

ALASKA LEGISLATURE COMMITTEE FILES 1999-2000 8672

9793 HOUSE COMMUNITY & REGIONAL AFFAIRS

Representative Andrew Halcro

October 12, 1999

Page 2

assessor, when making the full and true value determination of the affordable housing, to determine value based on its actual rent or actual income without adjustment for the allowable income tax credit. In other words, if, to qualify for the tax credit, requirements attach to the property to limit its use and occupancy that tend to diminish the property's rent or income, the assessor may not ignore or overlook those factors, no matter the assessor's selection of a general valuation method.

From my understanding of AS 29.45.110, setting out the general obligation of the municipal assessor to value property at full and true value, I do not see that this matter is fairly addressed simply by directing the municipal assessor to select one method of property valuation over another. The preferred approach, I believe, would continue to leave choice of discretion to the assessor but require that official to use actual income rather than a projected market value of the units.

Also, based on AS 29.45.062, I believe that the municipal assessor needs to be apprised that property is, or may be, subject to the new limitation on valuation, so the burden would be on the property owner to make timely application for the assessment. The last part of the language of the accompanying draft follows AS 29.45.062(b)'s application approach and cites to the same deadline.

JBC:pl
99-159.plm

Enclosure

ALASKA STATE LEGISLATURE House of Representatives

COMMITTEE ASSIGNMENTS

LABOR & COMMERCE COMMITTEE CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING MEMBER
SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT & TOURISM, MEMBER



INTERIM
716 WEST 4TH AVENUE SUITE 640
ANCHORAGE AK 99501
PHONE (907) 268 0117
FAX (907) 268 0119

SESSION
ALASKA STATE CAPITOL
JUNEAU AK 99801-1102
PHONE (907) 485-4268
FAX (907) 465-2040

e mail: Representative_Norman_Rokeberg@legis.state.ak.us

Representative Norman Rokeberg

September 15, 1999

The Honorable Rick Mystrom
Mayor, Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519-6650

FAX: (907) 343-4499

RE: Tax Assessments on Low-Income Housing

Dear Mayor Mystrom:

Members of Anchorage's banking community have brought to my attention a serious situation concerning tax assessments on low-income housing. I would appreciate your review of this matter and your advice as to why a change was made in the way these assessments are handled.

It is my understanding that up until the end of 1997, the Municipality used a taxation method that was based on the actual income stream of these low-income projects. This involved taking into consideration the cap on the rents as required by the federal government. In 1998, apparently the Municipality changed its assessing method thus causing taxes on some of these properties to nearly double. No longer was the cap on rents considered. It is my further understanding that the federal HUD has indicated its concern about this new policy.

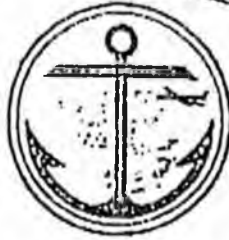
Many of these projects involve "very" low-income individuals and provide housing for people who were formerly "street" people. Apparently the Municipality's "housing plan" encourages these developments but its new taxing policy does not.

Would you please promptly review this matter and let me know why the decision was made to change the method of assessment on these types of projects? Does the State of Alaska need to make a statutory change for the Municipality to return to assessing these projects under the "old" method (following federal guidelines of taking into consideration the cap on rents or income of the property)?

Sincerely,

Norman Rokeberg
State Representative
District 11

Municipality of Anchorage



P.O. Box 131
Anchorage, Alaska 99519-0650
Telephone: (907) 343-4431
Fax: (907) 343-4499
<http://www.ci.anchorage.ak.us>

Rick Mystrom, Mayor

OFFICE OF THE MAYOR

October 8, 1999

The Honorable Norman Rokeberg
Alaska State House of Representatives
716 West 4th Avenue, Suite 640
Anchorage, Alaska 99501

RECEIVED
59 OCT 14 AM 9:15

Dear Norm:

The assessment of property located in the Municipality is based on State and local law and the legal precedents available from throughout the nation as they apply to specific property types.

The method of valuation employed by the Municipality is consistent with the method used in most states including major states such as Michigan and New York. The Municipality is not aware of any statements by HUD with regard to the onerous effects of the legal decisions in these major states or by HUD on a national level. We are aware of a letter issued by the Anchorage HUD office which appears to be based on local advice as opposed to national policy. Interviews of HUD and assessment officials in other states do not reveal any concern or position of such.

If the body of legal precedent developed across the country pertaining to Low Income Housing property assessment were to change, the Municipality would review the current methodology and consider changes consistent with State and local law. Absent changes to this legal precedent the current method of assessment for Low Income Housing property will remain unchanged.

I hope this letter has answered your questions regarding the assessment of Low Income Housing within the Municipality of Anchorage.

Sincerely,

Rick Mystrom
Mayor

"City of Lights and Flowers"



REPRESENTATIVE ERIC CROFT

October 8, 1999

Representative Andrew Halcro
Community and Regional Affairs Committee
716 West 4th Avenue, Ste. 620
Anchorage, AK 99501

Dear Representative Halcro:

Recently some disturbing practices have come to my attention through the banking community, with regard to affordable housing and how it is being assessed in property taxes in Anchorage. I'm concerned that both the state and local governments are not doing enough to encourage the development of affordable, low income housing—and in this cases is discouraging it.

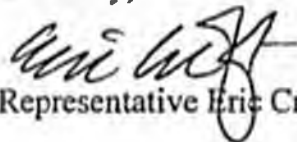
It is my understanding the Municipality of Anchorage has started a practice of assessing low income housing at market rents. I fear this will result in non-profit organizations discontinuing involvement with new affordable housing projects. Other states, especially Washington State, have done a good job to create incentives for the business community to stay involved in affordable housing projects. I believe Alaska should step forward and do the same.

Enclosed is a copy of a letter from Jan Sieberts, Senior Vice President of National Bank of Anchorage. Jan has spent many years creating housing projects throughout Alaska. He details some of the background to understanding this issue. Additionally, I have enclosed a letter from the Department of Housing and Urban Development which sharply criticizes the Municipalities' tax treatment of affordable housing.

I urge your committee, under your leadership, to take steps to correct this. Alaska is a state filled with opportunity for all those who come here, shouldn't part of that opportunity include clean, affordable housing for families? Let's do all we can to ensure this occurs.

Thank you for your consideration and please don't hesitate to contact my office with questions.

Sincerely,


Representative Eric Croft

CC: Jan Sieberts



National Bank of Alaska



September 10, 1999

Corporate Headquarters
P.O. Box 100600
Anchorage, AK 99510-0600
Phone (907) 522-8888

Eric Croft
State Representative
P.O. Box 101617
Anchorage, AK 99510

Re: Affordable Housing

Dear Representative Croft,

National Bank of Alaska has been actively involved in improving the housing stock in Alaska for our 90 years of existence and currently service \$3 billion of the residential home loans in the state of Alaska. In recent times we have been actively involved in partnership with various non-profit entities in the creation of quality multi-family housing properties in Anchorage and other communities in the state. Since the cost of the construction is substantially higher than what would be otherwise economically justifiable using conventional financing, we have utilized the federal low income housing tax credit program which enables investors to obtain their income through a credit on their federal income tax. This program has been so successful that in excess of 60% of the rental properties in the United States are currently utilizing tax credits to build new properties. This is the only effective means of providing housing for low income and very low income individuals and congress anticipates increasing the amount of tax credits available by 40%. This is estimated to generate financing for an additional 27M affordable housing units in the United States.

Under the Community Reinvestment Act banks are encouraged (and graded) by the Office of Comptroller of Currency to make low income housing tax credit investments. In the state of Alaska, NBA, First National Bank of Anchorage, Key Bank and Bank of America have made these investments as has other national investors. The end result is the best quality rental housing built in Anchorage, are tax credit projects.


In all the projects NBA has been involved the general partner and primary beneficiary has been a non-profit organization. Two of the projects we are involved in, the Loussac Sogn SRO and the Adelaide SRO projects are projects for "very" low income (incomes not to exceed 30% of median). In some cases, we are providing housing for people that previously lived on the streets of Anchorage. The Spruce View Apartment project, which is located on Lake Otis Blvd., provides quality affordable housing for families. I am sure you are aware most of the rental housing built in Anchorage was built for use by pipe line workers and other construction workers and does not adequately fit the modern needs of the families that are becoming an increasing part of our community. NBA has a commitment to meeting the needs of the low to moderate members of our community.

Despite the fact that the Municipality of Anchorage "housing plan" encouraged banks and investors to invest in low income housing tax credits to encourage the development of this segment of the market, they subsequently changed their attitude on taxation. Until 1997 the Municipality accepted a methodology of taxation which taxed based on the income of the projects. In 1998 they changed their approach which in some cases increases the taxes on properties by nearly double. They no longer would take into account the cap on the rents as required by the federal government. The result of this is catastrophic losses to the owners due to major increases in property taxes. Recently HUD wrote a strong letter to the Municipality indicating that they believe that the "Municipality's tax policy disregarding the rent restrictions on these properties is the single greatest threat to the preservation of existing stock and development of affordable housing in Anchorage today."

Our concern is if the Municipal assessor prevails on this issue it will effect the development of affordable housing to the residents of the entire state of Alaska. Certainly, the quality of rental housing built will be less than was developed in recent years. Because of this issue Alaska is the only state in the United States that is not fully utilizing their allocation of tax credits. It would be fool hardy for a financial institution to become involved in the development of well planned quality properties that require tax credits.

We believe that like the state of Washington these issues will have to be resolved by state legislation which requires assessors to recognize the federally required rent restrictions when assessing these properties. The non-profits and financial institutions have no problem with reasonable taxation on the properties unlike the state of Washington's legislation which exempted taxation on these properties all together. The state of Oregon's Supreme Court sided with the various housing entities on this issue. Making it impossible for various non-profits and developers to develop affordable housing utilizing tax credits, means that in the long term that AHFC will be pressured to develop public housing which will probably not be managed with as much sensitivity to local issues as would a local private developer and at much greater cost to the state. We would like your support in correcting the current situation which is restricting the development of affordable housing for the citizens of the state of Alaska.

Sincerely yours,


Jan Sieberts
Senior Vice President

JKS:kak

CC: Ed Rasmuson

NBA has a commitment to meeting the needs of the low to moderate members of our community.

Despite the fact that the Municipality of Anchorage "housing plan" encouraged banks and investors to invest in low income housing tax credits to encourage the development of this segment of the market, they subsequently changed their attitude on taxation. In 1998 the Municipality changed its approach to tax assessments which in some cases increases the taxes on these affordable properties by nearly double. They no longer would take into account the cap on the rents as required by the federal government. The result of this is catastrophic losses to the owners due to major increases in property taxes. We have invested many millions of dollars into these properties and feel betrayed by the Municipality's actions.

Our concern is if the Municipal assessor prevails on this issue it will effect the development of affordable housing to the residents of the entire state of Alaska. Certainly, the quality of rental housing built will be less than was developed in recent years. Because of this issue Alaska is the only state in the United States that is not fully utilizing its allocation of tax credits. It would be fool hardy for a financial institution to become involved in the development of well planned quality properties that require tax credits with this taxation issue hanging over its heads.

We believe that like the state of Washington these issues will have to be resolved by assembly action or state legislation unless the Municipality comes to its senses. The non-profits and financial institutions have no problem with reasonable taxation on the properties, but the Washington legislature exempted similar properties from all property taxes. Unreasonable taxation will make it uneconomic to develop affordable housing even with the utilization of tax credits. This means in the long term the quality of affordable housing in the Municipality will deteriorate and managed by those less interested in the well being of the lower income individuals in the community.

I'm sure our non profit partners have more to offer on this subject.

Sincerely yours,



Jan Sieberts
Senior Vice President

JKS:kak

CC: Ed Rasmuson



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

FYI - Jerry Doherty

99 JUL 28 AM 9:38
RECEIVED

July 26, 1999

TO: Very Low-Income Housing Facilities
FROM: Marl Baca, Auditor/Appraiser
Property Tax Division
SUBJECT: SUBSTITUTE HOUSE BILL 1345

New legislation regarding very low-income housing was passed by the 1999 Washington State Legislature and signed into law by Governor Gary Locke. This is a new property tax exemption, permitting qualified nonprofit organizations or public corporations that provide housing for very low-income households to be exempt from property taxes. This bill goes into effect July 25, 1999, for exemption of taxes payable in calendar year 2000.

Applications for exemption of property under this legislation may be filed with the Department of Revenue anytime after July 24, 1999. The enclosed flyer was developed to provide information to applicants concerning the application process and the renewal requirements for very low-income housing facilities.

The Department expects to receive a large number of applications for property tax exemption in response to passage of this new law. It is our intention to process these applications as efficiently and expeditiously as possible. Therefore, in anticipation of the volume of applications expected, the Department will be employing one additional full-time auditor dedicated to processing very low-income housing applications. To avoid untimely delays, we are requesting your assistance in this endeavor; when making application, please submit all the necessary information and documentation with your application to the Department. Once the auditor has inspected the property and has completed the examination of the contents of the application, a letter of determination will be issued to the nonprofit organization and the county assessor indicating the status of the property.

Enclosed are an application for exemption for your facility and a flyer explaining the requirements to qualify for this exemption.

