection responsibility was considered. The State currently does use private collection agencies.

Sen. Sackett questioned the constitutionality of selling bonds and then lending money at an interest rate higher than the cost of the bonds (arbitrage). Eric Wohlforth's memo of 2-6 was distributed to the Committee (copy on file in House PF Comm. files).

Senator Sackett asked Mr. Edenso to be prepared to comment section by section on SB 429. Mr. Edenso will: get AG's opinion on bonds; suggest technical changes; and bring the Arthur D. Little sectoral study to the Committee next Thursday, March 9.

Representative Gruening will be invited to appear Wednesday March 8 to present HB 596 (accepted).

SB 510 and SB 511 were discussed.

Check: for your info - given to Sen. Finance 3-2-78

#170

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MEMORANDUM

TO: Commissioner Sterling Gallagher
Department of Revenue

Alaska Housing Finance Corporation

Alaska Municipal Bond Bank Authority

FROM: Wohlforth & Flint

DATE: February 6, 1978

SUBJECT: Senate Bill 429 "An Act Relating to the Alaska Bond Programs Fund, the Alaska Permanent Fund, the Renewable Resources Development Fund, and Other State Revenues; and Providing for an Effective Date".

Pursuant to a request related to us by R. D. Stevenson and Deputy Commissioner Edenso, we submit herewith our analysis of the above bill.

Senate Bill 429 which was introduced in the Senate on January 19, 1978 and referred to the Finance Committee, is an extremely broad ranging bill which, among other things, sets up a new Alaska Loan Programs Fund, sets the deposit rate to the Permanent Fund at 25% of the receipts from the delineated sources, outlines the criteria for investment of Permanent Fund monies and creates various new State classified positions. In establishing the Alaska Loan Programs Fund, SB 429 also effectively wipes out a major portion of the present State loan programs without regard as to whether such programs are being financed directly by the General Fund or through the issuance of tax exempt bonds on the public market. For example, it wipes out or curtails the activities of the Alaska Housing Finance Corporation, the Alaska Municipal Bond Bank Authority, the Alaska Industrial Development Authority and the Veteran's Loan Program among others. It also prohibits municipalities from issuing any revenue bond which would be an industrial development bond under Section 103 of the Internal Revenue Code. This provision, for example, would have prohibited issuance by the

City of Valdez of the $1.263 billion Marine Terminal Revenue Bonds issued during 1977, a program which added $12,630,000 to the City's treasury last year. Further, the bill requires deposit of State funds in Alaska banks which offer the highest bid for State funds and sets some extremely stringent residency requirements on loan eligibility and on hire of residents on projects funded by these loans.

Given the broad scope of the bill, the following is an attempt to review in brief form each section.

AS 45.96.010. PURPOSE: The purpose clause recites that a single loan fund of the State will provide a strong reassurance of repayment of loans and thereby lower the costs of borrowing to the State.

AS 45.96.020. CREATION OF FUND: This section creates the Alaska Loan Programs Fund within the Department of Commerce and Economic Development. Further, within that department there is created a division of Alaska loan programs.

AS 45.96.030. REVENUE BONDING AUTHORITY: This section provides that the State Bond Committee may issue bonds and bond anticipation notes in order to carry out the fund's purposes. The details of the bond provisions which extend through Section 45.96.110 will be left for closer examination if it is anticipated that this concept shows signs of legislative acceptance.

AS 45.96.120. UNALLOCATED RESERVE ACCOUNT: This section creates a special account called the "unallocated reserve account" to secure obligations of the fund. This section provides that the income from the permanent fund shall be paid to the Commissioner of Revenue for the purposes of the account. This section further states that amounts necessary to fund the capital reserve account established under Section 140 of this chapter, the fire insurance and liability reserve account established under Section 160 of this chapter, and the loss reserve account under Section 150 of this chapter, are allocated to those accounts in the amounts certified as necessary for those allocations by the Commissioner of Revenue and are hereby appropriated to these accounts. Subparagraph (b) of this section establishes a subaccount called the "general fund contribution account" which consists of the lesser of all revenue from the General Fund from mineral lease rentals, royalty, etc., or any amounts remaining in the General Fund which have not been obligated or for which the appropriation has not lapsed at the end of the fiscal year. The subaccount would be used for any purpose for which the unallocated reserve account may be used subject to legislative appropriation. It should also be noted that subsection (b) is made retroactive to June 30, 1977, pursuant to Section 28 of this Act. The allocation of amounts remaining in the General Fund which have not lapsed at the end of the fiscal year is an unusual form of appropriation which seems hardly consistent with State budgeting procedures and would at best be an uncertain amount depending on lapsed appropriations at the end of the last fiscal year.

AS 45.96.130. DEBT SERVICE RESERVE ACCOUNT: This section mandates that the fund capitalize in each bond issue the maximum permitted reserve fund, currently approximately 15% of the total bond issue under IRS regulations, to secure payment of the obligations being issued. This section is representative of a statutory mandate in connection with the configuration of a financing which should be left to determination at the time of financing within legislative limitations.

AS 45.96.140. CAPITAL RESERVE ACCOUNT; AS 45.-96.150. LOSS RESERVE ACCOUNT; AS 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The capital reserve account is created at the time of each issue of obligations in an amount equal to 5% of the obligations issued. The amount is paid into the capital reserve account from the unallocated reserve account. The 5% paid in reserve which is established here is an obvious assumption by someone that this amount would be sufficient to cause bonds of the fund to be marketable. The same 5% reserve is allocated from the unallocated reserve account to the loss reserve account established under AS 45.96.150. I would question what loan loss or bond reserve experience gives rise to the legislative suggestion of the 5% loss reserve account.

The Commissioner of Revenue is required to replenish the loss reserve from the 1% spread between the rate of interest paid by the borrower and the lending rate. Such a spread except in the case of certain specified "governmental programs" would violate the Internal Revenue Code and Regulations.

AS 45.96.160. The fire insurance and liability reserve account simply provides that the fund may insure loans without requiring proof of insurance against fire and liability if an additional charge of 6/10 of one percent per year is made. I do not see where any amount is allocated to this account, despite the language in Section 120(a).

AS 45.96.170. INVESTMENT OF RESERVE ACCOUNTS: This section provides for investment of the reserve accounts by the Director of the Division of Treasury in certain stated securities and permits investment of the general fund contribution account in obligations of the Loan Programs Fund.

AS 45.96.190. BUDGET; AS 45.96.200. ACCOUNTING. These sections provide for an operating budget from the General Fund and accounting for the fund by the Department of Administration with reporting from the Legislative Budget and Audit Committee to the legislature quarterly.

AS 45.96.210. LOAN PROCEDURES: This section states that the Division of Alaska Loan Programs must establish offices in Juneau, Fairbanks and Anchorage, and provides for loan approval of loans under $350,000 by the District Director with a committee of two loan officers, while loans over $350,000 must be approved by a State-level committee.

AS 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE; AS 45.96.230. RENEWABLE RESOURCES LOANS EVALUATION COMMITTEE: These sections set up committees charged with the responsibility for evaluating loans delinquent for a period in excess of 30 days with a view toward renegotiating the loans with alternative terms and conditions where possible, while at the same time protecting the interests of the State. The Director of the Division of Collections in the Department of Revenue and the Director of the Alaska Loan Programs Division sit on both committees;

the Director of the Division of Economic Enterprises in the Department of Commerce and Economic Development is on the Alaska Loan Programs Evaluation Committee; while the Director of the Division of Renewable Resources Development in the Department of Commerce and Economic Development sits on the Renewable Resources Loans Evaluation Committee. Neither section sets up any guidelines or criteria for renegotiating loans under the respective sections.

AS 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS: This section sets up a division within the Department of Revenue to be headed by a classified employee, range 27. For whatever reason, it is provided that the Director be an attorney licensed to practice in Alaska with at least four years of practice in "business law and business practices". Upon a finding that a delinquent loan should not be renegotiated, and the loan is not brought current within 30 days, the loan is transferred to the loss reserve account and transmitted to the Division of Collections for collection.

AS 45.96.250. LOAN PURPOSES: This section contains the general statement that the fund may make loans for residential housing, commercial purposes, public purposes and education.

AS 45.96.260. RESIDENTIAL HOUSING: This section seems to be an extrapolation of the primary purposes of the Alaska Housing Finance Corporation with special permission to sell loans to the Teachers Retirement Fund or Public Employees Retirement Fund if the borrower is a teacher or public employee.

AS 45.96.270. COMMERCIAL LOANS: This section provides for a wide variety of commercial or other public purpose loans of one type or another. Specifically mentioned are farmers, commercial fishermen, local development companies, child care facilities, loggers, etc. One provision in subsection (2) requires a commercial fisherman to have had a commercial fishing license for three years in order to obtain a loan for the upgrading of his equipment. Also worthy of particular attention is subsection (6) which, along with subsection (9) on small businesses, are broad enough to fit in virtually any activity. Finally, under subsection (8) you may note that loans are available to investor-owned public utilities for hydroelectric generation and for water utilities. It is unclear as to whether an investor-owned electric utility generating power by oil, natural gas or coal would be eligible for a loan of this type, and it is unclear whether a sewer utility if investor-owned would be eligible for an Alaska Loan Programs Fund loan. (But the answer is probably no.) Note that the definitions in AS 42.05.701(2)(A) and (C) include all electric utilities and also include sewer utilities. Also noteworthy is the deliberate omission of investor-owned natural gas distribution utilities and telephone utilities from this subsection.

AS 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES; AS 45.96.290. VOLUNTARY ASSESSMENT ON SALE OF SALMON. These sections provide respectively for certificates of need for child care facilities and assessment of members of an association of licensed fishermen to be benefited by hatchery programs. These sections are interrelated with the loan permissions provided under AS 45.96.270.

AS 45.96.300. PUBLIC PURPOSES: This section is apparently designed to replace the Alaska Municipal Bond Bank Authority. This section provides that the Director of the Division of Alaska Loan Programs shall lend money to municipalities with populations of less than 5,000 and to corporations eligible under subparagraph (d) of this section. These are non-profit corporations either designated as tax exempt under 501(c)(3) and (4) of the Internal Revenue Code or a public corporation or other municipal instrumentality created under AS 29.59.010. This section provides that loans to municipalities should be made through the purchase by the fund of municipal bonds and that loans to non-profit corporations shall be made through revenue bonds issued on behalf of the corporation by the municipality in which the project is constructed. I believe there is a reversal in terms here and that it is intended that the revenue bonds be issued on behalf of the municipality by the corporation. Under this section, loans to municipalities of 5,000 or less population could be made if certified to their legality by the borough or city attorney or if made outside the municipality by the Department of Law and that the loans be payable within 30 years on an even annual debt service basis. This section further provides that the Director of the Division of Alaska Loan Programs submit a bid for all general obligation bonds offered on a competitive basis by any municipality if the municipality provides its bid form to the Director at least 10 days before opening a bid. This section goes on to provide that the bid be determined on the basis of the Daily Bond Buyer 20-bond average with provisions for various maturities above or below the average depending on the rating of bonds. Bids for revenue bonds under subsection (c) issued on behalf of a non-profit corporation are also required to be submitted by the Director of the Division of Alaska Loan Programs again on a bid basis determined on the Daily Bond Buyer average. This section is objectionable in its design to internalize borrowing by municipalities instead of encouraging borrowing on the ordinary tax exempt market and because there is no apparent rationale for the bid scheme set forth in the statute particularly for revenue bonds. Revenue bonds vary substantially in quality according to the project being financed and no generally applicable bid scheme can be arbitrarily set as is attempted in this section.

AS 45.96.310. <u>DEFAULT ON MUNICIPAL BONDS</u>: This section provides for a default provision for payment of State monies owing to municipalities directly to the fund similar to that contained in the existing Alaska Municipal Bond Bank Authority Act.