If have any questions about this process, please call our Tumwater office at (360) 664-9425. Thank you.

MB:pjb
Enclosures

Property Tax Division
P O Box 47471 • Olympia, Washington 98504-7471 • (360) 753-1382 • Fax (360) 586-7602

+

EQUIVEST

REALTY ADVISORS, INC.

903 W. NORTHERN LIGHTS BLVD., SUITE 200
ANCHORAGE, ALASKA 99503

PHONE (907) 279-8551 FAX (907) 274-7630

THE ASSESSOR'S ACTION OPPOSES PUBLIC POLICY

Alaska's statutes incorporate many restrictions on Assessors in order to promote public policy such as conservation, maintenance of farmlands, installation of fire protection systems and maintenance of private airports. The public policy of the United States government, the State of Alaska, and the Municipality of Anchorage is to support rent restricted low-income housing so that there will be safe and affordable housing for persons of modest income.

The United States government supports this policy through the award of Low Income Housing Tax Credits under Section 42 of the Internal Revenue Code and through allowance of the issuance of tax exempt bonds to finance housing that is restricted to persons at or below 50% to 60% of the median area income.

The State of Alaska supports such programs through the Alaska Housing Finance Corporation, which in addition to administering the federal Low Income Housing Tax Credit programs makes grants and loans at below market interest for affordable housing subject to the same restrictions.

A stated goal of the Municipality of Anchorage as outlined in the Housing and Community Development Strategic Plan¹ is to:

“increase the inventory of safe, affordable rental housing for regular households earning 80% of median income or less, with emphasis on the low and extremely low income and continue to provide rental assistance to reduce rental cost burden”

In the final draft of the 1999 action plan the same goal is restated²

¹ See page iv of the Municipality of Anchorage Consolidated Plan 1995 to 2000.

² See item IC on page 1 of the final draft Housing and Community Development 1999 Action Plan.

In spite of the fact that the United States government, the State of Alaska and the Municipality of Anchorage are in support in low income rent restricted housing projects such as the subjects, the Assessor without statutory direction and in violation of recognized appraisal principals applicable to mass appraisals, has chosen to ignore valid legal restrictions on title in his assessment of the subject properties. The result of his action is to assess these properties at more than their full and true value, thereby creating an unnecessary financial burden on low income rent restricted housing that is counter to established public policy.

The serious ramifications of the Assessor's decision is discussed in a letter dated July 20, 1999, from the U. S. Department of Housing and Urban Development to the Municipality. (See page 2 of the letter following this section.)

Also, following is a chart showing the impact of the Assessor's change of policy from 1997 and the failure to use methodology approved by the Board of Equalization in 1995 and 1996.

ASSESSMENT COMPARISONS FOR RENT RESTRICTED AFFORDABLE APARTMENTS

APPEAL #	PROPERTY	1996 B.O.E. VALUE	1997 ASSESSMENT	INITIAL 1998 ASSESSMENT	1997 TO 1998 INCREASE	REVISED 1998 ASSESSMENT	FINAL INCREASE	INCREASE OVER BOE
152	Southside Seniors	N/A	N/A	\$2,066,600	N/A	\$1,730,000	N/A	N/A
1469	Spruce View Apts.	3,122,000	3,600,000	7,975,600	121.54%	6,800,000	88.89%	117.81%
1470	Adelaide SRO	N/A	1,182,700	1,286,200	8.75%	1,215,000	2.73%	N/A
1473	Hampstead Heath Apts.	3,522,000	3,322,600	6,357,800	91.35%	4,760,000	43.26%	35.15%
1474	Merrill Crossing	1,281,000	1,319,200	2,919,400	121.30%	1,634,000	23.86%	27.56%
1475	Panoramic View Apts.	3,240,000	2,683,200	5,727,200	113.45%	4,894,000	82.39%	51.05%
1478	Stephens Park Apts.	N/A	5,945,200	6,511,500	9.53%	6,490,000	9.16%	N/A
1480	Garden Villa Apts.	N/A	2,102,500	2,386,100	13.49%	1,732,000	-17.62%	N/A
1800	Access Apts.	1,427,000	1,748,700	3,210,500	83.59%	2,310,000	32.10%	61.88%
1801	Hillpoint Apts.	N/A	745,200	2,117,700	184.18%	843,000	13.12%	N/A
2205	Brighton Park Apts.	N/A	N/A	5,983,000	N/A	4,900,000	N/A	N/A
	TOTALS			\$46,541,600		\$37,308,000		
	AVERAGE INCREASE				83.02%		30.88%	58.69%



U.S. Department of Housing and Urban Development
 Alaska State Office
 University Plaza Building
 Office of Community Planning & Development
 949 East 36th Avenue, Suite 401
 Anchorage, AK 99508-4399
www.hud.gov/alaska.html

July 20, 1999

Lynn Taylor, Manager
 Housing and Community Development Block Grant Division
 Department of Community Planning and Development
 Municipality of Anchorage
 P. O. Box 196650
 Anchorage, AK 99519-6650

Subject: 1999 Action Plan Review Comments

We have completed our review of your annual action plan and find it legally approvable. The grant agreements for the three formula programs funded through the plan, Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), and Emergency Shelter Grant (ESG), are being sent under separate cover to Mayor Mystrom.

Although we find that the document continues to improve each year, our review did reveal a number of issues that must be addressed prior to our final approval of the Action Plan. These deficiencies, discussed below, will not delay our transmittal of the grant agreements, nor will it restrict the Municipality's access to the grant funds. (We have approved your request to incur pre-agreement costs in both the CDBG and HOME programs). A satisfactory response, however, is required prior to our final approval of the Action Plan and should be submitted as soon as possible.

Fostering Affordable Housing - HOME

In accepting HOME program grants, participating jurisdictions commit to the mission of preserving and increasing the stock of affordable housing in their communities. This is incorporated into the Consolidated Plan as a goal and a strategy. Specifically, in Anchorage's five year Consolidated Plan, the Municipality pledges to...

"(1) Increase the inventory of safe, affordable rental housing for renter households earning 80 percent of median income or less, with an emphasis on the low- and extremely low-income and continue to provide rental assistance to reduce rent cost burden." (Municipality of Anchorage Consolidated Plan 1995-2000, Section IV, Housing and Community Development Strategic Plan, Five Year Strategy, page 120.)

OCD:SMITH:rmn 4632 7/02/99 H:\10_1C\Aplan 99 review LTR

OCD

SMITH NASHALOOK

Further, the federal regulations governing the Consolidated Plan require annual action plans to contain a discussion of activities the HOME participating jurisdiction has taken to "... foster and maintain affordable housing, [and to] remove barriers to affordable housing. ..." (24 CFR 91.220(f)(1)).

Although these subjects are discussed on pages 32 and 49 of the Municipality's 1999 Action Plan, the discussion is incomplete in that there is no mention, except in a brief response to a public comment on page B-8, of the Municipality's property tax policy regarding affordable housing projects.

In affordable multifamily housing projects, the rent of some or all of the units are capped, by the terms of their financing, generally at a level that does not exceed 30 per cent of a low-income family's adjusted income. While there is a relationship between area median income, which is the basis for determining an affordable housing tenant's eligibility, and market rents, it is not at all a direct relationship. Many factors can cause a great disparity between area income and market rents: availability of units (i.e., vacancy rates), proximity of units to employment, schools, public transportation, size and distribution of available units, etc. If operating costs increase, such as a significant increase in property tax, and revenues cannot be raised to cover the additional cost, default occurs.

We find that the Municipal Assessor's treatment of annual assessments of the value of affordable housing projects in Anchorage is inconsistent with the Municipality's pledge to increase the stock of affordable housing within the jurisdiction. Annually increasing the assessed value of these properties based on the mistaken assumption that they are capable of generating revenue at the level of market rents has the impact of driving affordable housing projects into default of the terms of their financing. Additionally, private financial institutions and tax credit investors will not participate in new affordable housing projects in Anchorage as long as the Municipality's property tax policy makes no distinction between affordable housing projects and market rate rental properties. Such a position undermines any confidence in the long-term financial feasibility of an affordable housing project.

In our view, the Municipality's tax policy disregarding the rent restrictions on these properties is the single greatest threat to the preservation of existing stock, and future development of affordable housing in Anchorage today. The Municipality cannot, on the one hand, pledge to foster affordable housing, and on the other, penalize and discourage its development. A permanent solution to this problem is necessary to create the economic climate required to "grow" affordable housing in Anchorage. The Municipality's Action Plan must acknowledge and address this bipolar position and outline measures it will undertake to eliminate it.

Use of Program Income from the Rental Rehab Program - HOME

We note that you intend to augment the funding of your 1999 HOME program projects with program income generated from the repayment of loans originally funded with Rental Rehabilitation Grant Program grants. You also indicate (page 20 of the Action Plan) that you intend to claim this source of funding as a portion of your required match of 1999 HOME funds.

Program income from these grants may only be used for HOME program match when the Rental Rehab grants that generate the income are closed out (§511.76(h)(2)). Our records indicate that

not all of the old Rental Rehab Grants are closed. Because these grants were administered by our Seattle Office, please contact Ms. Kaycic Collins at (206) 220-5150 ext. 3613 for the status of the open grants and instructions on actions necessary to close them out.

Overall Benefit Calculation - CDBG

Again this year the Action Plan does not indicate which option the Municipality prefers to calculate its compliance with the overall benefit requirement of the CDBG program. An entitlement community receiving CDBG funds must specify, in accordance with §91.225 (b) (4) (ii), whether it intends to calculate the overall benefit requirement of the CDBG program over a period of one, two or three "...specific, consecutive program years,...". You must identify the specific year or years you wish the calculation to be based upon. We are available to discuss the ramifications of specific choices if you feel it would be beneficial.

Amendments

As in previous years, funding any project not described in the current plan will require formal amendment of the plan in accordance with the procedures outlined at §91.105(c) and the amendment policy in your Consolidated Plan. You must notify HUD when you amend your Consolidated or annual Action Plan, either at the time you do so or in your Consolidated Annual Performance and Evaluation Report (CAPER) at the end of your program year.

The issues discussed in this letter and your response, following our approval, should be incorporated into the 1999 Action Plan. If you have any questions regarding any of the issues discussed in this letter or require technical assistance with your response, please contact Gus Smith, CPD Representative at (907) 271-4632.

Sincerely,

Kim W. Davis
Acting Director, Community Planning
and Development Division

cc:

Caren L. Mathis, Director
Department of Community Planning and Development

**National
Bank of Alaska**

Corporate Headquarters
P.O. Box 100600
Anchorage, AK 99510-0600
Phone (907) 522-8888

January 8, 2000

Senator Loren Lemman
Alaska State Senate
PO Box 190773
Anchorage, Alaska 99519-0773

Subject: Taxation Policy and Low Income Housing Tax Credits

I missed your reception yesterday as I have been very busy underwriting new loans for the upcoming building season and issues related to the sale of the bank. We continue to be committed to community issues and anticipate that we will continue our community commitment in the foreseeable future. An issue that we feel may require legislative assistance has been brought about by the regressive method in which low income housing which have been created by the federal tax credit program have been assessed property taxes by the Municipality of Anchorage.

The mayor's office claims that the problem is brought about by State law, but it is an issue of unfair valuation whereby the Municipality refuses to consider the effects of federally restricted rents. As any real estate investor knows rental property valuation is determined by cash flow characteristics of the property. The Municipality's actions are bankrupting many of the properties developed for low income housing and restricting future development. If these properties fail they will ultimately become the property of Alaska Housing Finance and will pay will or no property tax to the Municipality.

An important objective of National Bank of Alaska over the past 50 years has been to meet the housing needs of those in communities in which we serve. With the help of others we have done a pretty good job in developing programs for home owners in most communities. The toughest goal to achieve is to provide quality housing to those low income individuals who do not qualify for home ownership. The various financial institutions serving the community finally thought we had the tools to improve the quality of affordable rental housing with the creation of the Low Income Housing Tax Credit program as approved by Congress. However, despite the needs in our community the Anchorage Tax Assessor has brought the process of developing affordable housing to a grinding halt much to the detriment of the low income citizens of our community.

In 1995 the Municipality encouraged financial institutions to invest in affordable housing using LIHTC's, but in 1998 increased the tax assessed value of most of these properties by 100%. All but one of these properties are owned by non-profits. As the

properties were designed to show little profit the tax increases have been devastating and may ultimately lead to financial failure of the properties altogether.

To qualify for LIHTC's the owners must limit the rents charged to 30% of the tenant's income. An increase in taxation can not be offset by an increase in rents. The Adelaide property is designed to house individuals who make 30% of median income or not more than around \$12,000 per year. This property has often taken in individuals who previously lived on the streets. Three properties were built for families with incomes of not more than 60% of median income and some restricted to families with incomes of 50% of median or less. Admittedly, these three properties are likely the best quality rental housing for low income individuals in the community with green belts, club houses, play grounds, and modern fire safety systems.

So what is the Municipality's problem? The development of these properties has already substantially increased the tax collections of the Municipality. New construction of affordable housing will further increase the tax collections of the Muni. The assessor believes that the properties should be taxed as if there was no restriction on the rents received by the owners. Historically, commercial and multi-family property has been taxed based on the "income approach" as appraisers would call it or the cash flows reasonably obtained on operation of the property to determine a value. The Muni taxed these properties accordingly until 1997, however, then decided to tax them based on an unachievable rent level. Additionally, the tax assessor believes that the LIHTC's obtained by the investors for injecting capital into the properties should be taxed too. This would be similar to charging taxes on grants from federal or state governments. For small business owners it would be like the Muni charging taxes on someone's depreciation write offs.

LIHTC's are indirect subsidies designed to encourage equity investment of private funds and facilitate feasibility. The primary form that these indirect subsidies take is tax credits, which may be used to offset federal income tax liabilities directly by the owner which may be individuals or corporations. So an individual may buy tax credits for a dollar invested in the property, and Uncle Sam will allow him to get his repayment over a 10 year period. The investor must remain committed to stay in the affordable housing partnership for 15 years, and there are more than normal investment risks. The property must remain affordable for the fifteen year period and in Alaska the State often requires that they remain affordable for 30 years.

Other risks are foreclosure, delivery of the tax credits, compliance of tenant eligibility, comprehensive and often untested IRS regulations, and in Anchorage a change in philosophy on property tax evaluation by the Muni is a risk nobody contemplated. The penalties to the investor by the IRS are substantial if the project does not meet every aspect of the tax code and if the property goes into default. It is estimated that over 60% of the rental housing built in the United States today are built with the use of tax credits. The reason for this is that the cost of building housing has increased far more rapidly than income of low to moderate income individuals and their ability to pay rent.

So why is the construction of affordable housing important to Anchorage? In the last couple of years we have seen numerous fires in old apartment houses with the loss of life and personal property. Additionally we read about crime and juvenile problems often concentrated in neighborhoods with older substandard properties. In Mt. View for instance it is not uncommon to find 12 plexes located on 6000 square foot lots with inadequate parking, no common area space for children to play, and poor maintenance. These conditions can not lead to a healthy life style for the children or residents of these neighborhoods. The majority of our apartment stock was built over 25 years ago, do not meet modern building or fire codes, and were designed to house construction workers.

It is evident to national lenders that our multi-family housing stock is substandard. Freddie Mac and Fannie Mae are the two largest multi-family lenders in the country and they do not lend money on multi-family housing in Alaska. Only sporadically does HUD insure a multi-family mortgage and they moved their loan origination office to Seattle. Pension funds and thrifts are not lending in Anchorage. Alaska Housing Finance and the few local banks are the only financial institutions willing to take the risk, but it is the overall quality of the rental housing stock that keeps lenders away.

The residents are changing with more families, fewer singles, and a deterioration in real wages. Frankly, many of the older properties are obsolete and will not survive the test of time. What is evident to the financial community and creative housing developers that work with low income individuals is that today we have the means to improve the housing stock in Anchorage to modern standards by the use of LIHTC's. Government programs change so if we want to take advantage of this opportunity we should do it now. Alaska is the only state that is not using all of it's allowed tax credits and that is due solely to the Municipal Tax Assessor.

No investor is going to put his funds at risk while the current situation exists. California for instance is the major user of tax credits, and it charges no taxes on affordable housing owned by non profits and charges taxes based on the restricted rents on properties owned by others. Hawaii and Montana generally do not charge taxes to non profits owning affordable housing properties, and the Washington State Legislature just past a law restricting taxation on affordable housing properties owned by non profits. It seems various tax assessors in Washington were playing the same game, and the Washington legislature voted 97-3 for the property tax exemption. The Oregon Supreme Court decided that tax assessors must consider restricted rents when valuing properties.

A reasonable taxation policy by the Municipality will bring about the creation of better housing conditions for the lower income citizens of our community and they are growing as a class. While we talk of the expanding tourist industry, new hotels, possible convention center, and new retail sector we should consider the wages to be paid in these industries. And how is modern affordable housing going to fit into the

Municipality's new land use plan? The creation of new, safer housing will also create construction jobs and help local business. We have the ability to improve our affordable housing stock and the well being of our citizens, and we should bring the tax assessor along with us.

We have talked to a number of assembly members on the issue and they have been very supportive, but are not sure an ordinance would not be vetoed by the Mayor. The Mayor has not been supportive. This is not just an NBA issue. You can talk to Mike Burns at Key Bank, David Lawer at First National Bank, and the various non profits who developed the properties. Feel free to contact me any time at 265-2991.

Sincerely yours,


Jan Sieberts
Senior Vice President

NATIONAL BANK OF ALASKA

INTEROFFICE MEMO

To: Jonathon Lack

Date: 1--19-2000

From: Jan Sieberts

Subject: HIB 272/Tax credits

1. In regard to your question about profits coming from a combinations of the tax credits and the rental income; the plain fact is that these properties are not designed to make a profit. The majority of tax credit properties are put together by non profits to improve the quality of housing for low income individuals, and in doing so the target is to generally have a positive cash flow. Seldom do the properties show a profit, and I have never seen one that did show a profit.

I have not seen a developer make a profit on the tax credits. Tax credits are issued on a competitive basis. AHFC issues the tax credits in Alaska and does so on what they believe is the most worthwhile and cost effective project. Tax credits are issued based on the hard dollar capital costs, some of the soft cost, and not on the land. The proceeds of the tax credits are used to build the project. I have seen some cases where a development fee is charged, but in most cases it is deferred and subordinated to any loan. Frankly, in our analysis we question whether they will ever be collected in the fifteen year period we are committed to the property.

As to profits from the rents, the experience is that more are not even showing a positive cash flow and we have had to make additional cash advances to make the projects work. I'm sure that Anchorage Neighborhood Housing and Shannon Wilks of Anchorage Housing Initiatives which provides housing to impaired individuals would verify this fact. The major reason for this is that rents are restricted to 30% of incomes and residents can not make more than 60% of median income and in the case of two properties we are involved in as a limited partner the maximum income is 30% of median income or a maximum of \$12000 per year per individual. Most make less.

To raise the cash necessary to build the apartments (60% of all apartments built in the United States today use tax credits) the developer sell the tax credits to a financial institution whether it is Fannie Mae, The Enterprise Foundation, Sun Life, NBA, First National Bank of Anchorage and Ketchikan, Key Bank, Bank of America, and others.

2. Why then only tax the units on their income value? Doesn't this create an untaxed windfall for the developer?

The state law says that properties will be taxed on market values. Historically, commercial and rental properties are taxed on market values and market value more often than not is determined by what is the cash flow of the property. The

federal government requires that these properties have rent restrictions for a minimum of 15 years and actually AHFC more often required restricted rents for 30 years. Since it is obvious that there is not any windfall as more often than not these properties are being fed in any event. The development of safe, modern housing as created by the use of tax credits has substantially increased the tax base of the municipality. What is happening is that it is adding punitive taxation that is forcing the properties into financial despair.

It is the public policy of the United States government to improve the quality of the housing for low income people, and the LIHTC program was designed to do that and even the GAO says it is the most effective way to achieve this goal than has ever been designed by the government. The general partners who are often the developers are generally non profits and do not pay taxes in any event and they are meeting their housing missions. I don't see any windfall for anyone. The poor are getting better housing, the muni is getting higher taxes, the neighborhoods are improving, the properties are coming under better management, and the investor who is putting up very risk prone capital is getting a reasonable deduction on their federal income taxes. So it is the federal government who is bearing the economic cost of developing this housing.

3. If the city can tax at market value, that subsumes the profit from the resulting tax credit?

The federal government is issuing tax credits to develop housing. To us this is another form of a financial transaction such as lease financing, mortgages, bonds, commercial loans, tax exempt loans, government guaranteed loans, etc. Without this program the costs of building quality, livable housing in this country for low income people would not be economically justifiable.

Is the Muni superseding federal housing policy? They are not taxing any other investment or tax credit the bank makes. The muni is not taxing other tax credits available from the government for historical rehabilitation(which they used to rehabilitate the old city hall) or job creation tax credits. They do not tax apartment house owners on their depreciation write off. And, they don't tax the bank for the interest we are charging on home loans. The fact is to us an investment in LIHTCs is strictly a financial transaction with a loan to the US treasury which it pays us back over 10 years. The plain fact is apartments built with restricted rents are worth less if sold than a project with no restricted rents. The government is not subsidizing rents to market rents.

AS 29.45.110 states "The full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels". So who is going to buy a property at twice its economic value? Not the Muni, and not any intelligent business man. The plain fact is that cost and value are not the same.

4. What are the federal incentives to developers to develop low income housing?

Your question is rather broad in that the federal government provides subsidies both direct and indirect on every home financed in the US. For someone to say that they are not receiving a subsidy is naive.

The Adelaide project which is a 72 unit single room occupancy property on 9th Ave., designed to house individuals making 30% of median or about \$12000 per year and actually has taken individuals off the streets. Roughly the project required \$2,240,730 in tax credit funds, about \$313,000 in HOME funds, \$200,000 in funds from the Federal Home Loan Bank of Seattle, \$200,000 in funds from National Reinvestment Corp., and the use of \$500,000 in arbitrage funds. All of the LIHTC projects have been very complex, taken a long time to put together by dedicated people, and required multiple funding sources. Tax exempt loans are not available on standard LIHTC projects, but may be available on certain income restricted set aside properties.

As previously stated LIHTCs are a major part of the federal housing program that deals with improving housing stock. Alaska has some of the worst rental housing stock in America. The muni property taxation policy has brought this housing development to a halt making Alaska the only state in America to not use all its tax credits. This window of opportunity to develop affordable housing may be lost if the government changes its policy. What is tragic is whereby we have the tools to improve the quality of housing in our communities and for those less fortunate, short sightedness is forcing our neighborhoods into continued physical decline. The burden on the cost of this development comes from the federal treasury in the form of the tax credits and inures to the benefit of the communities. Anchorage would benefit from better neighborhoods, higher taxes, construction jobs, merchant sales, etc.

The alternatives to fair taxation are not good. We are faced by punitive property taxation when California, Washington, Montana, Hawaii, and other states often exempt these properties from property taxation altogether. The Oregon supreme court stated that taxation must consider the restricted rents. AS29.45.062 already states that governments must consider conservaiton easements when assessing value. A similar situation as restricted rents.

Subject: Low Income Housing -Reply

Date: Thu, 20 Jan 2000 10:02:29 -0900

From: Jan Sieberts <jan.sieberts@nbak.com>

To: Jonathon_Lack@legis.state.ak.us

Jonathon--Hopefully you received my memo. I am a little wordy, but hopefully I am reasonably clear. One point I should have made is that low income housing tax credits are a form of federal subsidy to the housing industry. Grants, HOME funds, and other subsidies provided by the federal government are not taxable and the feds even limit administration allocations taken from those funds by municipalities. The federal funds from HUD to fund ASHA projects are not taxable by state or local government. It seems logical that the feds did not expect these funds to be taxed.

Cook Inlet Housing just spent \$6.5 million to provide a dormitory for native students in Anchorage. Cook Inlet Housing generally does not pay property taxes and they are a major landlord in this community as is Alaska Housing Finance. They do pay in lieu of taxes but substantially less than normal property taxes.

Last year the State of Washington passed legislation exempting all non profits from paying property taxes on affordable housing. It was almost unanimous. All the providers of affordable housing are asking for is to be taxed based on fair market value as they have done in the past.

Actually, the affordable housing providers have had to go back to the board of appeals every year since tax credits came into use in Anchorage. What is interesting, the mayor has said these properties are unfair competition, but we are talking of about 250 family housing units out of approximately 44,000 rental units in the community. Their are waiting lists to get into the affordable properties.

To learn more about affordable housing in Juneau you might talk to Betsy Lougenbaugh at Housing First 364 3573 and Tamara Roecroft at Alaska Housing Development Corp.780 6666

This e-mail and any attachments transmitted with it are confidential and are intended solely for the use of the individual or entity to whom they are addressed. This communication may contain material protected by the attorney-client privilege. If you are not the intended recipient or the person responsible for delivering the e-mail to the intended recipient, be advised that you have received this e-mail in error and that any use, dissemination, forwarding, printing, or copying of this e-mail is strictly prohibited. If you have received this e-mail in error, please immediately notify the administrator via e-mail at postmaster@nbak.com.

JOSEPH GUGGENHEIM
Housing Development Consultant
6600 Rannoch Court
Bethesda, MD 20817
301 320-5771; fax 301 320-9519

THE VALUE OF THE TAX CREDITS SHOULD NOT BE ADDED TO THE
VALUE OF THE PROPERTY FOR ASSESSMENT PURPOSES

The basic concept of the tax credit program is to generate equity to pay for a substantial percentage of the costs of developing affordable housing, so that it is possible for the developer to offer lower rents that are affordable to low and moderate income households.

The value of the tax credits can be directly measured by the amount of equity that investors put up in exchange for the right to claim the tax credits to reduce the income taxes paid by the investors to the U.S. government.

However, in most cases, particularly high cost areas with non-profit developers, the tax credit equity is used almost entirely to pay for a substantial portion of development costs. This allows the project to have a lower amount of mortgage debt on the property and thus a lower monthly mortgage payment, so that the property can achieve Tax credit rents that are substantially lower than market rents.