AS 45.96.320. <u>MUNICIPAL BOND CAPITAL RESERVE ACCOUNT</u>: This section sets up a reserve from the unallocated reserve account equal to five percent of the obligations issued and sold after July 1, 1978. Again, there is no rationale for the fixing of the percentage necessary to secure the bonds or any flexibility in establishing a different or other percentage depending on bond market conditions.

AS 45.96.330. <u>INDUSTRIAL DEVELOPMENT BONDS</u>: Under this section the fund is to make loans to businesses conducting exempt activities under Section 103(b)(4) and (5) of the Internal Revenue Code either directly or through purchase by the fund of the industrial development bonds issued by the State Bond Committee, this section is apparently intended to replace the Alaska Industrial Development Authority.

AS 45.96.350. EDUCATION: This section effectively replaces the present Alaska Scholarship Loan Program, leaving that program with only a grant function. Curiously, it adds the five-year residency requirement of Section 370 as a criteria for grant of a student loan, meaning an Alaska high school graduate would necessarily have to have been a State resident since entering the eighth grade. The former statute simply required residency. Even more curious is the fact that subsection (f) allows a forty percent forgiveness if repayment of the initial sixty percent is made with no delinquency. The former program required five years residency upon completion of the course of study in order to be eligible for the maximum forty percent forgiveness - this program requires no residency for forgiveness purposes.

AS 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS: This section provides, in addition to Section 270, loans to businesses involved in the tourist industry. It also provides loans under certain conditions for historical structures, but fails to mention open space loans specifically.

AS 45.96.370. ELIGIBILITY: This section bears careful reading as it proposes a five-year residency requirement in order to be eligible to apply for a loan. In addition, one must be 18 years of age, apparently eliminating even applications from 17 year old students. A corporation must have 60 percent of its shareholders with five-year Alaska residency and must have a board of directors and chief executive officer each of whom have been residents of the State for at least five years. Should any of these criteria as to a corporation fail (e.g., board of director member moves outside the State while he continues to serve) the loan becomes immediately due and payable. In addition, the chief executive officer and board of director members must assume full individual liability for repayment of any loans to the corporation. This section would appear to be extremely onerous, and may very well be unconstitutional as in derogation of the right to travel, etc.

AS 45.96.380. MAXIMUM LOAN AMOUNTS: This section sets up various loan limits including those for residential housing and under subsection (b) for commercial loans which may be increased under subsection (c) by bringing more eligible individuals into the project. Perhaps worthy of particular note is subsection (e) which provides that no more than three loans may be made to any person or to any of his "associates". Under this subsection it would appear that the partners in a firm would be limited to three loans between them, while each of their employees might have an additional three loans each. The section also provides for an automatic escalation in loan limits in response to increases in the consumer price index for Anchorage.

AS 45.96.390. AREA COST DIFFERENTIAL. Here a formula based upon both the cost of living and the cost of construction as determined annually by the Department of Transportation and Public Facilities is used to increase the Section 380 limits, which it turns out are intended for the lowest cost areas in the State.

AS 45.96.400. ADDITIONAL LOAN LIMITATIONS: This section provides for the limits previously established to be decreased as much as 50% for those with less than five years experience in the activity for which the loan is made. There appear to be no exceptions. Clearly, this would be difficult to administer and the criteria, of course, may not bear a rational relationship to probable success in a particular business.

AS 45.96.410. VALUE LIMITATION: In this section the loans are further limited to 90% of the appraised value of real property pledged as security for the loan. However, if the loan is for residential housing and is made in an area where FHA mortgage insurance is not available, the loan may be for 95% of the appraised value. Presumably, in areas where FHA mortgage insurance is available the limit reverts to 90%. When equipment is pledged as security the limit is 80% of loan to value.

AS 45.96.420. MAXIMUM TERMS OF LOANS: Loan terms are limited to the useful life of the property. Specific limitations are set at 30 years on a loan secured by real property, 15 years or the life of the equipment on a loan secured by equipment used for production of income and 7 years or the life of the chattel on a loan secured by other chattels. Working capital loans are for one year.

AS 45.96.430. RATE OF INTEREST: For borrowers other than municipalities the interest rate is set at one percent over the anticipated cost to the fund plus the amount required for necessary insurance. In the case of loans to veterans or loans for agricultural purposes, the rate of interest is reduced by one percent with the difference made up by the veterans or agricultural revolving loan funds. Except for certain specific "governmental programs" the Internal Revenue Code and Regulations prohibit any spread between borrowing and tax exempt lending rates.

AS 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE: This section sets out the criteria for the special interest rates allowed veterans under 430(b) and appears to be similar to those found in AS 26.15, the Alaska World War II Veterans' Act.

AS 45.96.450. EMPLOYMENT PRACTICES: This section provides that in the case of any contracts let by a recipient of a loan from the fund, that the employees on those contracts be 95% residents where they are available and qualified. While not a durational residency requirement as we found in Section 370, this provision may be subject to challenge. See the comments under Section 370.

AS 45.96.460. COOPERATION WITH OTHER AGENCIES: This requires that other State agencies provide information, services and facilities to the fund on request. Presumably, the requirement here is limited to non-confidential data.

AS 45.96.470. BANK PARTICIPATION: Provision is made here for participation in a loan with a financial institution, and for the financial institution to act as an agent for the loan program in the initial processing of applications. Subsection (c), however, appears to allow the participating financial institution to fix the interest charged by it up to the legal limit prescribed by law. It is unclear to us precisely how this would operate.

AS 45.96.480. ASSURANCE REQUIRED: The prohibition set out in this section is that no person who provides services to the borrower in the preliminary phases of a project may participate in the implementation stage of the project. While the policy behind this is again unclear to us, it would appear to prevent a consulting engineer or architect who helped to design a project from supervising construction and, likewise, would appear to prevent an attorney from continuing his representation through all stages of a project.

AS 45.96.490. DEFINITIONS: Defines the "fund" and "the loan programs fund" to mean the Alaska Loans Program Fund created by AS 44.96.

Section 2 of SB 429

Section 2 of SB 429 adds a new chapter (AS 37.13) entitled ALASKA PERMANENT FUND. The initial section sets up the Permanent Fund to consist of 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal revenue sharing payments and bonuses received by the State. In AS 37.13.020 the investment criteria are set out in detail. See pages 28 and 39 of SB 429.

Section 3 of SB 429

Section 3, beginning on page 40 of SB 429, adds a new Article 4, Alaska Renewable Resources Development Financial Assistance Program, to AS 37.11. The legislation contains an extensive declaration of policy and legislative findings, creates a Division of Renewable Resources within the Department of Commerce and Economic Development, and sets out the purposes of that division. AS 37.11.150 provides that the receipts of the renewable resources development fund (AS 37.11.020) are appropriated to the new division. The fund receives by statute five percent of mineral lease rentals, bonuses and royalties. Section 160 sets forth the qualifications for the Director, including eight years of administrative or management experience in resource planning or development, etc., and Section 170 sets the compensation, salary range 27. The powers and duties of the Director found in Section 190 include consideration of investment proposals and approval of applications for financial assistance. Eligibility requirements for financial assistance set out in Section 200 include the provision that the applicant meet the eligibility requirements for the Alaska Loan Programs Fund.

The new division in Section 200(b) is limited in its investment in a single project without legislative approval to a "combination of equity purchases and interest incentives" of no more than 5% of the annual receipts of the renewable resource development fund or $1.5 million, whichever is less.

Section 210, Financial Assistance, limits the division's financial assistance to investment in not more than 50% of the capital stock or other ownership interest in a project, provided that the applicant has borrowed the maximum amount allowed by the Alaska Loan Programs Fund first. This provision seems inconsistent with the limitation in Section 200(b). The division may also offer an interest incentive by paying part or all of the interest on loans from the Alaska Loan Programs Fund, but may only give grants for public purposes when the amount of the grant has been included in the "general budget" of the State for the next fiscal year.

Section 220 provides that the division guarantee all loans made to a renewable resource project from the Alaska Loan Programs Fund. Section 230 provides for payment of interest incentives with repayment to begin after net profit is generated by the company. Section 240 sets up a loss reserve account equal to 10% of the estimated total amount of all loans guaranteed by the renewable resources development fund. Investment and accounting provisions are similar to those set up for the Alaska Loan Programs Fund.

Section 4 of SB 429

This section amends the present AS 37.11.060, Fund Principal, by providing that balances remaining in the Alaska Renewable Resources Development Fund at the close of each fiscal year be deposited in the "Alaska Renewable Resources Fund", rather than in the Permanent Fund as in existing law. However, it would appear that this should read "the Alaska Renewable Resources Permanent Fund"; the word "Permanent" found in the present text having been omitted from the bill.

Section 5 to 29 of SB 429

Many of the remaining sections of SB 429 are devoted to altering existing State loan programs so that they continue only to administer existing loans. In some cases, programs are also left with a grant function.

Special note should, however, be made of:

SECTION 13 which adds a new section to Title 29 (29.58.290) which would prevent any municipality from issuing a revenue bond which is an industrial development bond under Section 103 of the Internal Revenue Code.

SECTION 15 which now would allow investment of some treasury surplus in loans made under the Alaska Loan Programs Fund.

SECTION 16 places responsibility for formulating investment policy on the Director of the Division of Treasury and eliminates the present Advisory Committee which had legislative input. The Director must, however, present his policy to the legislature at the beginning of every regular session.

SECTION 20 requires deposit of State funds not being used for specified purposes in Alaskan financial institutions which offer the highest bid for the State funds.

SECTION 21 insures that all four of the new positions set up are in the classified service, and the Governor may not designate them as partially exempt.

SECTION 25 sets up by statute a division of the Treasury in the Department of Revenue, headed by a Director whose qualifications and duties are set out - including investment and management of State funds, etc.

SECTION 26 confirms that administration of the Alaska Loan Programs Fund and the Renewable Resources Development Fund is by the Department of Commerce and Economic Development.

SECTION 27 is a far reaching section which repeals:

1. Most of AS 03.10 (Alaska Agricultural Loan Act).

2. Parts of AS 14.40.751-806 (Relating to loans under Art. 9 of AS 14.40 - Scholarship Loans and Tuition Grants).

3. Most of AS 16.10.300-370 (Commercial Fishing Loan Act).

4. Major portions of AS 16.10.500-620 (Fisheries Enhancement Loan Program).

5. Most of AS 18.56.010, et seq. (Alaska Housing Finance Corporation).

6. Most of AS 18.100.030, et seq. (Housing Development Revolving Loan Fund).

7. Most of AS 18.100.070 (Senior Citizens Housing Development Fund).

8. Major portions of AS 26.15 (Alaska World War II Veterans Act).

9. AS 37.10.065 (Investment of Alaska Permanent Fund) [replaced by AS 37.13].

10. AS 37.10.075(b)-(d) (deposit of State funds) [subsection (a) was expanded by Section 20 of SB 429 to require bids, but limits to financial institutions within State].

11. AS 37.10.079 (purchase of bonds).

12. AS 37.11.030 (fund utilization) [this refers to the Alaska Renewable Resources Development Fund which is now covered adequately by the new sections in AS 37.11].

13. Most of AS 41.22.10, *et seq.* (Outdoor Recreation, Open Space, and Historical Properties Development Fund).

14. All of AS 40.30 (area redevelopment).

15. Most of AS 44.33.240, *et seq.* (Child Care Facility Revolving Loan Fund).

16. Most of AS 44.58 (Alaska Municipal Bond Bank Authority).

17. Major portions of AS 44.59 (Alaska State Development Corporation).

18. Major portions of AS 44.60 (Small Business Development Corporation of Alaska).

19. All of AS 44.61 (Alaska Industrial Development Authority).

20. Almost all of AS 45.86 (Water Resources Revolving Loan Fund).

21. Almost all of AS 45.90 (Tourism Revolving Fund).

22. Major portions of AS 45.95 (Small Business Loans).

23. Most of AS 45.98 (Historical District Revolving Loan Fund).

SECTION 28 of the bill makes AS 45.96.120(b) retroactive to June 30, 1977. This is the funding for the subaccount "General Fund Contribution Account". See the discussion above under Section 1.