Tax credit equity might be used to earn high developer fees (profits), but this is not the case for projects with non-profit developers or in high cost urban areas. The amount of developer fee (profit) that is allowed is closely monitored and restricted under the tax credit statute by the credit agencies administering the program (Alaska Housing Finance Corporation).

The tax credit approach is a substitute for direct government financial aid, such as an up-front development grant that pays for the costs of constructing the housing, as is done in the low rent public housing program.

The other form of direct government aid is section 8 assistance, where a monthly check from the government to the project pays a portion of the rent which is at high market rate rent levels, allowing low income households to pay only that portion of the regular rent that they can afford based on their low incomes. Under this approach, tenants generally pay 30 percent of their own monthly income for rent, and the monthly government Section 8 check to the owner makes up the difference between the regular rent and the amount the tenant household can afford.

The tax credit equity approach is an effort to general private investment (in exchange for the use of the tax credits) in order to help create affordable housing, instead of the old approach of directly subsidizing either up the front costs of development or the monthly costs of market rate housing.

Thus if a project costs \$6 million to be built and developed, the tax credit equity put up by investors in exchange for the right to claim the tax credits might equal \$3 million, allowing a mortgage on the property of \$3 million instead of \$6 million, since the rents paid by and affordable to lower income families can only cover a \$3 million mortgage plus the costs of operating the housing.

In many situations, the tax credit equity - the value of the tax credits - may not be enough of an indirect subsidy to produce truly low income rent levels, and additional government assistance in the form of up front subsidies or monthly rental assistance payments are still needed to make the project financially feasible at the low income rents that are charged.

In most situations, the actual rent charged the low income families is significantly less than the maximum rents possible under the tax credit program, because either: 1) the non-profit developer is committed to charging less than the maximum permitted rent to reach very low income families earning substantially less than the maximum permitted incomes; 2) the developer made an extra commitment to provide low rents in order to successfully compete for the limited amount of tax credits available; or 3) the prevailing rents in a lower income neighborhood are lower than the maximum permitted tax credit rents, and low income families would choose instead to live in existing non-tax credit housing (of a lesser quality) where the rents are less than tax credit maximum rents.

In a project that cost \$6 million to develop, where \$3 million of equity paid by investors in exchange for the right to claim tax credits pays for 50 percent of development costs, and rents from low income tenants can only afford to cover the resulting \$3 million mortgage, the assessed value of the property should reflect the \$3 million mortgage amount that can be covered by the available rental income under the restricted rents. The assessed value should not reflect a \$6 million mortgage amount that only upper income tenants paying market rate rents could cover.

In low income projects with tax credits where the value of the tax credits is used to reduce the mortgage to amounts affordable by low income tenants, it would be ludicrous to add back into value for assessment purposes the equity

contributions (the amount of value produced by the tax credits) that made the low rents possible in the first place.



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907)586-1325, Fax (907)-463-5480

January 25, 2000

Representative Andrew Halcro
Alaska State Capitol
Juneau, AK 99811

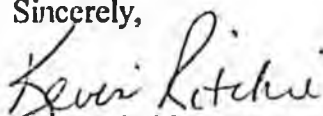
Dear Representative Halcro:

Thank for the opportunity to comment on HB 233, Municipal Bankruptcy. Our understanding is that passage of HB 233 allows municipalities the option to use Chapter 9 of the Federal Tax Code for municipal bankruptcy relief. Chapter 9 was formerly available to municipalities prior to a change in federal law, but now requires acceptance by state statute. HB 233 would once again allow municipalities the option of using Chapter 9.

While the option to use the Federal Tax Code as a tool in regard to municipal insolvency, it would not lessen the ultimate responsibility of the State to assume liability for municipal dissolutions. As you are aware, unfortunately, many communities are being driven into dissolution due to reductions in municipal revenue sharing programs by the Legislature.

Therefore, the Alaska Municipal League supports the adoption of HB 233.

Sincerely,

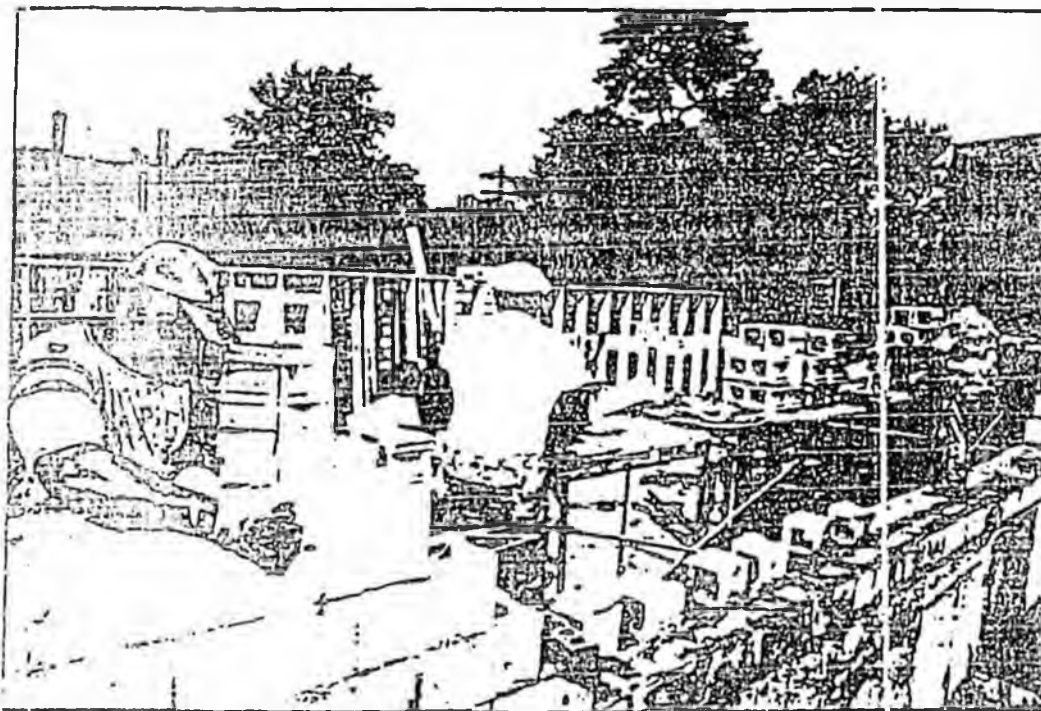

Kevin Ritchie
Executive Director

CC: AML Legislative Subcommittee – Revenue & Finance

The Low Income Housing Tax Credit:

How It Can Be Used By Non-Profit Developers

The interests of the non-profit as developer of affordable housing and the investor's interest in return on investment are married through the creation of limited partnerships.



Tax credit financing will make these new Chicago townhouses, developed by the Neighborhood Institute, affordable to low income tenants.

BY JANE BLUMENFELD

The 1986 Tax Reform Act created a tax credit that provides about \$3 billion in annual subsidy for low income rental housing development. The credit is a dollar-for-dollar reduction in federal taxes for investment in low-income rental housing, providing a

catalyst for private sector investment. The credit can be used for up to 50 percent (sometimes more) of the cost of building affordable housing. Despite their tax exempt status, non-profit developers can use this valuable program to raise capital from private investors through syndication for the construction and rehabilitation of low income rental housing.

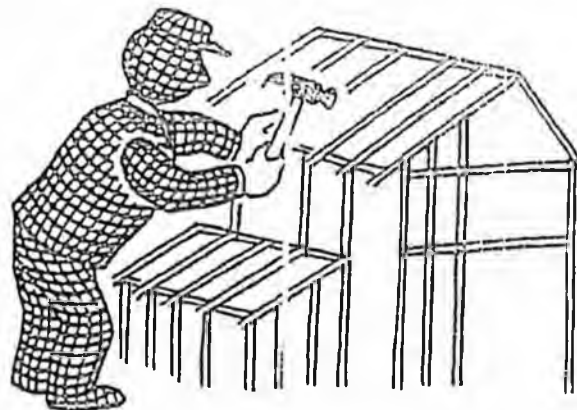
Each site receives an allocation of \$1.25 per resident, which is allocated to development projects through the State Housing Finance Agency or another designated state office. The legislation provides for a 10 percent set-aside for projects sponsored by non-profit developers. This article will deal with how a non-profit developer can take advantage of the low income housing tax

6 □ NOVEMBER/DECEMBER 1991

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES



PARTNERSHIP OF INVESTORS AND NON-PROFIT ORGANIZATION.



NON-PROFIT ORGANIZATION IS ABLE TO BUILD HOUSING.



INVESTORS TAKE TAX CREDITS EACH YEAR FOR TEN YEARS.



AFTER 15 YEARS, THE PARTNERSHIP ENDS.

GOFF

credit and how a typical tax credit deal is structured.

1. The Partnership

Non-profit housing developers are exempt from federal income taxes, and therefore they have no direct interest in receiving an annual tax credit. To private investors, however, a tax credit (i.e. a reduction in their tax liability) provides an annual cash return on their investment. The

interests of the non-profit as developer of affordable housing and the investor's interest in return on investment are married through the creation of limited partnerships.

What is a Limited Partnership?

A limited partnership is a partnership with limited and general partners. One or more general partner(s) run the business of the partnership and the limited partner(s) put in equity in exchange for part of the

returns generated by the partnership. Limited partnerships allow "passive" investors to participate in real estate investment with risk limited to the amount of their investment. Limited partnerships allow developers to raise equity for development projects.

Why are Limited Partnerships used?

Limited partnerships are created for a single purpose or project and are designed

to dissolve after that purpose is fulfilled. They limit investor liability. They allow the "pass through" of tax benefits, unlike corporations. They allow centralization of management, through the general partner. They allow sponsors/developers to maintain control of their projects while raising new equity.

Who makes decisions in a Limited Partnership?

The terms of the partnership agreement, governing the on-going relationship, are set jointly by the general and limited partner(s). Once the partnership is established, the general partner makes all day to day operating decisions. Limited partner(s) may only take drastic action if the general partner defaults on the terms of the partnership agreement or is grossly negligent, events that can lead to removal of the general partner.

Who owns what?

Ownership interests of the Limited Partnership are split between the limited and general partners according to a negotiated formula. Limited partner(s) can buy up to 99 percent ownership of profits/losses and

cash flow (excluding fees to the general partner). The general partner retains the 1 percent or more remaining ownership of profits, losses, and cash flow (plus any agreed upon fees). The limited and general partners split any profits from sale or refinance of partnership assets. The split generally provides an incentive to the general partners who may receive up to 50 percent of profits. To guarantee long-term affordability, many limited partners are bought out after 15 years by the non-profit. The non-profit retains ownership of the project and can maintain low income tenancy.

The General Partner's Rights:

The specific rights of each party are negotiated in the Partnership Agreement. In general, the general partner has the right to make all the day-to-day and development decisions, to determine how much cash to distribute (to the limited partner(s)) versus how much to hold in reserve, and to assess possible sales proposals.

The General Partner's Obligations:

The general partner must complete the project as proposed, must manage the part-

nership and the business as agreed upon in the partnership agreement, and must, generally, guarantee any additional funding needed to complete the project (repayable with interest). In addition, the general partner oversees construction, leasing, property management, and maintains the books and records of the partnership. It must submit periodic reports to the limited partner(s) on the project's financial condition and status, including analyses of the property's sale potential. The general partner may not withdraw without the approval of the limited partner.

The Limited Partner's Rights:

The limited partner's rights are few: to be informed of operating conditions; to approve a sale or refinancing; and to remove the general partner for gross negligence or breach of contract.

The Limited Partner's Obligations:

The limited partner(s) have the obligation to contribute equity in the form of either land and improvements and/or dollars.

General Partner Fees:

The general partner should receive the following fees:

- Developer Fee—for developing the project
- Property Management Fee—for managing the on-going operations of the property
- Partnership Management Fee—for overseeing the operations of the partnership
- Incentive Management Fee—structured is up to one third of net cash flow

Distribution of Cash Among the Partners:

There are three ways in which the partnership receives cash which is to be distributed, which are (1) development financing proceeds, (2) general operations and cash flow, (3) and through sale or refinance of assets. Below is a preferred method of use of partnership cash and a description of how it will benefit a non-profit general partner. However, these points are all negotiable.

*Don't even think of using tax credits
without owning...*

"Tax Credits for Low Income Housing"

by Joseph Guggenheim,
Sixth Edition, May 1991

An understandable and comprehensive guide and sourcebook written for the non-lawyer. Over 10,000 copies sold to date!

Expert practitioner comments: "an indispensable guide;" "my personal bible on the tax credits."

\$53.95 softcover; \$145.00 loose leaf binder with three quarterly supplements; shipping extra. *Discount for community non-profits.*

Order from Simon Publications, P.O. Box 229, Clon Echo, MD 20812
Phone 301-320-5771

TABLE 1

Calculating the Annual Tax Credit

Project Development Cost ¹	X	Applicable Percentage to Calculated Credit	=	Annual Tax Credit
Acquisition:				
Land	10,000	ineligible		-0-
Building	90,000	4%		3600
Hard Construction Costs	765,000	9%		68,650
Soft Costs ²	135,000	9%		12,150
Total	\$1,000,000			\$ 84,600³

¹ Only low income units are eligible for the tax credit—in this example 100 percent are low income.

² All soft costs may not be eligible. For this calculation they are not separated out but as the calculation is refined each line item must be reviewed.

³ If the project is in a qualified census tract or "difficult to develop area" as defined by HUD, the project will be eligible for a "basis boost" of 130 percent. The annual tax credit will be 30 percent higher. In this case it would be \$109,980.

To exemplify this calculation, assume a project has a total development cost of \$1,000,000, broken down as follows:

In today's market, an investor would multiply the credit by 10 years and by 5.45, which is today's average market price for tax credits (see Table 2). Again, the dollar value assigned to the tax credit will vary from investor to investor. The 5.45 is an average market price. Some investors will be willing to pay more for the credit while others will pay less. The price takes into account the present value of the 10 year flow of income and rate of return expected by the investors.

credits. Those sophisticated in real estate often make direct investments. Banks can earn tax credits and can use the investments to meet CRA requirements. Insurance companies have also been major investors in tax credits. Most corporations, however, choose to invest through pools or syndications where they play a limited role and have experts who can negotiate the deals for them. These investment pools are managed by several investment banks as well as The Local Initiative Support Corporation (The National Equity Fund), The Enterprise Foundation, and several smaller, regional investment pools.

III. Who Is Investing?

The 1986 legislation was drafted with an obvious bias toward corporate investors. There are specified limits to the amount of passive income that individuals can claim on their tax returns. Although some individuals are willing to invest, the returns are not yet significant enough to generate an active retail market for tax credits and make individual investors a strong force in the market place.

Corporations are the most active users of low income housing tax

TABLE 2

Calculating the Value of the Tax Credit

Annual Tax Credit	\$ 84,600
Credits Continue For 10 Years	X 10
Total Amount of Tax Credits	\$ 846,000
Current Market Price: 45¢ / \$1	X .45
Total Proceeds to the Project	\$ 380,700

When looking for investors, most developers begin looking first to local companies who might have an interest in the project. If there are no local candidates, then the larger investment pools are contacted directly. The investment pools will want to know basic information about the deal, including location, number of units designed for low income residents, development costs, rent structure, operating expenses, sources of financing, and marketing plans.

IV. Long Term Ownership and Affordability

Non-profit developers are concerned with maintaining long term affordability of the housing. According to the tax laws, if the units are converted to market rate units within the first 15 years of the project, the tax credits can be "recaptured." In addition the allocating agency now must sign a deed covenant which remains with the property and requires continued use as low income housing for an additional 15 years after the "recapture" period has expired. In general, most investors will look to have their equity returned through tax benefits rather than through property value appreciation (sale). Therefore, investors should be willing to negotiate a purchase option for the non-profit developer to purchase the property at the end of the "recapture" period at a formula price, an arrangement which is now allowed by law. This would return ownership of the property to the non-profit developer who would then be able to maintain the project for low income tenancy in perpetuity.

Jane Blumenfeld is a managing associate with Shorebank Advisory Services, Inc. (SAS), a wholly owned subsidiary of Shorebank Corporation, the holding company for South Shore Bank in Chicago. Prior to joining SAS, Ms. Blumenfeld served as the National Fund Manager of the LISC/National Equity Fund, a wholly owned subsidiary of the Local Initiative Support Corporation, which is one of the country's leading investors in low-income housing tax credits.



*Anchorage Mutual
Housing Association*

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you very much for your sponsorship of House Bill No.272 regarding the tax assessment of quality, affordable housing properties funded in part with federal tax credits through the Low Income Housing Tax Credit (LIHTC) Program. This program and other affordable housing programs available through the Alaska Housing Finance Corporation, provide critical funding that is necessary for the development and rehabilitation of multi-family properties that serve low-income families.

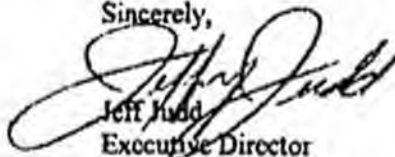
In return for these federal sources of funding, the owner must agree to legally binding long term deed restrictions (15 - 30 years) restricting the use of the property to lower income families at restricted rent levels. Generally, these restricted rent levels are below the "market" rents in the area. This "affordable" rent enables the lower income family to have the same basic opportunities of life, food and clothing for instance, that higher income families perhaps take for granted. In doing so, we create a healthier community for all Alaskans.

Due to the restricted revenue generated by these affordable housing properties, the market value of the restricted property is less than it would be if the project were at "market rate" or unrestricted property. And that is the very crux of why HB 272 is needed. HB 272 would specify more clearly that local governments must consider the deed restrictions that apply to such properties when determining the "full and true" value.

Failure to pass HB 272 jeopardizes future investment in affordable housing in our communities; may likely cause at least some existing owners to default on obligations secured by existing affordable housing properties; and will lead to the deterioration of our neighborhoods. It is due to these concerns that I strongly support your effort to pass HB 272.

Thank you again for your efforts in this regard.

Sincerely,



Jeff Judd
Executive Director



First National Bank
of Anchorage

January 26, 2000

Representative Andrew Halcro
House of Representatives
State Capital, room 418
Juneau, AK 99801-1182

Dear Representative Halcro:

On behalf of The First National Bank of Anchorage, I wish to thank you for your sponsorship of HB272. The Municipality of Anchorage's insistence upon assessing rent restricted housing projects as if such restrictions did not exist, and the uncertainty about whether the same treatment of them might occur elsewhere in the State of Alaska, will prevent further development of such projects.

We have participated in two such projects that are presently in jeopardy by reason of the intransigence of the Municipality of Anchorage, and we will not participate in any other such project unless we can be certain that it will not suffer the same fate.

By all accounts the Low Income Housing Tax Credit program is the most successful housing program in the nation for low to moderate - income families. And until the Municipality of Anchorage brought an end to further such development in Anchorage, it was the most successful program for that purpose in the State of Alaska. Now, Alaska is the only state that does not fully utilize its federal tax credit allocation.

Particularly in the western portion of the US, state legislatures are choosing to completely exempt such projects from ad valorem taxation. Your bill, which we enthusiastically support, would require only that the assessment of each such project for ad valorem tax purposes be based upon the economic value of the project, not its cost or its imagined value free of rent restrictions.

We commend your leadership in this matter, and if I can personally be of assistance by providing additional information that may be necessary or desirable to bring about passage of this legislation, please let me know.

Very truly yours,

David A. Lawer
Senior Vice President & General Counsel

Anchorage
Neighborhood
Housing
Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you for introducing House Bill 272. This is very important legislation and I applaud your efforts. I would like to offer one recommendation to your bill. As you know, we have been working locally with Assemblyman Alan Tesche and Melissa Taylor to introduce an ordinance addressing the same issue. I have attached a copy.

I would recommend that you include "other financing that requires legally binding rental restrictions through long-term deed restrictions".

Not all of the properties involved in the tax appeal are low income tax credit properties, but do have legally binding rental restrictions through long-term deed restrictions, such as AHFC Tax Exempt Program and HOME Program.

If you would like more information or if I can be of any assistance in your efforts regarding this bill, please do not hesitate to contact myself or Jeff Judd, Executive Director of Alaska Mutual Housing Association at 243-1558.

Sincerely,

Mary Jane Michael
Executive Director

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Anchorage
Neighborhood
Housing
Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



Dear Representative Halcro,

I am writing to express my support of House Bill 272, legislation that would require local governments to assess housing which qualifies for a low-income housing credit under 26 USC 42 on the actual income derived from the property and not the value that would result from a "market", or unrestricted property.

For the past two years, a number of non-profit agencies providing low-income affordable housing for individuals and families, many of whom are elderly, disabled, or previously homeless have been subjected to radically inflated property taxes by the Municipality of Anchorage Tax Assessor. In some cases, as much as a 180% increase in one year. These organizations have repeatedly filed appeals and spent thousands of dollars on attorney fees.

Clearly the mission of these organizations is to increase the quality of living in our communities for those less fortunate. They have contributed to solving the problem of homelessness in our community; revitalized neighborhoods through the renovation of previously deteriorated properties; and destigmatized "low income" properties by creating quality, affordable housing throughout a diversity of neighborhoods.

Nationally, 60% of all multi-family affordable housing in the United States is created through Federal Low Income Housing Tax Credits. Without consideration given to the actual income derived from these properties when assessing them, no future development will occur. Further, these properties left to meet the higher property taxes, will overtime deteriorate or face foreclosure.

Thank you Representative Halcro, for introducing House Bill 272. Your efforts will help guide the Municipality towards not only a more permanent solution, but one that will contribute to the overall health and development of our citizens and our community.

Sincerely,


Mary Jane Michael
Executive Director

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 272

Revision Date: Feb. 01, 2000
Title: Municipal Taxation on Low Income Housing Properties
Sponsor: Hakro
Requester: _____

Dept. Affected NONE
BRU _____
Component _____
Component Serial No. _____

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES []						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

No impact on state agencies

Prepared by

John Mack for HSE. CRA

Phone

465-4859

Phone

Date

02-01-2000

ALASKA STATE LEGISLATURE

STATE CAPITOL, SUITE 418
JUNEAU, AK 99801-1182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM

REPRESENTATIVE ANDREW HALCRO

District 12

INTERIM
716 WEST 4TH, SUITE 620
ANCHORAGE, AK 99501
(907) 269-0244
FAX (907) 269-0248

To: Rep. John Harris
Rep. Carl Morgan
Co-Chairmen
House Community and Regional Affairs Committee

From: Rep. Andrew Halcro *AH*

Re: HB 272, Low Income Housing

Date: January 24, 2000

Attached are copies of HB 272, my sponsor statement for the bill, and supporting information. I would appreciate your scheduling this bill for consideration by the House Community and Regional Affairs Committee at your earliest convenience.

ALASKA STATE LEGISLATURE

STATE CAPITOL, SUITE 418
JUNEAU, AK 99801-0182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM

REPRESENTATIVE ANDREW HALCRO

District 12

INTERIM
716 WEST 4TH, SUITE 620
ANCHORAGE, AK 99501
(907) 269-0244
FAX (907) 269-0248

HB 272

SPONSOR STATEMENT

The federal government (HUD) has established a program offering tax credits to developers to build and maintain low and moderate income housing units. Developers receive tax credits in exchange for limiting rental prices to 30% of a tenant's income. These properties are restricted to individuals who earn less than 60% of median income and are targeted toward a population who previously did not have housing.

In 1998, the Municipality of Anchorage changed the way in which they assess these projects. Prior to 1998, the Municipality of Anchorage assessed low-income housing based on the capped rental rates. They now are assessing these properties at their estimated market value - the amount of rent these properties would receive if the rental rates were not deed-restricted.

This change in assessment has created a severe problem for the non-profit agencies and others who are developing these types of properties. Banks are now refusing to finance these properties because they are not financially viable under the market assessment approach.

Providing affordable housing to those otherwise priced out of the market is an important goal. The federal government is providing tax credits to encourage development of low-income housing to meet the need for basic housing for families. The Municipality of Anchorage has indicated their assessment practice is a function of state law. However, the approach taken by the Municipality of Anchorage has negated the federal incentive to develop low-income housing.

HB 272 would require local governments assess low-income housing at its rental value instead of its estimated market value. It is appropriate that the state law be changed to encourage the development of needed affordable housing for low-income families.

HB

304

Water Bond Bill

SHORT FACT SHEET

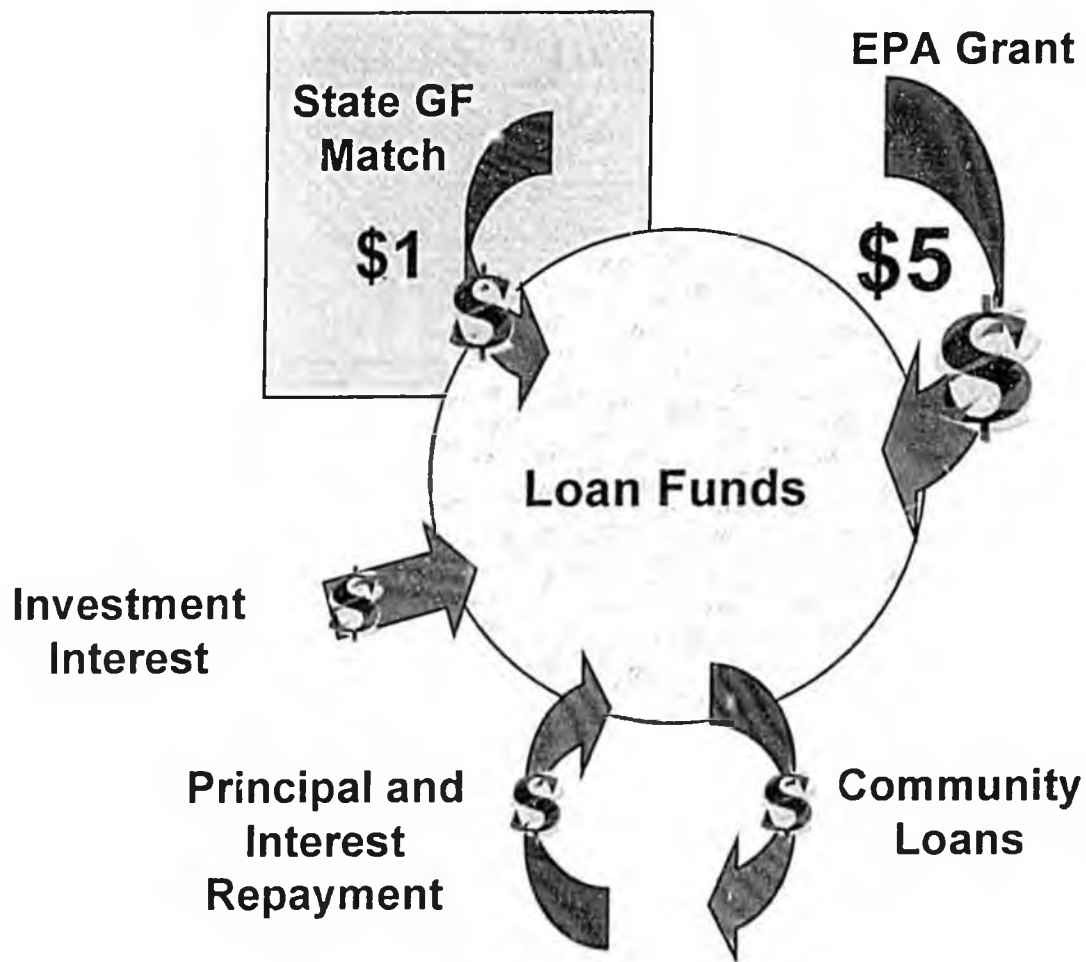
The Governor has introduced the ADEC Drinking Water Bonding and Fee Authority bill for consideration by the Legislature. The primary purpose of the bill is to provide ADEC with bonding authority for the Drinking Water Loan Program and allow for program operation costs to be charged back to loans through finance charges.