SECTION 29, the final section, makes Senate Bill 429 effective immediately. The bill will create a complete disruption in the activity of existing loan funds which are operating now on a regular basis as well as the cessation of bond financing activities by the Alaska Housing Finance Corporation which now has outstanding in excess of $300 million in bonds and notes and other important agencies such as the Alaska Municipal Bond Bank Authority with ongoing programs. The findings of the bill do not support a simplistic conclusion that elimination of all bond financing for loans by State agencies and combination of those activities with State general fund lending activities is in the public interest. The bill completely ruptures the pattern of municipal bond financing in the State limiting local powers to finance in the interest of centralization in the State.

From an administrative if not a legal standpoint, it would seem far better to set an effective date of at least 90 days after passage. Ideally, January 1, 1979 or even July 1, 1979, would seem to make more sense for those portions of the Act which will require establishment of a totally new structure. However, it is submitted that the wholesale repealers and transplanting of functions mandated by the bill is not indicated. Rather, any legislative effort should be preceded by careful study of those State lending programs which have succeeded and those which need improvement.

EEW:jr

\# 170
COPY

A NARRATIVE ON SENATE BILL 429 AND SENATE BILL 510

by

The Senate Special Committee on the Permanent Fund

Dear Alaskan:

The following report explains the Senate proposed legislation regarding utilization and management of the Permanent Fund and the Renewable Resources Development Fund. Some key points of the Senate legislation are:

REDUCE BUREAUCRACY

PROVIDE GREATER CONTROL

MAXIMIZE BENEFITS TO ALASKANS

OPTIMAL PROGRAM ACCOUNTABILITY

LOWER HOUSING COSTS

CONTRIBUTE TO LOWER COST OF LIVING

FINANCIAL DEVELOPMENT FOR RENEWABLE RESOURCES

SECURE PERMANENT FUND MONIES WITH HIGH GRADE INVESTMENT

Please feel free to submit any comments you may have regarding the Senate proposal to:

Senator George Hohman, Chairman
Senate Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Sincerely,

George Hohman Jr

Senator George Hohman, Chairman
Senate Special Committee on the Permanent Fund

TABLE OF CONTENTS

INTRODUCTION

In November of 1976, Alaskan voters approved a constitutional amendment which provides that at least 25% of certain non-renewable resource revenues be placed in a permanent fund. The amendment requires that the money be used for income-producing investments designated eligible by the legislature. Unless the legislature otherwise stipulates, earnings from the permanent fund will go to the state's general fund.

Because of the impact of the permanent fund on Alaskans, various opinion polls have been conducted to assess public sentiment about state needs and priorities, with emphasis placed on the structure, management and use of the permanent fund (Dittman for the Senate Committee on the Permanent Fund, Dec., 1977; Rowan Group Report for the Office of the Governor, July, 1977; and the Alaska Public Forum Report, March, 1977).

In addition to using data generated by public hearings and public opinion polls, the Senate Committee on the Permanent Fund sent questionnaires to individuals in rural Alaska and the Alaska State Chamber of Commerce members for their input regarding permanent fund usage. From the responses received from both the questionnaires and the poll tabulations, various priorities surfaced. Many individuals feel there is a shortage of capital available for lending to business venture and for purchase and construction of housing. Development of renewable resources (including agriculture, timber, and fishing) is a high priority. Community development also received support. At the same time, the respondents strongly urged that the permanent fund principal be invested in hi-grade guaranteed securities, thus maintaining the integrity of the fund for future generations.

The Senate Committee on the Permanent Fund, chaired by Senator George Hohman, has submitted legislation designed to address the expressed concerns of Alaskan citizens. The committee's legislation proposes to invest 100% of the permanent fund principal in hi-grade securities and use the earnings as a guarantee for issuing revenue bonds. The proceeds of the bonds will be used to fund the Alaska Loan Programs Fund, which would expand, consolidate and administer the activities of existing state loan programs. The legislation also develops a plan for usage of the Renewable Resources Development Fund. The following report will address the Alaska Loan Programs Fund, the investment and management of the permanent fund, and the Renewable Resources Development Fund. There is also a section dealing with the Senate proposed Reserve for Capital Outlay Account which would be used to finance non-recurring expenditures.

MANAGEMENT OF THE PERMANENT FUND

Lombard-Wall, Inc., a New York management consultant firm, was assigned the task of making recommendations concerning the management of investment assets of the permanent fund. Lombard-Wall's senior Vice President, Mr. Fred Branditz, came to Alaska specifically to review the structure, management and personnel of Treasury in order to evaluate the role that group might play in managing the permanent fund principal. In a report presented to the Senate Committee on the Permanent Fund, Lombard-Wall recommended the permanent fund be managed and invested by the Division of Treasury for the following reasons:

1) The expertise already exists within the infrastructure for most, if not all, the activities currently contemplated for the permanent fund. The Treasury Division administers $1/2 billion of fixed income securities for the general fund an an additional $1/2 billion for 7 segregated funds.

2) Employing an entirely new staff to manage the permanent fund would present many difficulties and risks.

3) The combined resources of the permanent fund, the general fund and the pension funds will create a pool of assets sufficient to employ specialized, sophisticated investment techniques to a degree none could afford individually. Thus all areas will benefit from combined management.

4) The revenues accruing to the permanent fund derive from taxes and belong to all of the citizens of Alaska. Therefore, no conflict of interest can result from their management by an existing state agency.

5) Accounting techniques currently exist for allocating cost among the various funds.

The Lombard-Wall report also includes an analysis of the capabilities of the Division of Treasury. The report concluded that there is efficiency in management of funds currently assigned to Treasury and that the staff, in particular, appears capable of assuming greater responsibility. Braditz also recommends that the Treasury be reorganized to include delegation of line and staff duties, creation of several new positions, and improvement of certain support functions in order to maximize earnings from the larger pool of assets anticipated.

In addition to the study undertaken by Lombard-Wall, letters received from the Treasury Divisions in other states indicate that placement of all state funds in the State Treasury is sound public policy.

In accordance with the above recommendations, the Senate Committee on the Permanent Fund has proposed a reorganization of Treasury to assure a program of sound investment policy, continuity and accountability to the legislative branch of government. A Division of Treasury would be created by statute, headed by a director subject to the merit system. The director would be solely accountable for investment policy and management of the general fund, the permanent fund, and all other state funds. Additionally, he would be responsible for the organization and staffing of the Treasury Division.

The proposed legislation specifies those areas authorized for permanent fund investment. Primarily, it limits investment in corporate obligations to those with an 'A' or better rating, and allows only those securities which are federally insured. It may also be invested in bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska Law.

In order to keep the Executive and Legislative branches informed, the Legislative Budget and Audit Committee would provide a quarterly report regarding the investment activity of the Division of Treasury to the legislature. The legislature may exercise its law-making power to statutorily change the authorized investments allowable in Treasury should the Budget and Audit report reveal a need for such revision. Additionally, investment policy shall be proposed to the legislature during the first ten days of any regular session and only becomes effective 60 days after presentation unless disapproved by a resolution concurred in by a majority of the members of each house.

Upon recommendation of the Commissioner of Revenue, the Governor may disallow an investment strategy or policy of the Division. Budget and Audit must also receive notification and rationale for such actions and present them to the legislature.

RATIONALE FOR ESTABLISHMENT OF THE ALASKA LOAN PROGRAM

Since statehood, the Alaskan legislature has created ten loan programs and six independent corporations to meet the capital needs of various groups or to enhance development of certain industries within the State.

Generally, these target groups were unable to obtain adequate financing (either loan dollar amounts, interest rates, or loans of sufficient duration) from private financial institutions within or outside Alaska. The loan programs were not created to compete with private lenders, in fact, bank participation is a requirement of one loan program. Rather, as a matter of public policy the loan programs were conceived to provide funds for Alaskan ventures at terms banks could not (i.e. long term money) or would not (i.e. higher levels of risk) capitalize. Most of the loan programs are administered by the Department of Commerce and Economic Development, exceptions being the Agricultural Revolving Loan Fund (Dept. of Natural Resources); the Scholarship Revolving Loan Fund (Dept. of Education); and the Senior Citizens Housing Loan Fund (Dept. of Community and Regional Affairs). The independent corporations - Alaska Housing Finance Corporation, the Alaska Power Authority, the Alaska Development Corporation, the Small Business Development Corporation, the Municipal Bond Bank, and the Industrial Development Authority are not within the direct purview of any state agency.

The history of the loan programs and independent corporations is somewhat dismal. Once created, these programs often fail to (1) remain operational; (2) comply with legislative intent; (3) operate in an efficient manner; (4) be known to the general population; and (5) come under legislative scrutiny in a timely and regular manner. In addition, there is little standardization among the programs with regard to eligibility criteria, interest rates and terms, and maximum loan amounts.

Two of the independent corporations, the Alaska Development Corporation and the Small Business Development Corporation, are no longer engaged in lending activity. The Alaska Power Authority, created in 1976 is still in the organizational phase, and the Industrial

Development Authority, created in 1967, has become operational only as a result of amendments passed during the 1977 session expanding its authorized areas of activity.

Failure to comply with legislative intent is illustrated by the Alaska Housing Finance Corporation, established in 1971 to meet the mortgage needs of low and moderate income Alaskans in blighted or remote areas of the state where normal bank financing for home purchases is difficult to obtain. AHFC issues its own bonds for lending capital; there is a yearly legislative appropriation for the necessary reserve requirements that such an issue entails. However, AHFC does not come under the Executive Budget Act, and its operations come under legislative scrutiny only when performance audits are done by the Legislative Budget and Audit Committee at three year intervals (AS 24.20.271(2). An investigation by the Office of Ombudsman conducted in July, 1977, while not a formal audit, brought to light the facts that AHFC has promulgated no administrative procedures and had made loan policy changes without benefit of required public hearings beforehand. These facts were also noted in an audit performed by the Division of Legislative Audit, dated November 11, 1977, and released in February, 1978. The Ombudsman also stated that information concerning the policy changes had been selectively distributed to the state's financial institutions.

AHFC's current lending activity is distributed on a ratio of 90% urban, 10% rural counter to the corporation's statutory mandate that loan activity shall be concentrated in "remote, underdeveloped or blighted areas" (AS 18.56.010). Although, AHFC has developed a loan program for rural home improvements or building material loans, according to the November 15 audit (Division of Legislative Audit) the program has received no publicity.

Taken as a whole, internal operation of the various loan programs can be neither damned nor praised. There are instances of good management, very poor management, and the entire spectrum in between. Delinquency rates in the loan programs vary from 33% (Agricultural Revolving Loan Fund) to 2% (Veteran's Revolving Loan Fund). Characteristic of all loan programs is that loan granting, record keeping and collection functions occur within the same division. While an inherently sound practice for private financial institutions, whose goal is maximization of profit, within the bureaucracy of state government inattention to accounting and collection aspects have worked against the best interest of the state, both in loss of return on investment and diminished public confidence in the program. Recommendations issued by the Legislative Budget and Audit Committee after performance audits are almost exclusively in the areas of record keeping (accounting) and collection.

Currently, administrative costs for the state loan programs are in excess of $2 million per year; both the Legislative Budget and Audit Committee and the Director of Business Loans have indicated that economies of scale, efficiencies of operation, and more equal opportunity for loan applicants would probably result were the state loan programs to be consolidated and/or streamlined in some manner.

The legislation proposed by the Senate Committee on the Permanent Fund would dissolve all the existing loan programs and independent corporations now in operation. In their place would be created the Alaska Loan Programs Fund, which would lend in all areas now served by these entities.

The lending arm of the Alaska Loan Programs Fund will be a division in the Department of Commerce and Economic Development, with field offices initially established in Anchorage, Fairbanks and Juneau; others will be opened as volume dictates. These offices will provide, in addition to information about the Alaska Loan Program, information concerning state and federal grant programs, and federal and private sources of loans.

Provisions are made in the legislation for individuals and corporations to engage in borrowing through the Alaska Loan Program in cooperation or participation with the private financial institution of their choice.

The scope of activity includes; 1) educational loans of $4,000 for undergraduates, and $8,000 for graduate students; 2) commercial loans with a maximum of $500,000 per individual and $5 million maximum for no more than 10 individuals in a project, or a corporation where no more than 10 individuals owning stock assume a personal liability; 3) residential loans ranging from $90,000 for a single residence to $210,000 for a 4-plex; and 4) public purpose loans where the Alaska Loan Program will submit a bid for all GO and revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city under the laws of the state, loans to municipalities of less than 5,000 population through purchase of municipal bonds, industrial development projects conducting exempt activities under federal law, and revenue bonds issued on behalf of a non-profit corporation with approval of the municipality.

The interest rate charged for loans will be standardized, and depending on the cost of the revenue bonds issued, should be in the 7% range. In the event that a reduction in the basic interest rate is deemed desirable, as for veteran's or educational loans, the difference in interest rates charged to the borrower and that paid to the Alaska Loan Programs Fund would be paid on a yearly basis from the general fund.

The Senate legislation also addresses incentives for renewable resource loans. In 1974, the legislature passed a bill creating the Alaska Renewable Resources Development Fund. Not less than 5% of the receipts from revenues derived from certain renewable resources will be deposited in this fund. The proceeds of this fund are to be utilized to enhance and develop renewable resource programs.

The proposed legislation creates the Division of Renewable Resource Development, also within the Department of Commerce and Economic Development. This division will work hand in hand with the Alaska Loan Program by performing feasibility studies on renewable resource project loans and participating in one or more of three ways: 1) interest incentives; 2) equity participation; and 3) loan guarantees. They may also make grants for eligible projects with legislative approval.

Eligibility criteria will also be standardized, the main requirements for individuals being Alaska residency of five years duration and 18 years of age or older. For loans to corporate entities, more than 60% of its co-owner—shareholders must be Alaska residents for five years or more at the time of application, and the officers of the corporation must assume individual liability for the loan's repayment.

Length of experience will determine the maximum commercial loan amounts once basic eligibility criteria have been met. Percentages of the maximum amount available for borrowing will be reduced if the applicant has less than 5 years experience in the area of loan application.

Maximum loan amounts have, in most cases, been increased to more realistically reflect current costs of living, building, or doing business in the state. Additionally, a cost differential formula has been added to the maximum loan amounts to reflect higher costs incurred in rural areas.

Collateral requirements for commercial and real estate loans will be no less than 90% of the real property held as security, and no less than 80% of equipment held as security.

Should a loan become delinquent in excess of 30 days, a loan evaluation committee shall review the loan and consider reevaluation of its terms and conditions, provided the loan can be restructured in such a way as to protect the interests of the state.

Accounting for the Alaska Loan Programs Fund will be performed by the Dept. of Administration. Reports will be made by the Depts. of Commerce and Revenue to the Legislative Budget and Audit Committee on a monthly basis itemizing loans which are in excess of 30 days delinquent, and outlining the measures taken to insure compliance with conditions and terms of the loan.

Within the Dept. of Revenue, a division will be created to assume the collection function for all loans made by the Fund. Reports of collection efforts will be made to the Budget and Audit Committee.

The Budget and Audit Committee will do a quarterly review of the performance and status of the lending, accounting and collection procedures of the three agencies involved and will present their findings and recommendations to the legislature for review and action.

FUNDING OF THE ALASKA LOAN PROGRAMS FUND

Primary funding for the Alaska Loan Program will come from proceeds of revenue bonds. Revenue bonds are tax-exempt under Federal law, resulting in lower interest costs to the borrower. Loans from the Alaska Loan Program are limited to $5,000,000 for any one project in a specific locality. There would, however, be no limit on the amount lendable for public purpose loans - those to local government units, public utilities, hospitals, etc. Due to the Federal restrictions, any violation of these limits could result in the loss of the tax-exempt status of the bonds.

Because of the low bond interest to the Loan Program, loans can be made to Alaskans at an interest below market rate; the cost of money to the Loan Program plus a 1% service fee for administrative costs of loan processing. Additionally, this type of funding would place no budgetary limits on the amount of money available for lending in any of the loan categories. As the earnings of the permanent fund increase, additional bonds can be issued to meet the borrowing needs of Alaskans. Repayment of the bonds would come strictly from repayment of borrowers of the Alaska Loan Program. Following is a brief description of the Alaska Loan Programs Fund and organization of the reserve accounts to be established.

1) Alaska Loan Programs Fund - All bond proceeds except those designated in 2) of this section to be placed in this fund.

2) Debt Reserve Account - For the purpose of securing each issue of its obligations, the Alaska Loan Programs Fund will pay into this account the maximum amount permissible under Federal law and regulations for tax-exempt obligations. All money in this account may be used when required, when money is not available from the principal and interest account or the capital reserve account solely for the payment of the principal of obligations, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any interest or income from this account and any amount remaining in the debt service reserve account when the issue secured by the account is fully retired shall be paid to the unallocated reserve account.

3) Unallocated Reserve Account - All earnings from the permanent fund will be placed in this account. The amounts necessary to fund the capital reserve account, the insurance reserve account, and the loss reserve account

will be furnished from this account. At such time as may be necessary, amounts in the unallocated reserve account will be transferred to the general fund.

4) Capital Reserve Account - the Commissioner of Revenue shall place an amount equal to 5% of all obligations issued and sold into this account. At the end of each fiscal year, the Commissioner will withdraw or add to the account that amount necessary to maintain the 5% of the obligations secured. Excess funds will be returned to the unallocated reserve account. All money in this account may be used as required for the payment of bond obligation principal, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required should obligations be redeemed before maturity.

5) Loss Reserve Account - A special account is established for the purpose of protecting the financial integrity of the fund. The Commissioner of Revenue shall pay into this account an amount equal to 5% of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of each succeeding fiscal year and thereafter, an amount necessary to bring the balance of the account up to 5% of the total amount of loans to be outstanding during the fiscal year shall be paid into the account. The 1% loan service fee will also be placed in this account and used to reimburse the unallocated reserve account.

6) Fire Insurance and Liability Reserve Account - The Alaska Loan Program may issue loans without requiring proof of insurance if an additional amount of .6% is made by the borrower. The account shall only be used for reimbursement to the Loan Programs Fund for losses of property having the insurance coverage.

RESERVE FOR CAPITAL OUTLAY ACCOUNT

The Senate proposal provides that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay account within the general fund. Monies from this account will be used to finance non-recurring expenditures. Deducting the 25% for permanent fund, 5% renewable resources development fund, and 30% for the capital outlay account, the Governor will be required to prepare a balanced budget against the remaining 40% of current receipts (less until the Native Land Claims are paid off). The Governor will also be required to perform long-range capital programming and financial planning in conjunction with this program. A current inventory of all state facilities, including a projection of the serviceability of the facilities and projections of replacements and additions to facilities needed to provide the level of services programmed by the various user agencies, is also required in the Senate proposal.

Existing State Loan Programs and Independent Corporations

Lending Agency	Eligibility	Interest	Terms	Amount
Agricultural Loan Fund	AK resident farmer, homesteader or partner of same			
Short Term	2 - 3 years experience	6.0%	1 yr	$ 25,000
Farm Development		6.0%	30 yr	200,000
Chattel		6.0%	7 yr	100,000
Irrigation		4.0%	10 yr	no max
AK State Development Corp (presently inactive)		legal rt	20 yr	750,000
Child Care Loan Fund	Certificate of need (CRA) required	6.0%	10 yr	10,000
Commercial Fishing Loan	5 yr AK resident; 3 yr license	7.0%	15 yr	150,000
Fisheries Enhancement	For non-profit hatchery permit holder	8.0%	25 yr	300,000
	For non-profit corporation	8.0%	25 yr	3,000,000
Small Business Dev. Corp.	Through Local Development Corp with/SBA	7.0%	25 yr	
Small Business Loan Fund	AK resident; less than 50 employees	8.0%	5-15 yr	300,000
Student Financial Aid	AK resident; full time graduate	5.0%	6-10 yr	5,000
	undergraduate	5.0%	6-10 yr	2,500
Tourism Loan Fund	Requires bank participation for loans exceeding $150,000	8.0%	20 yr	3,000,000
Veterans Loan Fund	AK Veteran; Veteran residing 5 years in state; 6 yr Nat'l Guard			
Personal		7.5%	20-30 yr	10,000
Business		7.5%	same	125,000
Vet occupied duplex		7.5%	same	83,250
Single family		7.5%	same	68,250
Multiple dwelling		7.5%	same	110,000
Water Resources Loan Fund	Public utilities	5.0%	7 yr	
Senior Citizens Dev. Fund	Municipalities and corporations	None Specified		
AK Housing Finance Corp.				
Conventional				
Single family	Owner occupants; home improvment loans only in rural Alaska	7.75%	30 yr	65,000
Duplex		7.75%	same	90,000
FHA/VA Insured				
Single family		7.50%	same	65,000
Duplex		7.50%	same	90,000
Home Improvement		9.50%	15 yr	15,000
Historical Loan Fund	Person, firm, or municipality	6.5%		100,000
AK Industrial Dev. Authority	Industrial development projects with approval of local governmental unit	Through Bond Issue		
Municipal Bond Bank	Municipalities	Through Bond Issue		
AK Power Authority	Not yet operational			

SENATE PROPOSED ALASKA LOAN PROGRAM

STANDARD ELIGIBILITY:	Five year Alaskan resident Eighteen years of age or older
STANDARD INTEREST:	No more than 1% plus the cost of borrowing to the ALP
INTEREST INCENTIVES:	Agricultural loans - standard interest less 1% Veterans loans - standard interest less 1% (less additional 1/2% for twice qualifying veterans) Renewable Resources loans - interest incentive to be determined by the Renewable Resources Development Division
TERMS:	30 yr. on loan secured by real property 15 yr. on life of equipment on loans secured by equipment 7 yr. or life of chattel on loans secured by chattel 1 yr. on a loan for working capital

Category		Description
Educational	1)	Individual enrolled in full-time college, work study, or vocational program
	2)	$4,000 per year for under-graduate; $8,000 for graduate
	3)	$16,000 maximum outstanding allowable
Residential	1)	$ 90,000 for single dwelling 130,000 for duplex 170,000 for tri-plex 210,000 for four-plex
	2)	Collateral requirements: 90% appraised value of real property 95% in areas lacking FHA mortgages
Commercial	1)	$500,000 maximum per individual $5 million for group of no more than 10 individuals in project or corporation where 10 individuals owning stock assume liability
	2)	Collateral requirements: 80% appraised value of equipment 90% appraised value of real property
Public Purpose	1)	ALP will submit bid for all G.O. and revenue bonds offered on a competitive basis by home rule or general law borough or city
	2)	Loans to municipalities with population under 5,000 through purchase of municipal bonds
	3)	Industrial development projects conducting exempt activities under federal law
	4)	Issue of revenue bonds on behalf of a non-profit corporation with the approval of the municipality in which it is located

ALASKA LOAN PROGRAM

ELIGIBILITY:	5 yr. Alaska resident, minimum 18 yrs. of age
INTEREST:	Cost of borrowing to ALP plus 1% service fee
TERMS:	30 yr. on loan secured by real property
	15 yr. on life of equipment on loans secured by equipment
	7 yr. or life of chattel on loans secured by chattel
	1 yr. on a loan for working capital
COLLATERAL:	80% appraised value of equipment
	90% appraised value of real property
	95% for residential where FHA mortgage not available