Some of the cost-saving measures and efficiencies achieved by enactment of this legislation are:

- ◆ By allowing ADEC the authority to bond for the **Drinking Water Loan Program** this bill would save general funds currently used to match federal funds. This year, \$7.7 million in drinking water funds will be offered from EPA and the State must come up with \$1.5 million to match it. Through this bill, the State could bond for this match in future budget years instead of drawing money from general funds.
- ◆ Already, bonding authority in the companion **Clean Water Fund** will result in a direct savings to the State of 1.6 million this year.
- ◆ Through bonding authority for both programs the State could realize over \$3.0 million each year in general funds savings. At the same time, the State will draw in over \$15 million each year in federal funds for needed water and wastewater project loans.
- ◆ The bill provides for additional savings of general funds and low finance costs to communities by using a portion of the finance charges to pay program costs. Currently, this cost is paid for by a small part of the federal grants awarded the State. That money is limited and will run out in about four years.
- ◆ Additional savings to the communities will be realized through regulation amendments allowing the interest rate charged to communities to drop from 4.3% to 2.5%. ADEC has operated the loan programs for many years and they now have the financial strength to offer this rate reduction and still absorb the program costs.
- ◆ ADEC would use only the amount of funds needed and allowed by the Governor and the Legislature to cover program costs.
- ◆ No new positions or significant program cost increases are expected.
- ◆ Already, these two loan programs have provided low-interest loans in the amount of \$160,000,000 to Alaskan communities. They are a vital financial option for municipalities that must construct drinking water and wastewater capital projects.