EDUCATIONAL	RESIDENTIAL	PUBLIC PURPOSE	COMMERCIAL
$4,000 per yr/undergraduate	$ 90,000 single dwelling	Eligible Entities	$500,000 max per individual
8,000 per yr/graduate	130,000 duplex	Boroughs and cities	$5 million max per group or
16,000 maximum outstanding	170,000 triplex	Municipalities	corporation assuming
	210,000 fourplex	Industrial development projects	individual liability
		Non-profit corporations	

ORGANIZATIONAL CHARTS

The following Organizational Charts A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Organizational Chart A

Per existing state agencies

Organizational Chart B

Per House Bill 298, the Governor's Bill

Organizational Chart C

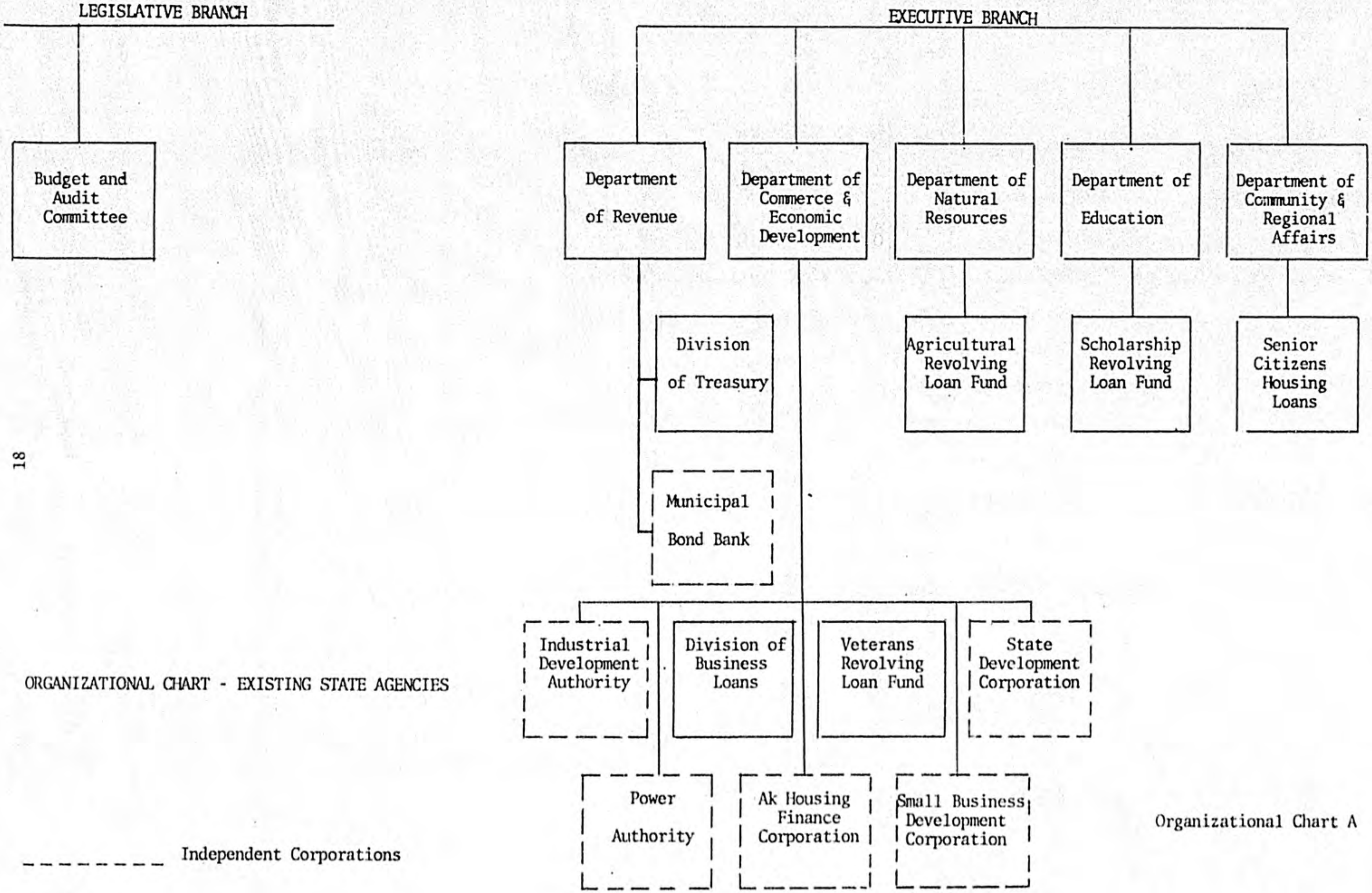
Per House Bills 596 and 682, by the House Special Committee on the Permanent Fund

Organizational Chart D

Per Senate Bill 429, by the Senate Special Committee on the Permanent Fund

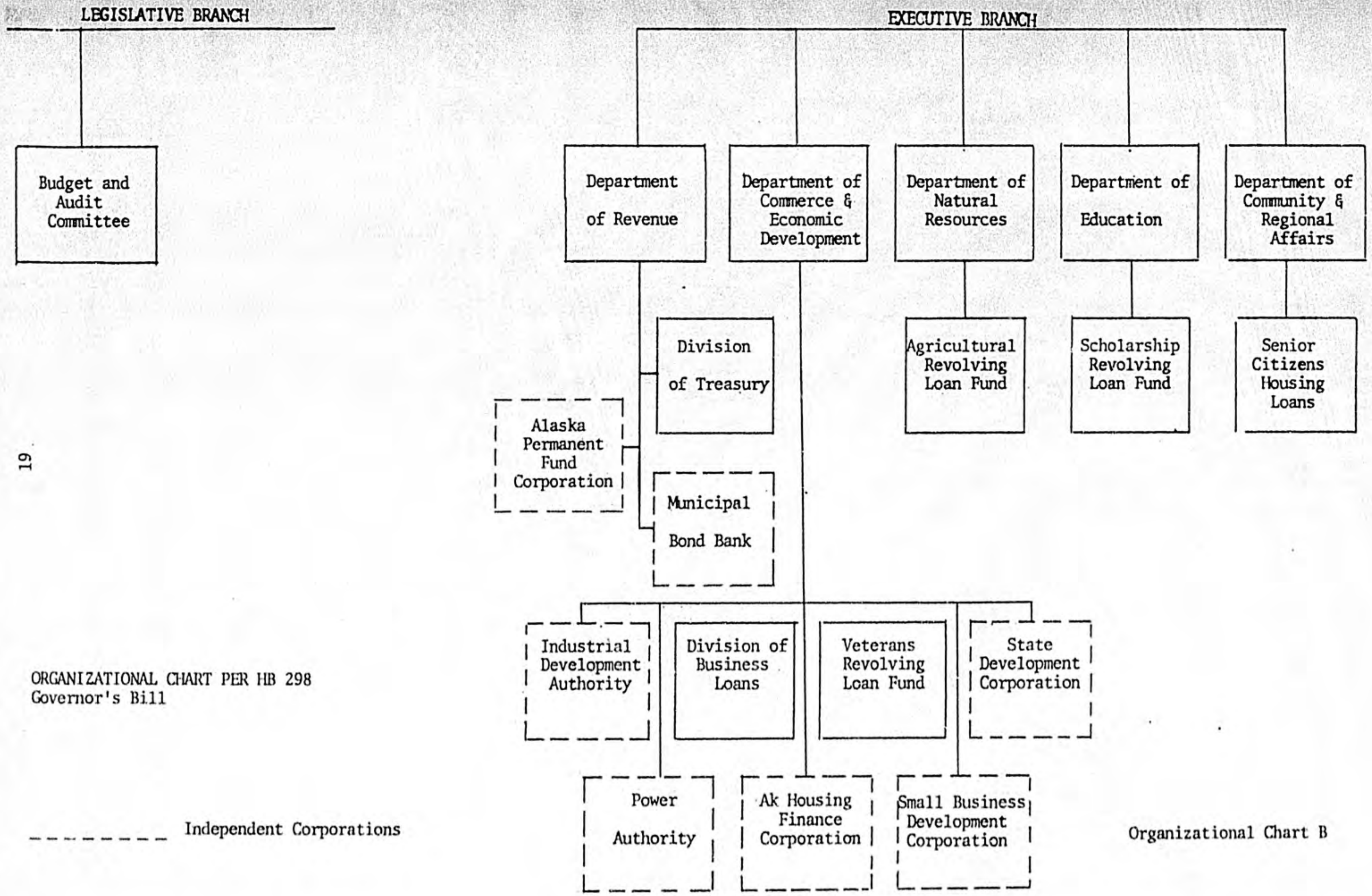
Organizational Chart E

Organizational and flow chart of the permanent fund, renewable resources development fund and the general fund



ORGANIZATIONAL CHART - EXISTING STATE AGENCIES

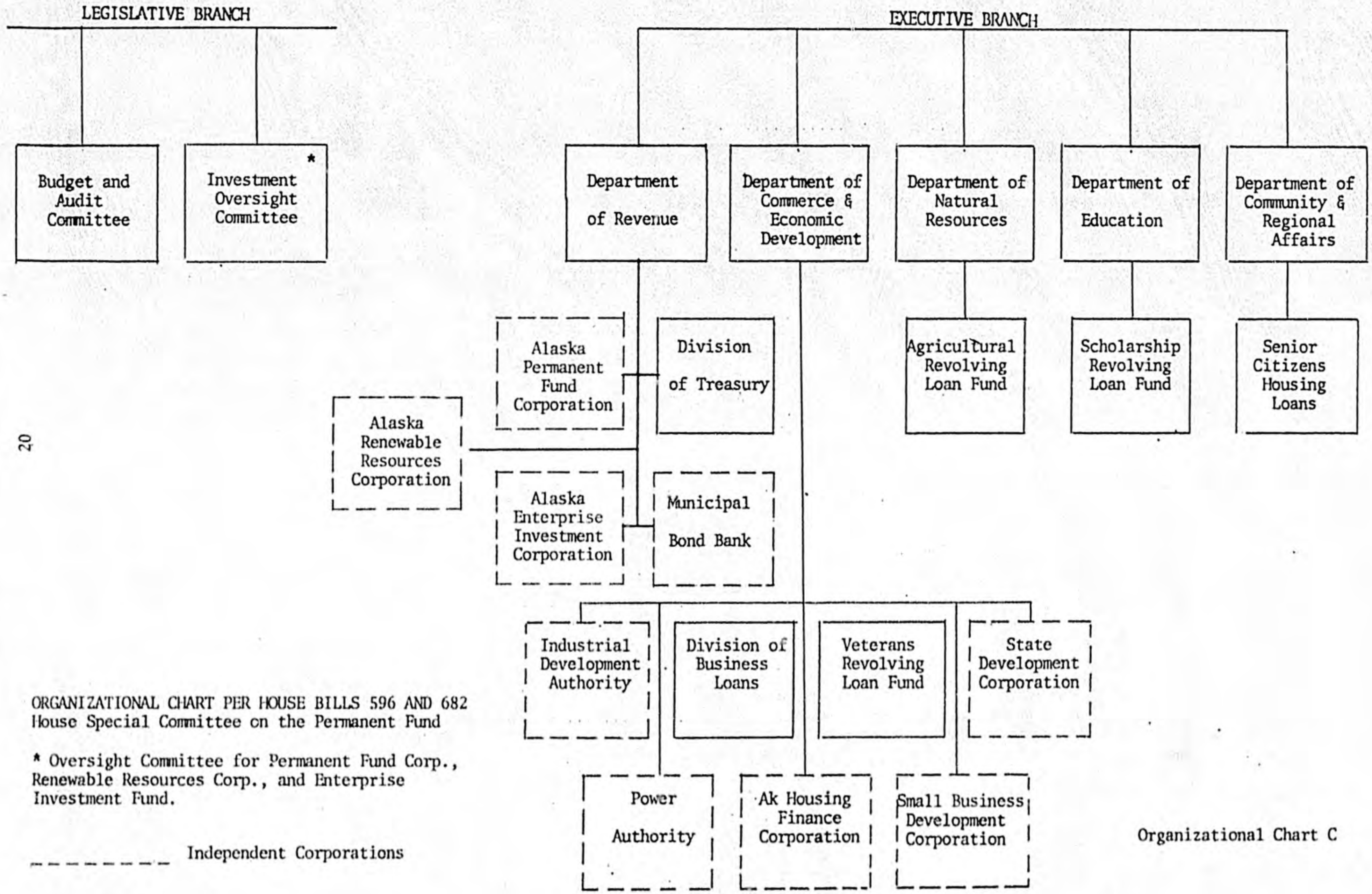
Organizational Chart A



ORGANIZATIONAL CHART PER HB 298
Governor's Bill

Organizational Chart B

20

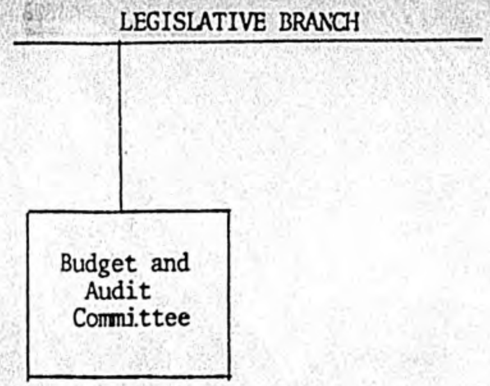


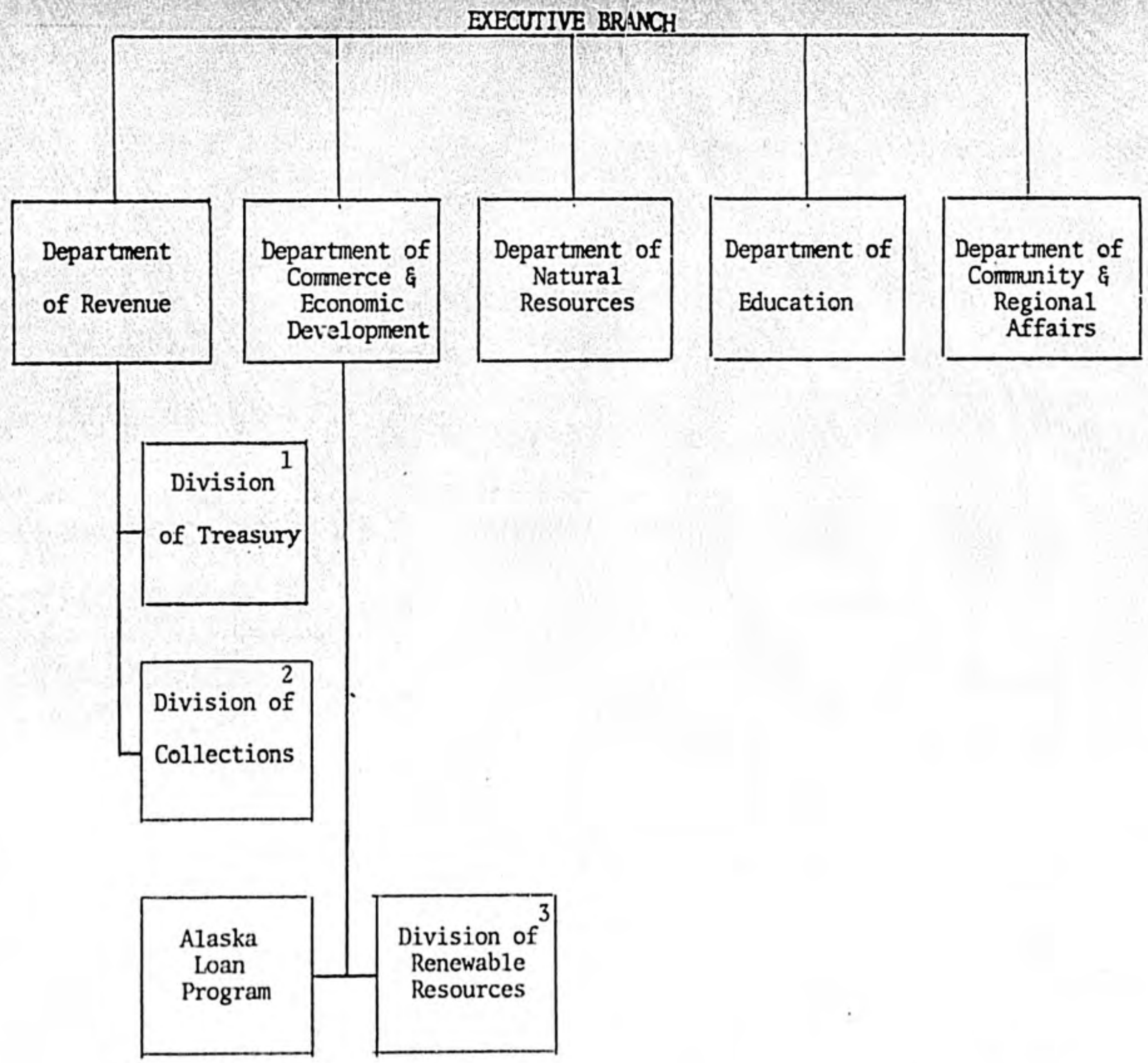
ORGANIZATIONAL CHART PER HOUSE BILLS 596 AND 682
House Special Committee on the Permanent Fund

* Oversight Committee for Permanent Fund Corp., Renewable Resources Corp., and Enterprise Investment Fund.

\- - - - - - - - Independent Corporations

Organizational Chart C





ORGANIZATIONAL CHART PER SENATE BILL 429
Senate Committee on the Permanent Fund

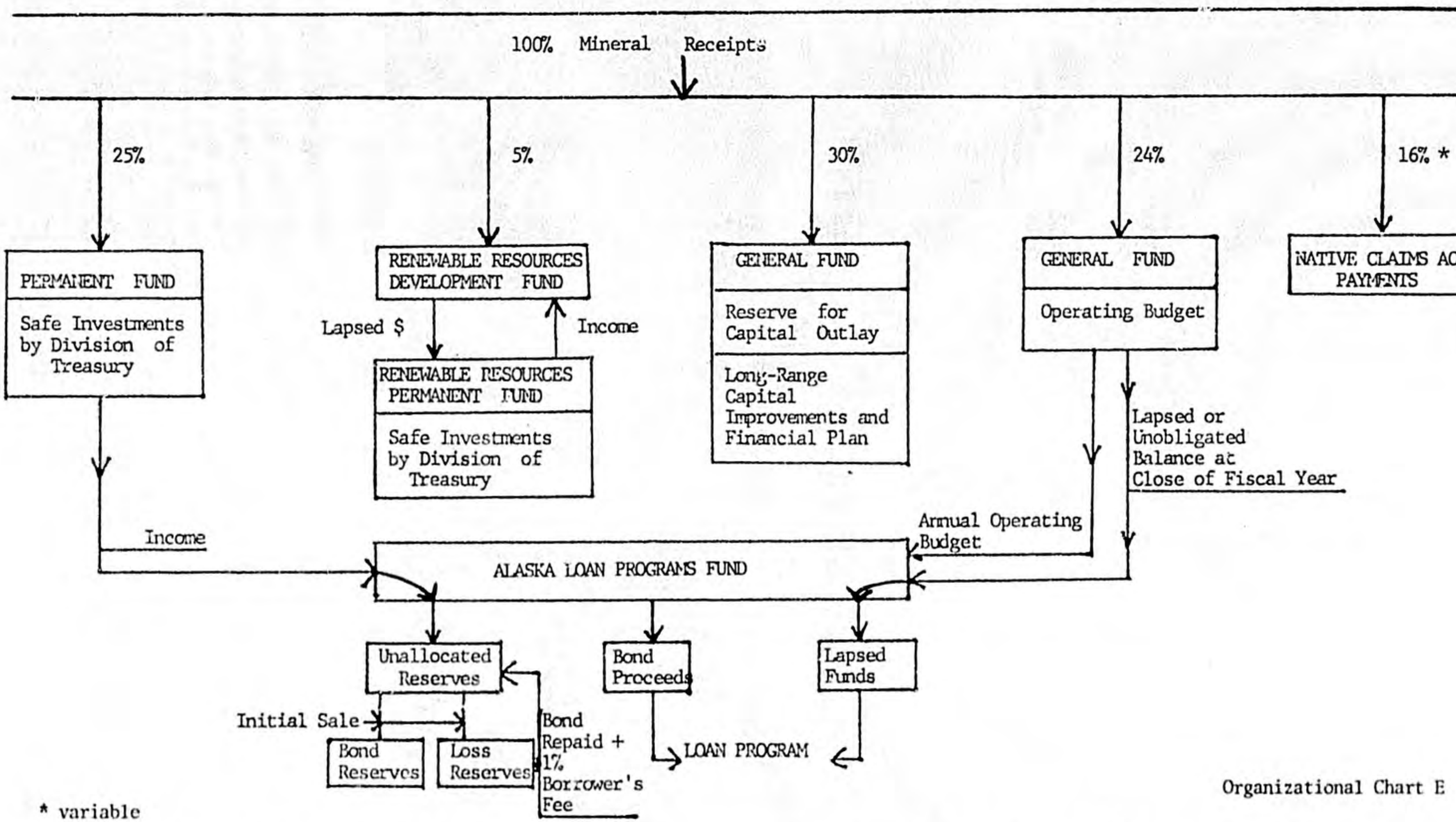
1 Manages all state funds including permanent fund

2 Collection agency for Alaska Loan Program

3 Provides equity participation or interest incentives through the Alaska Loan Program

Organizational Chart D

SENATE INTERIM COMMITTEE PROPOSED LEGISLATION



Organizational Chart E

* variable

Future needs of Alaska's citizens can be met from the savings accounts within the Alaska Loan Program, which are: all unallocated reserves (income from Permanent Fund), unallocated reserve subaccount (General Fund contribution account).

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Urban Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

Lending Agency	Downpayment [1]	Interest	Monthly Pymts	Insurance [2]	Total Cost
Federal National Mortgage Association	$ 5,000	9.5%	$ 378.39	$ 7,500.00	$ 148,720.40
State Veterans Loan Program	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority	1,500	8.5%	372.93	7,500.00	143,254.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	7,500.00	128,560.40
State Banks [3] (not available; pro forma only)	5,000	9.2%	368.21	7,500.00	145,055.60
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00

[1] All the programs have a 10% downpayment with the exception of the Federal Housing Authority which requires 3%.

[2] Insurance fees are computed at a .5% of the value of the home over a 30 year period and are approximate averages only. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest cost and covers the mortgage only.

[3] Interest quoted is taken from bank questionnaires received by the Senate Committee on the Permanent Fund

Sample A

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Rural Alaska

TERM: 30 year loan

SAMPLE: $50,000 home

Lending Agency	Downpayment[1]	Interest	Monthly Pymts	Insurance[2]	Total Cost
Federal National Mortgage Association	$ 5,000.	9.5%	$ 378.39	$ 30,000.00	$ 171,220.40
State Veterans Loan Program	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority	1,500	8.5%	372.93	30,000.00	165,754.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	30,000.00	151,060.40
State Banks [3] (not available; pro forma only)	5,000	9.6%	381.69	30,000.00	172,408.40
Farmer's Home Administration	NONE	8.0%	366.89	30,000.00	162,080.40
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00

[1] All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

[2] Insurance fees are computed at a 2% of value of the home over a 30 year period and is a low estimate. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest costs and covers the mortgage only.