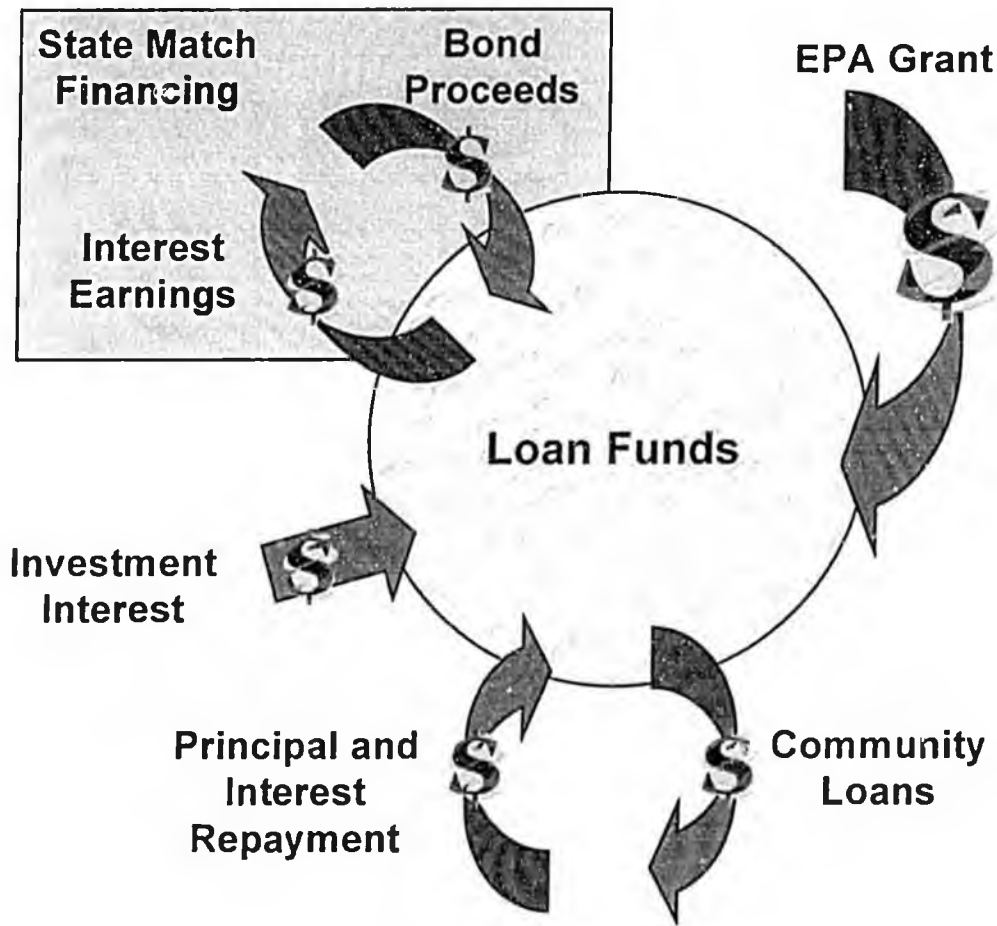
Existing Fund Capitalization Process

Current Loan Fund Capitalization

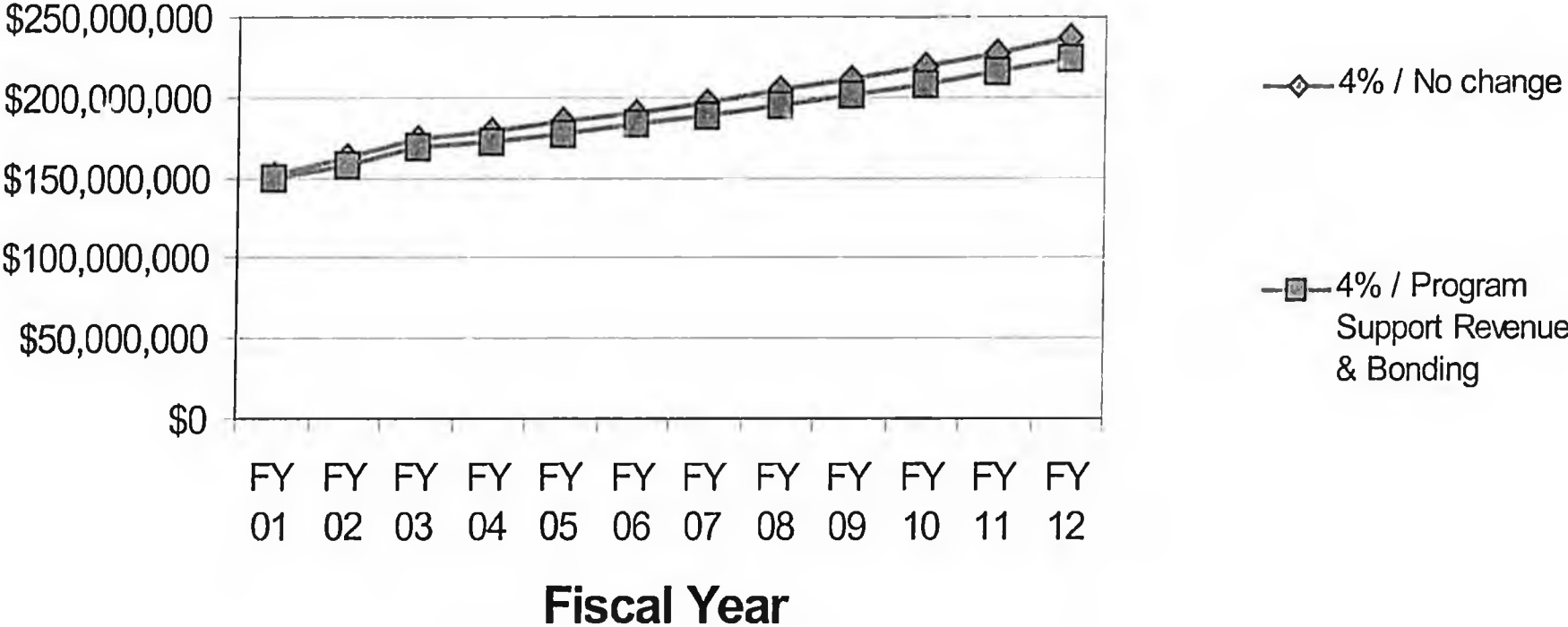


Proposed Fund Capitalization Process

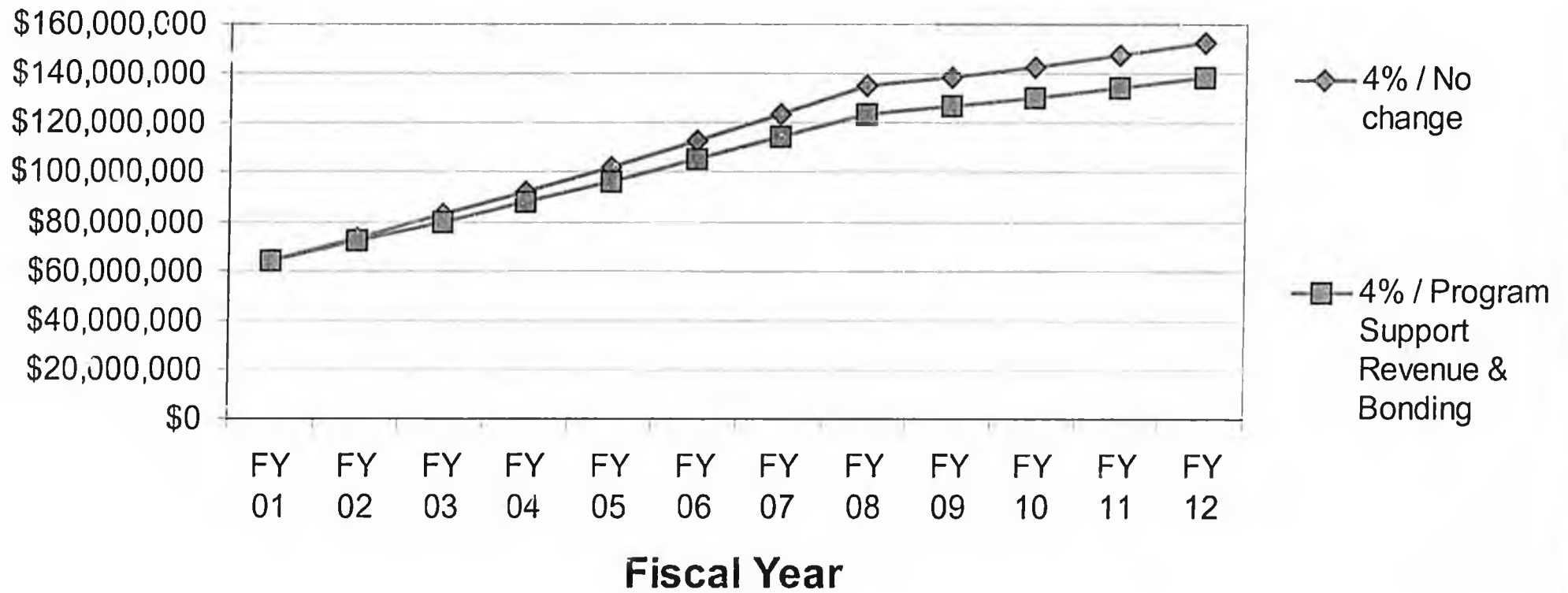
Proposed Loan Fund Capitalization



Clean Water Projected Growth

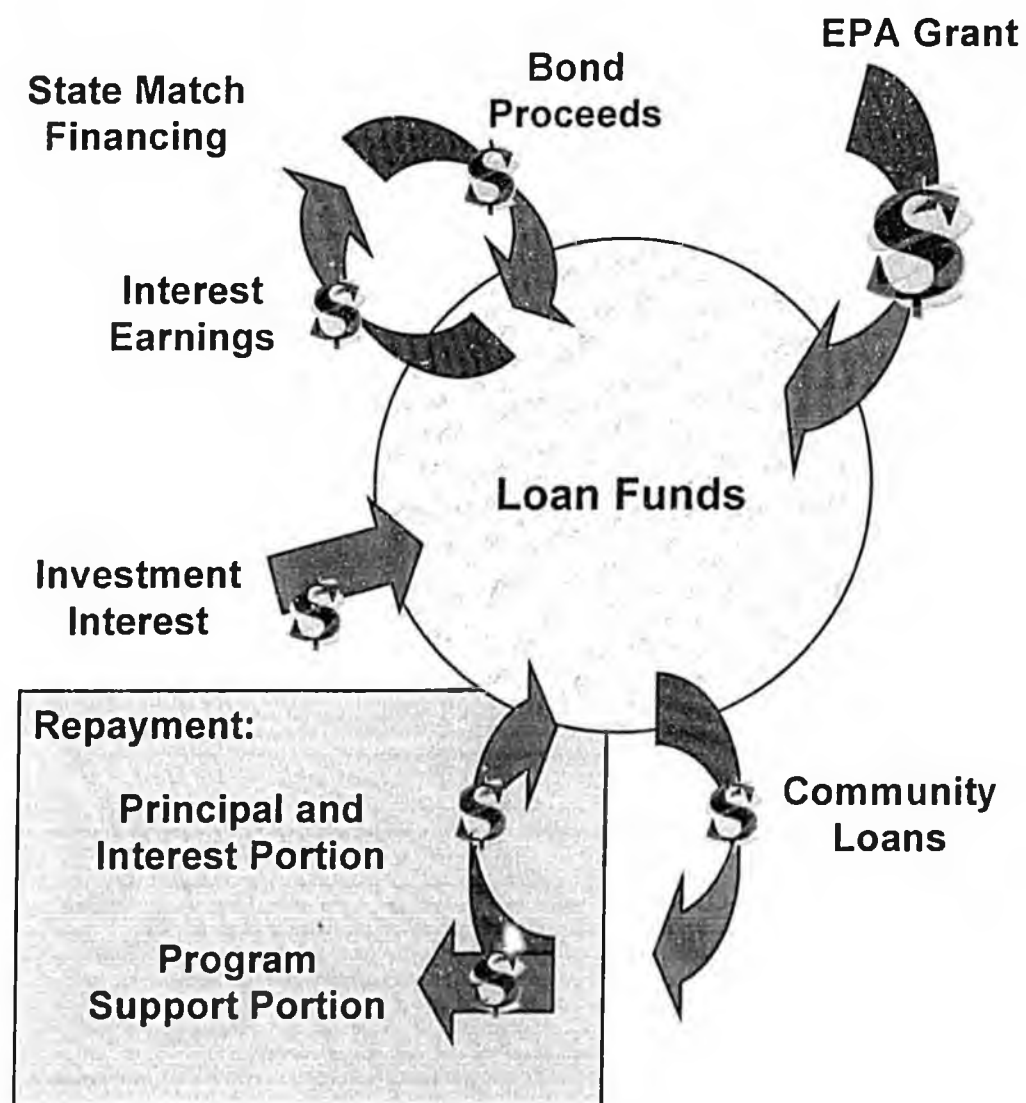


Drinking Water Projected Growth

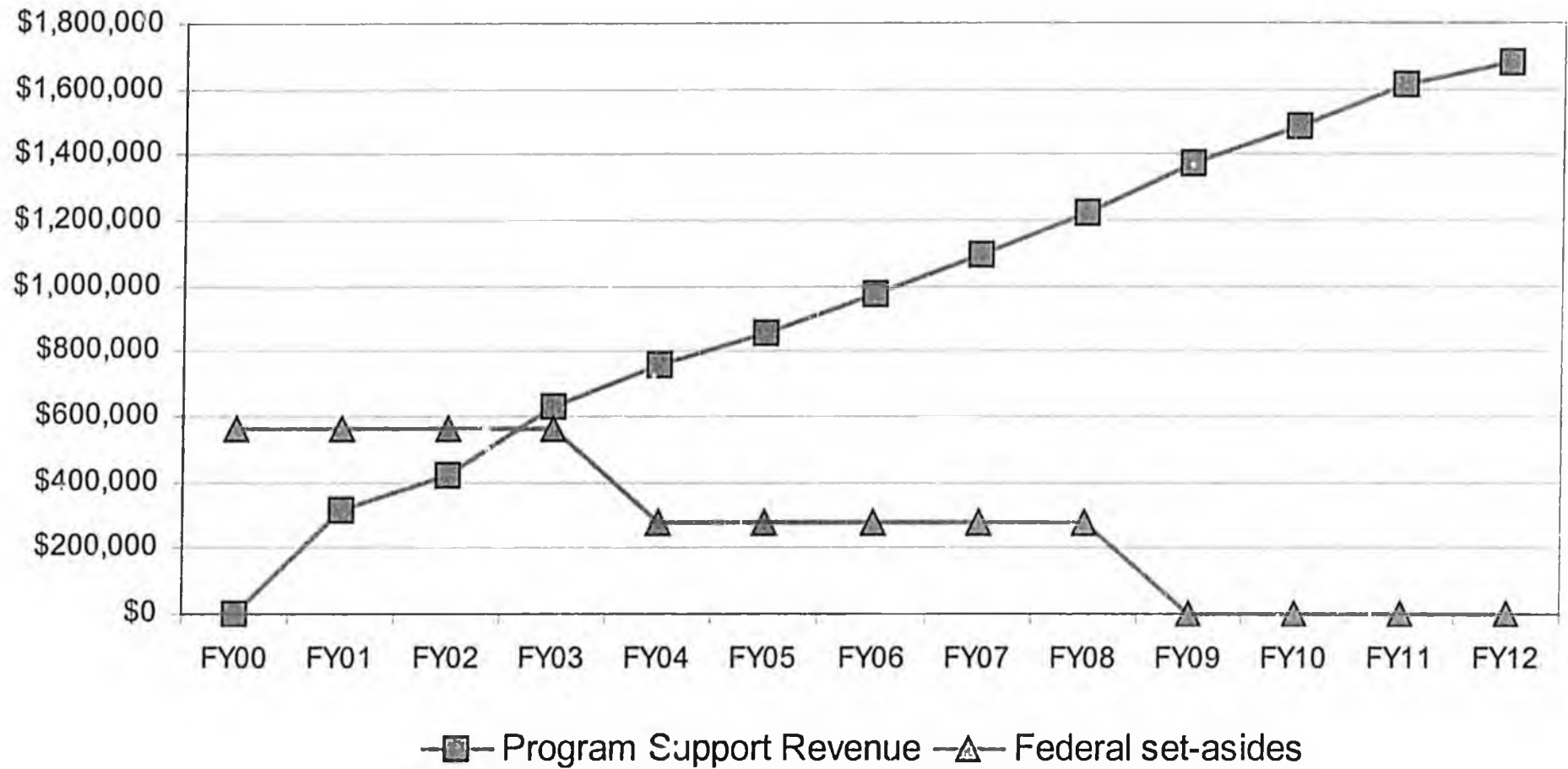


Proposed Program Funding Source

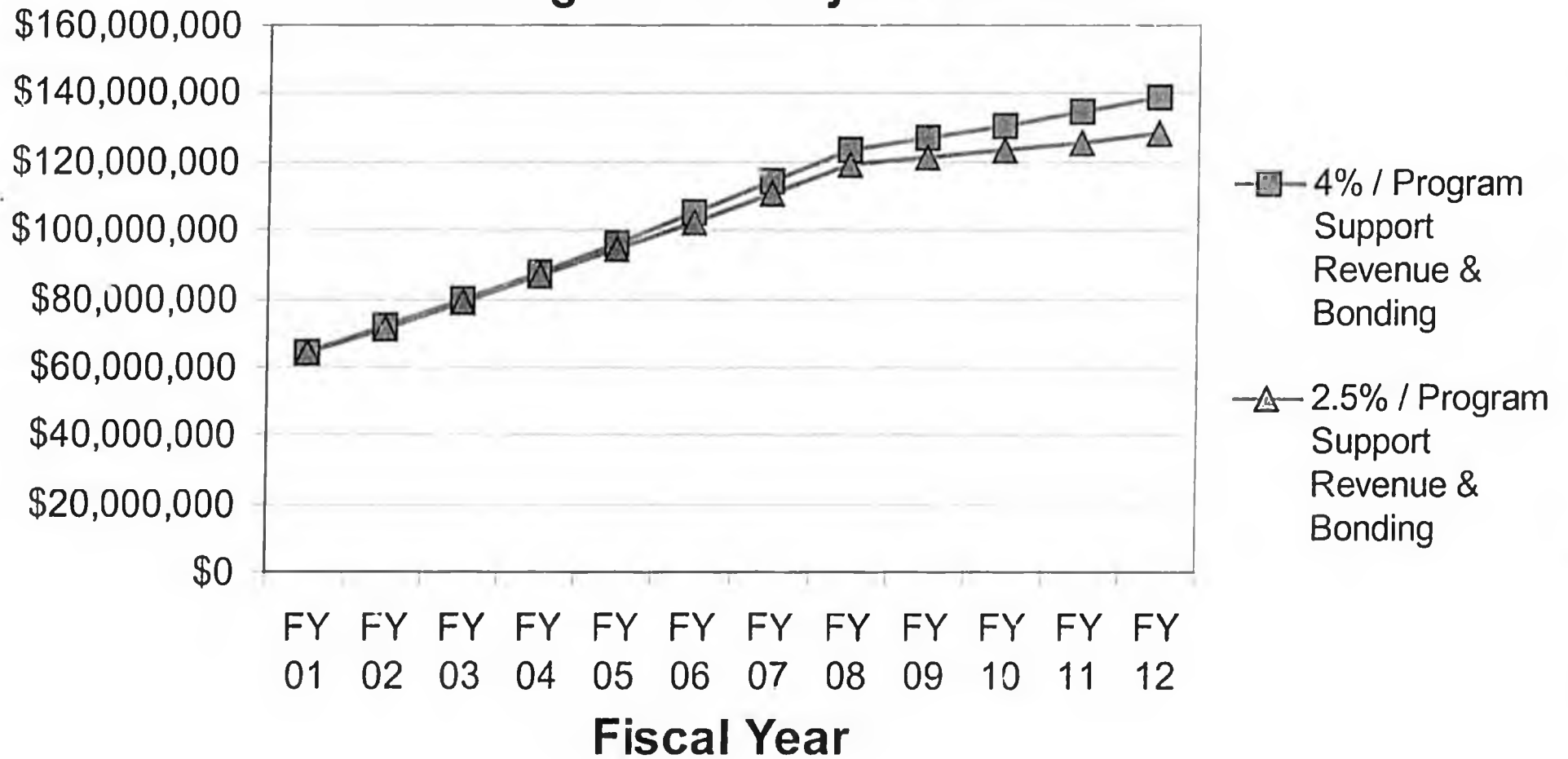
Proposed Loan Fund Capitalization



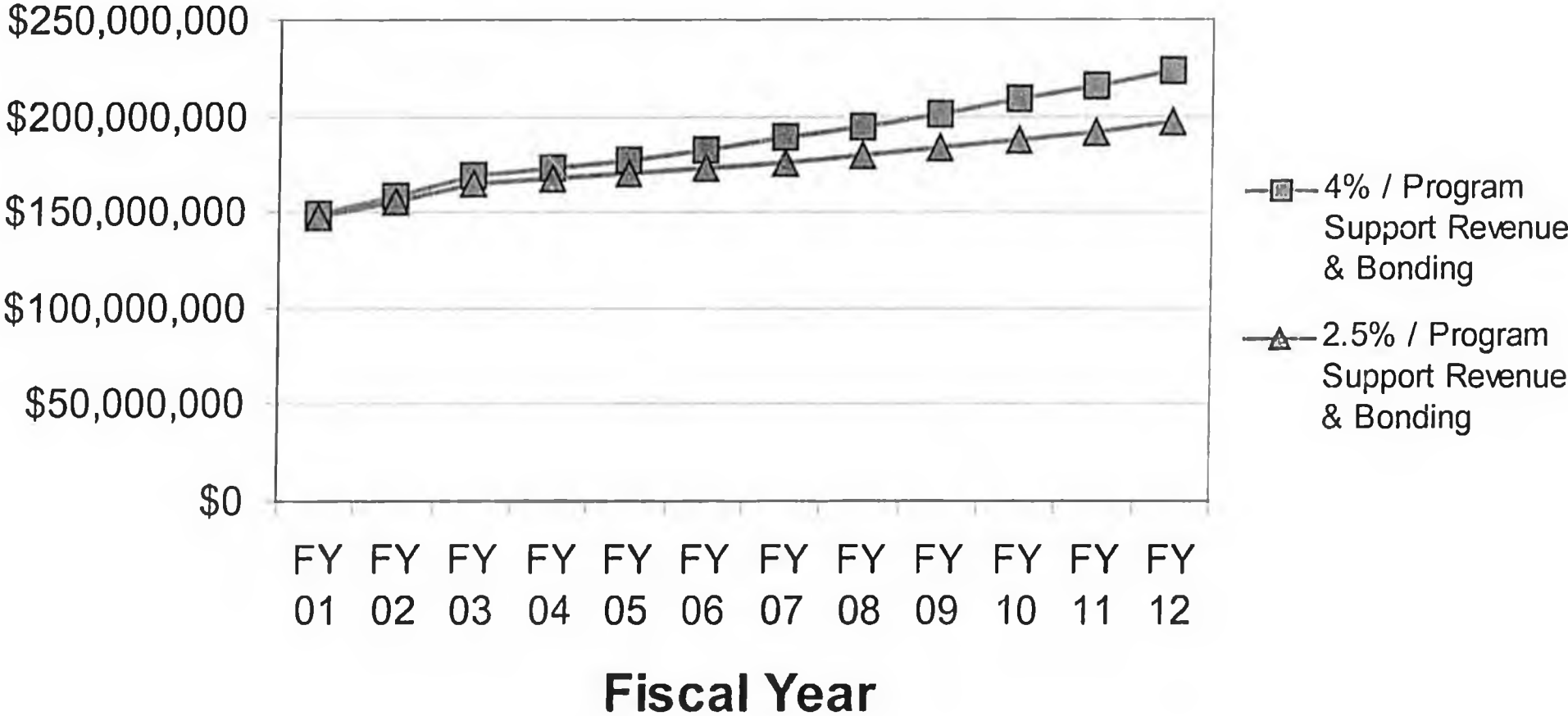
CW & DW Set-Asides & Program Support Revenue