[3] Interest quoted is taken from bank questionnaires received by the Senate Committee on the the Permanent Fund

Sample B

A Comparative Sample of Available Home Improvement Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: $10,000 Home Improvement Loan

Lending Agency	Interest	Monthly Payments	Total Cost
Farmer's Home (Rural AK only)	8.0%	$ 95.57	$ 17,202.60
AK Housing Finance Corporation (Rural AK only)	9.5%	104.43	18,717.40
State Bank [1] (not readily available; pro forma only)	9.6%	105.04	18,907.20 (Rural)
	9.2%	102.63	18,473,40 (Urban)
Alaska Loan Program	7.0%	89.89	16,180.20
Veterans Incentive	6.0%	84.39	15,190.20

1 Interest quoted is taken from bank questionnaire responses received by the Senate Committee on the Permanent Fund

Sample C

A Comparative Sample of Available Business Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: $125,000 business loan
(no equipment costs)

Lending Agency	Value Limitation	Interest	Monthly Payments	Total Cost	
Small Business Administration	90%	9.5%	$ 1,305.30	$ 234,954.00	
Bank (pro forma only)	75%	9.5%	1,305.30	234,954.00	URBAN
	75%	9.8%	1,306.50	235,170.00	RURAL
Small Business Loan Fund (State)	75%	8.0%	1,194.60	215,028.00	
State Veterans Loan Fund	75%	7.5%	1,158.80	208,584.00	
Alaska Loan Program	90%	7.0%	1,123.60	202,248.00	
Veterans Incentive	90%	6.0%	1,054.90	189,882.00	

The actual maximum loan amounts for each program listed as follows:

SBA guarantees	None given
Bank	Varies statewide
Small Business (state)	$ 300,000
Alaska Loan Program	$ 500,000 per individual $ 5 million for group of 10 individuals per project

ILLUSTRATIONS

The following Illustrations have been prepared by the Senate Special Committee on the Permanent Fund and give examples of loans that could be made through the Alaska Loan Program and the Renewable Resources Division.

Loans Made in Conjunction with the Renewable Resources Division

Illustration A

Bottom Fish Processing Plant

Illustration B

Fishing Boat

Attachment 1

Cumulative amounts in the Renewable Resources Development Fund

Commercial Loans Made through the Alaska Loan Program

Illustration C

Retail Store and Housing Development Project

RENEWABLE RESOURCES DIVISION

Illustration A

PROJECT: Bottom Fish Processing Plant

		Alaska Loan Program		Equity
Real Estate	$ 3,000,000	90%	$2,700,000	$300,000
Equipment	2,000,000	80%	1,600,000	400,000
	$ 5,000,000		$4,300,000	$700,000

A 50% equity position by the Renewable Resources Development Fund = $350,000

Interest Cost = 7% over the life of the loan.

Note: With section 284 of the Alaska Loan Program, included in the above cost are:

1) Interest during construction (12 - 18 months)

2) Interest, costs, and working capital for 30 months

Therefore, the project has not paid anything from earnings for 48 months.

RENEWABLE RESOURCES DIVISION

Illustration B

PROJECT: Fishing Boat

		Alaska Loan Program		Equity
Fishing vessel	$ 150,000	90%	$ 135,000	$ 15,000
Equipment	30,000	80%	24,000	6,000
	$ 180,000		$ 159,000	$ 21,000

Division of Renewable Resources may:
1) supply an interest incentive
2) hold 50% equity position equal to $ 10,500.

YEAR END	YEARLY INCOME	CUMULATIVE AMOUNT RENEWABLE RESOURCES DEVELOPMENT FUND	PERMANENT FUND	COMBINED TOTAL
1977	.7	.7	3.3	4.0
1978	10.3	11.0	54.8	65.8
1979	19.4	30.4	152.0	182.4
1980	29.5	59.9	299.6	359.5
1981	32.0	91.9	459.4	551.3
1982	34.5	126.4	632.1	758.5
1983	37.2	163.6	818.2	981.8
1984	48.9	212.5	1062.5	1275.0
1985	52.3	264.8	1323.8	1588.6
1986	55.8	320.6	1603.0	1923.6
1987	59.6	380.2	1901.2	2281.4
1988	56.3	436.5	2182.5	2619.0
1989	51.3	487.8	2438.7	2926.5
1990	52.9	540.7	2703.5	3244.2
1991	38.9	579.6	2898.0	3477.6
1992	29.9	609.5	3047.3	3656.8
1993	23.8	633.3	3166.5	3799.8
1994	22.9	656.2	3280.7	3936.9
1995	31.0	687.2	3436.2	4123.4
1996	32.3	719.5	3597.6	4317.1
1997	33.6	753.1	3765.6	4518.7
1998	24.4	777.5	3887.5	4665.0
1999	23.5	801.0	4004.8	4805.8
2000	22.1	832.1	4115.5	4938.6
2001	21.5	844.6	4222.7	5067.3
2002	22.1	866.7	4330.3	5197.0
2003	22.1	888.8	4444.2	5333.0
2004	23.8	912.6	4562.8	5475.4
2005	24.9	937.5	4687.2	5624.7

Prepared by the Senate Special Committee on the Permanent Fund
Based on revenue projections from Milt Barker, Division of Legislative Finance

ALASKA LOAN PROGRAM

COMMERCIAL LOANS

Illutration C

PROJECT: Retail Store

		Alaska Loan Program		Equity
Real Estate	$ 400,000	90%	$ 360,000	$ 40,000
Equipment	100,000	80%	80,000	20,000
	$ 500,000		$ 440,000	$ 60,000

PROJECT: Housing Development *

		Alaska Loan Program		Equity
Real Estate	$5,000,000	90%	$ 4,500,000	$ 500,000

* Project has participation of 10 individuals each assuming individual liability.

GRAPHS

The following Graphs A through D have been prepared by the Senate Special Committee on the Permanent Fund and are based on revenue projections prepared by Milt Barker, Division of Legislative Finance.

Graph A

Charts 30% Permanent Fund (includes the 5% for the renewable resources development fund) and the General Fund (minus the Native Claims).

Graph B

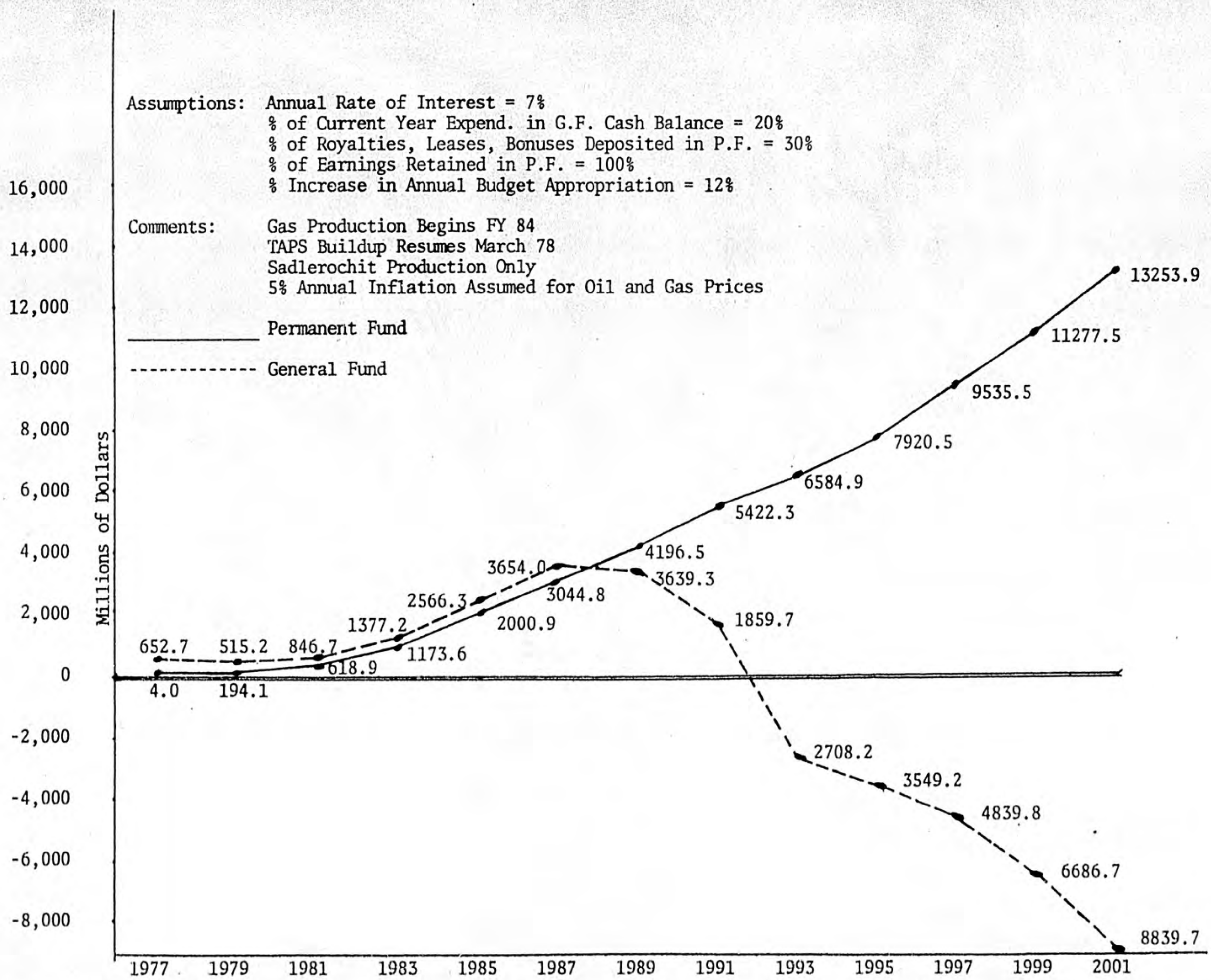
Same illustration as Graph A with a different set of assumptions.

Graph C

The Senate Permanent Fund legislation proposes that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay within the General Fund and used to finance non-recurring expenditures. This graph illustrates projected growth of the capital outlay reserve and the General Fund (minus the Native Claims). Permanent Fund projections have not been included.

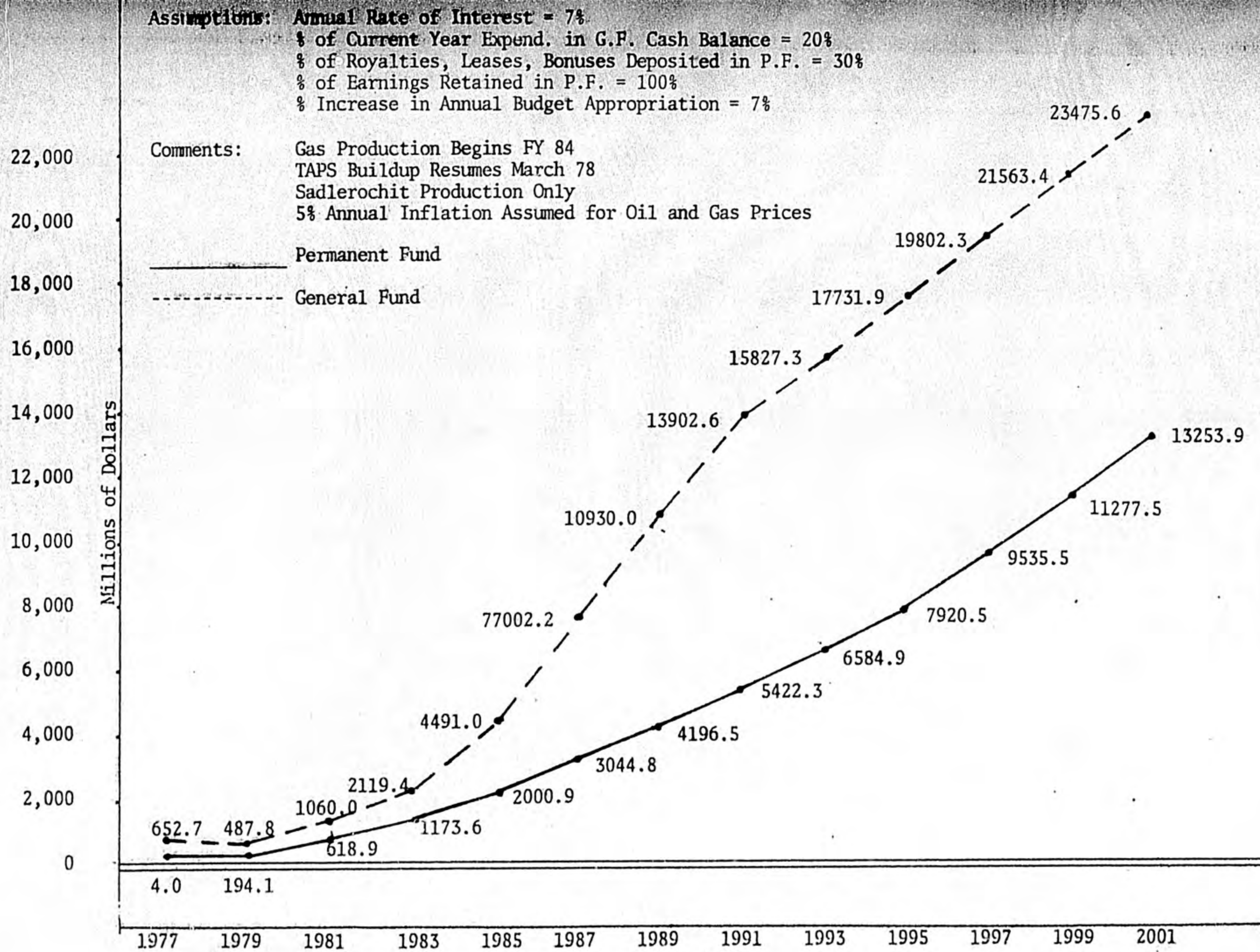
Graph D

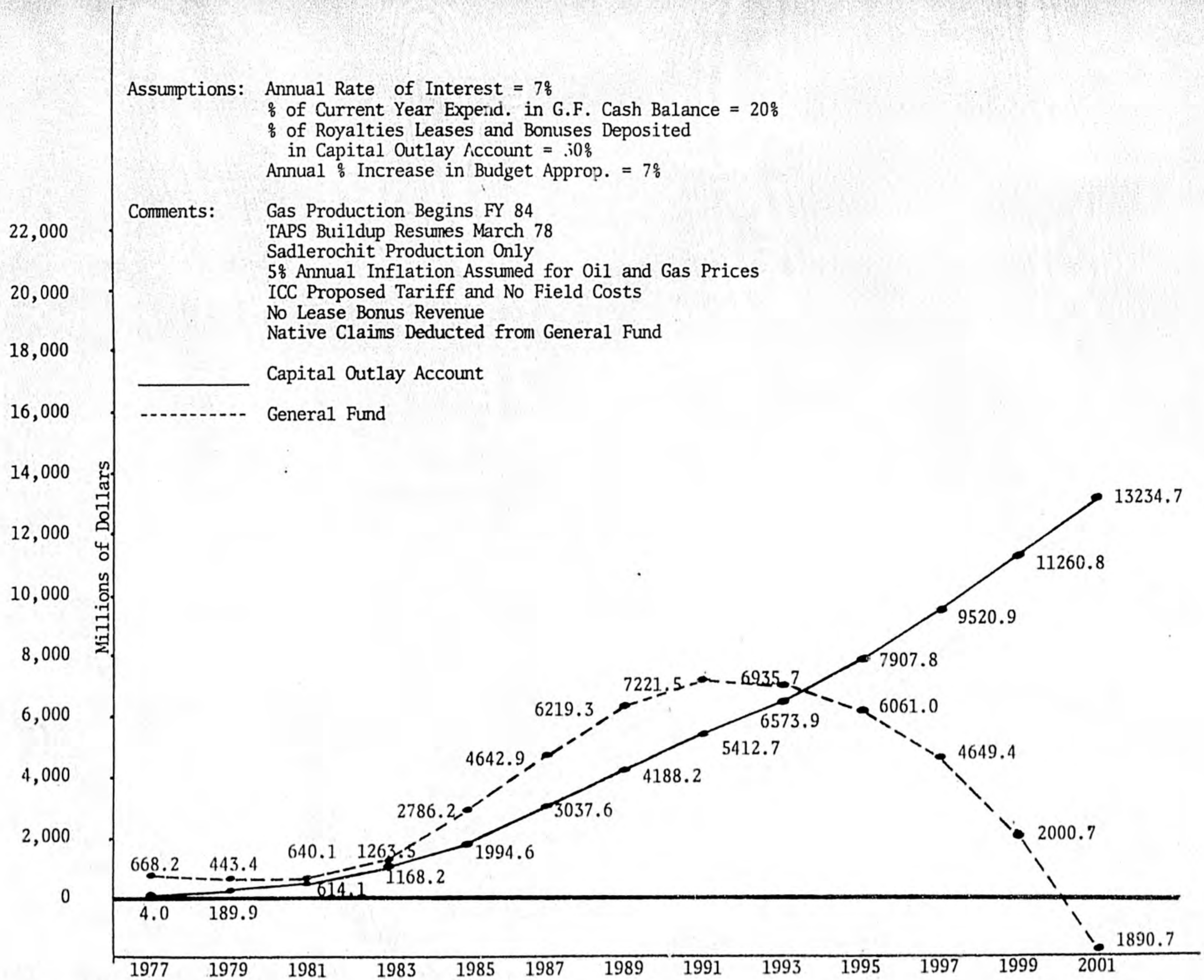
Same illustration as Graph C with a different set of assumptions.


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties, Leases, Bonuses Deposited in P.F. = 30%
% of Earnings Retained in P.F. = 100%
% Increase in Annual Budget Appropriation = 12%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
Permanent Fund
General Fund
Millions of Dollars
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
-2,000
-4,000
-6,000
-8,000
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
652.7
515.2
846.7
1377.2
2566.3
3654.0
3639.3
1859.7
2708.2
3549.2
4839.8
6686.7
8839.7
4.0
194.1
618.9
1173.6
2000.9
3044.8
4196.5
5422.3
6584.9
7920.5
9535.5
11277.5
13253.9

GRAPH A

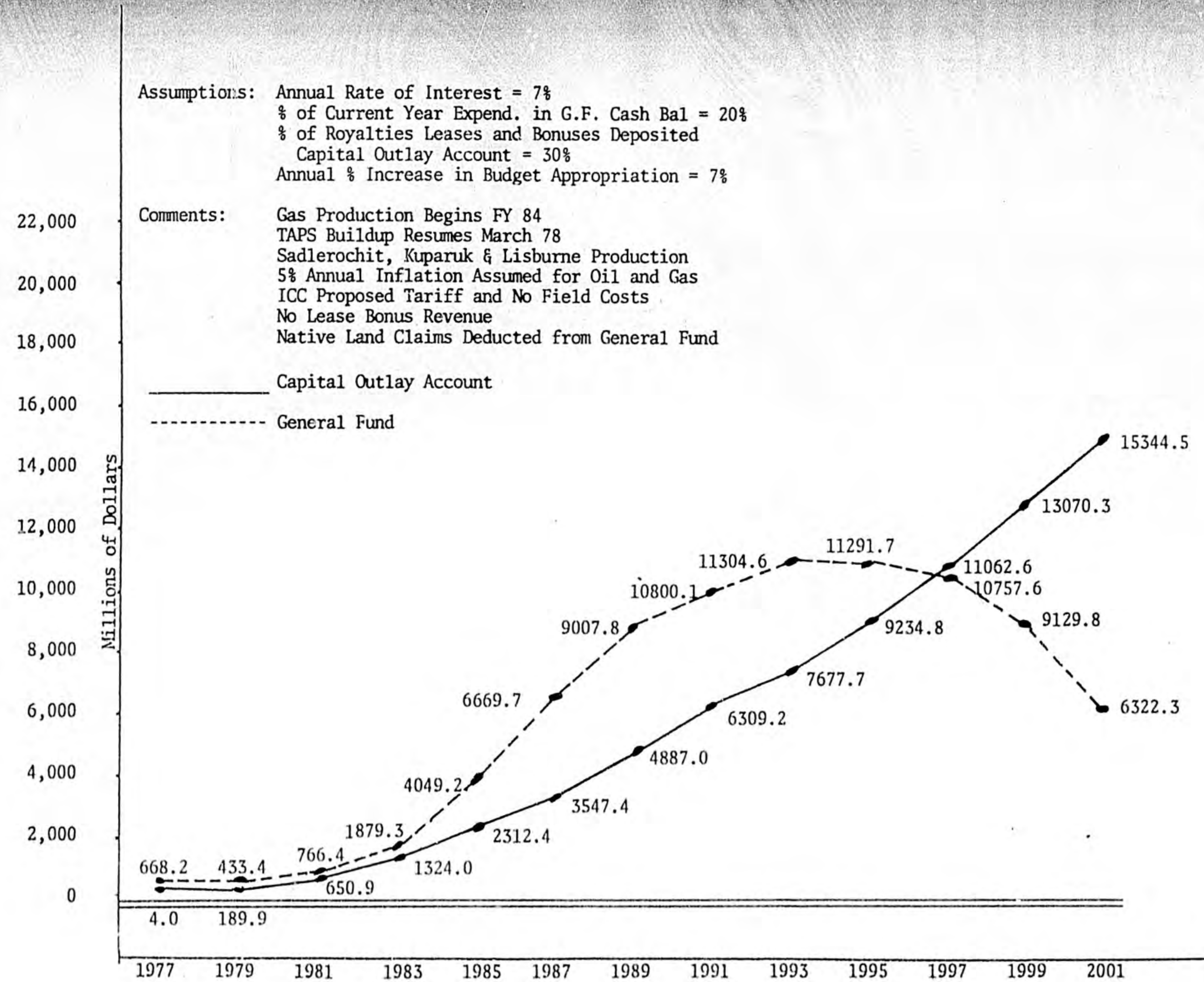
GRAPH B


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties, Leases, Bonuses Deposited in P.F. = 30%
% of Earnings Retained in P.F. = 100%
% Increase in Annual Budget Appropriation = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
Permanent Fund
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
652.7
487.8
1060.0
2119.4
4491.0
77002.2
10930.0
13902.6
15827.3
17731.9
19802.3
21563.4
23475.6
4.0
194.1
618.9
1173.6
2000.9
3044.8
4196.5
5422.3
6584.9
7920.5
9535.5
11277.5
13253.9


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Balance = 20%
% of Royalties Leases and Bonuses Deposited in Capital Outlay Account = 50%
Annual % Increase in Budget Approp. = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit Production Only
5% Annual Inflation Assumed for Oil and Gas Prices
ICC Proposed Tariff and No Field Costs
No Lease Bonus Revenue
Native Claims Deducted from General Fund
Capital Outlay Account
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
668.2
443.4
640.1
1263.5
2786.2
4642.9
6219.3
7221.5
6935.7
6061.0
4649.4
2000.7
1890.7
4.0
189.9
614.1
1168.2
1994.6
3037.6
4188.2
5412.7
6573.9
7907.8
9520.9
11260.8
13234.7
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001

GRAPH C

34


Assumptions: Annual Rate of Interest = 7%
% of Current Year Expend. in G.F. Cash Bal = 20%
% of Royalties Leases and Bonuses Deposited Capital Outlay Account = 30%
Annual % Increase in Budget Appropriation = 7%
Comments: Gas Production Begins FY 84
TAPS Buildup Resumes March 78
Sadlerochit, Kuparuk & Lisburne Production
5% Annual Inflation Assumed for Oil and Gas
ICC Proposed Tariff and No Field Costs
No Lease Bonus Revenue
Native Land Claims Deducted from General Fund
Capital Outlay Account
General Fund
Millions of Dollars
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
668.2
433.4
766.4
1879.3
4049.2
6669.7
9007.8
10800.1
11304.6
11291.7
10757.6
9129.8
6322.3
4.0
189.9
650.9
1324.0
2312.4
3547.4
4887.0
6309.2
7677.7
9234.8
11062.6
13070.3
15344.5

GRAPH D