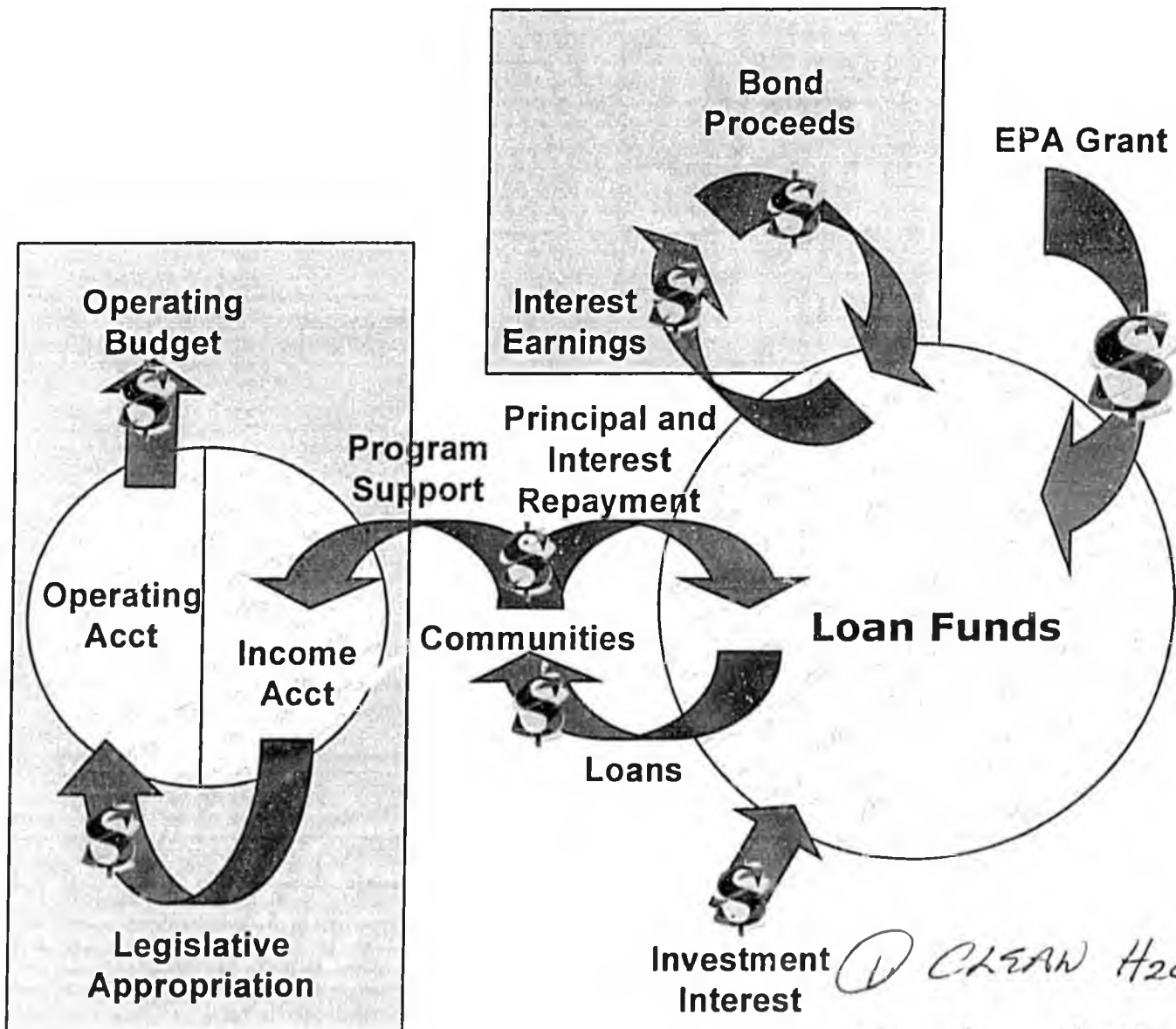
Drinking Water Projected Growth



Clean Water Projected Growth



Proposed Loan Fund Schematic



- Investment Interest
- ① CLEAN H₂O
 - ② legislation
 - ③ ↓ interest rates

Rep Mulder likes it.



MARY P. SIROKY
SOUTHEAST AREA PUBLIC MANAGER

STATE OF ALASKA
DEPARTMENT OF
ENVIRONMENTAL CONSERVATION

410 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801 1795
PHONE (907) 465 5355
FAX (907) 465 5362

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

410 Willoughby Ave., Ste 105
Juneau, AK 99801-1795
PHONE: (907) 465-5065
FAX: (907) 465-5070
<http://www.state.ak.us/dec/>

January 31, 2000

The Honorable John Harris, Co-Chair
The Honorable Carl Morgan, Co Chair
House Community and Regional Affairs
Committee
Alaska State Legislature
Juneau, AK 99801

Re: Request for Hearing on HB 304

Dear Representatives Halcro and Harris:

The Office of the Governor and the Department of Environmental Conservation request that a hearing be scheduled for HB 304, the clean water fund/drinking water fund bill. This bill is important to Alaskans for many reasons. This bill affords communities the opportunity to obtain low cost loans for drinking water and sewer projects while reducing the need for general funds. A safe source of drinking water and a sanitary means of sewage disposal are basic to the health of our communities. Adequate sewer and water also form the infrastructure needed for economic growth.

This legislation is a win - win for communities, state government and for Alaskans. It provides for healthy communities, good infrastructure and growing economies. For this reason we ask that hearings be scheduled as soon as possible. Enclosed is a bill analysis, fact sheet and copy of an Alaska Municipal League Resolution. If you wish to discuss this legislation, please call me or Dan Easton at 465-5135. Thank you for your consideration.

Sincerely,



Michele Brown
Commissioner

Enclosures

Healthy People, Healthy Environment

HOUSE BILL 304
SENATE BILL 210

SECTIONAL ANALYSIS

Introduction. This bill authorizes revenue bonds to be sold to make available bond receipts for the Alaska Drinking Water Fund by providing the same bonding authority that currently exists with the Alaska Clean Water Fund. The bill also creates two administrative funds to provide the authority to use a portion of the repayments being made on the loans to support program operations for both Funds. And it clarifies the uses of the Alaska Drinking Water Fund to ensure that its purposes conform to current federal statutes.

Section 1 and 2. AS 37.15.560 (a) (b). **BOND AUTHORIZATION-** Authorizes the state bond committee to issue and sell bonds to raise money to be placed into the **Alaska Drinking Water Fund**. Because these are revenue bonds, they can be issued when the committee decides and this does not require a public vote. The committee may enter into agreements and perform those functions that are normally required to accomplish the task of issuing and selling bonds.

Section 3. AS. 37.15.565. **BOND REDEMPTION FUND-** A new bond redemption fund is established as the **Alaska Drinking Water Fund Revenue Bond Redemption Fund**. This is a standard industry technique for making it easier and more accountable to perform the many functions necessary in the bond issuance and sales process. And also, to provide accountability for any future principle and interest payments and any premium redemption on the bonds.

Sections 4, 5, 6, 7. AS 37.15.570(c)(d)(e)(f) **BOND TERMS-** The state bond committee may issue, sell, control or redeem bonds for the **Alaska Drinking Water Fund** in such a way as to achieve the greatest advantage for the State. They can make decisions based upon the market conditions of that moment and do not require approval of another agency or group to execute these decisions. The committee will decide the level of security required from the fund that will provide this collateral security. A trustee may be appointed by the committee to perform all necessary functions as directed by the committee. The committee must give due regard to the federal requirements of this drinking water fund, but any decisions made after giving this consideration are final. Bond resolutions that reference these statutes shall be regarded as having given this consideration.

Section 8. AS 37.15.573. **BOND RESOLUTION-** The committee must adopt a bond resolution to issue bonds for the **Alaska Drinking Water Fund**. The resolution will contain those items that are necessary to identify and define the bonds and the bond sales process.

Section 9. AS 37.15.575. **STATE AID INTERCEPT-** This paragraph defines the procedure for allowing the State to intercept or garnish other legitimate sources of State aid should a community default on a loan from the **Alaska Drinking Water Fund**. This paragraph is included in the legislation to enhance investor confidence in the program and ultimately, lower

program costs.

Section 10 AS 37.15.580. PLEDGE OF THE STATE- The committee has the right to make contracts for any bonding effort for the **Alaska Drinking Water Fund** and not have the terms of those contracts altered by any subsequent state action. The bond investors also have the right to rely upon the terms of any contracts.

Section 11. AS 37.15.583. ENFORCEMENT BY BONDOWNER- For any resolution of disagreements between the bondowners and the committee involving a bonding issue of the **Alaska Drinking Water Fund**. 10% or more of the owners of any series or issue of the bonds can bring suit in Superior Court in Juneau. The amount of 10% was selected to prevent frivolous suits from being brought.

Section 12. AS 37.15.585. AMOUNTS REQUIRED FOR PAYMENTS- Each year the committee will inform the commissioners of the departments of Environmental Conservation and Revenue of the amounts needed in that year to pay for the costs of issuing or maintaining the bonds from the **Alaska Drinking Water Fund**. The notice will be given at this time so that the departments will be able to incorporate these numbers into their financial planning for the next fiscal year.

Section 13. AS 37.15.587. PURPOSES AND SUFFICIENCY OF REVENUE- Bond proceeds will be used to build projects that are eligible in the **Alaska Drinking Water Fund** program. No bonds will be issued if there is not enough security available in the fund to make it prudent to sell the bonds.

Section 14. AS 37.15.590. REFUNDING- If it is in the best interests of the State, the committee will refund all or some of the bonds for the **Alaska Drinking Water Fund**. They do not need any authority from the voters or the legislature to do this. The committee will follow the defined procedures to conduct the refunding process. The committee is authorized to incur the expenses inherent with this process. A trustee may be appointed to conduct this process. The trustee has the right to invest funds in short-term federal instruments until the refunding proceeds are needed.

Section 15, 16, 17 AS 37.15.605(1), (3), (7) DEFINITIONS. These sections update the definitions to include the **Alaska Drinking Water Fund** and the funds bonding accounts.

Section 18 AS 46.03.034 ALASKA CLEAN WATER ADMINISTRATIVE FUND. Replaces the current Alaska Clean Water Account with Alaska Clean Water Administrative Fund which is composed of the 1). Alaska Clean Water Administrative Operating Account that can be used to pay for the Departments costs in managing the fund and the 2). Alaska Clean Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 19 AS 46.03.035. FEES CHARGED FOR THE LOANS MADE FROM THE ALASKA CLEAN WATER FUND. This authorizes the department to charge and collect reasonable fees

for making and servicing loans.

Section 20 AS 46.03.036 ALASKA DRINKING WATER FUND. This section is updated so that the proceeds and interest from the sale of bonds can be deposited into the fund and well as funding the administration of the fund. The requirement is set that municipalities wishing to borrow money have to have the authority to incur debt and establish a source of revenue for payment. Regulations are required that set out criteria for priority setting, standards for borrowers eligibility, types of projects to be funded and long term interest rates, standards for self sufficiency, collateral and loan terms.

Section 21. AS 46.03.038 ALASKA DRINKING WATER ADMINISTRATIVE FUND. This fund is set up the same as the Alaska Clean Water Administrative Fund in Section 18 with a 1). Alaska Drinking Water Administrative Operating Account and the 2). Alaska Drinking Water Administrative Income Account to receive payment of fees and earnings of the Alaska Clean Water Administrative Fund.

Section 22. AS46 03.039 FEES CHARGED FOR LOANS MADE FROM THE ALASKA DRINKING WATER FUND. This authorizes the department to charge and collect reasonable fees for making and servicing loans.

Section 23. Clarifies that this portion of the legislation would create a change in Civil Procedure 3 and cause all actions to be filed in Superior Court in Juneau. The second paragraph recognizes that in order for this procedure change to be in effect, this section must receive a two-thirds majority vote of each house as required by Article IV, Section 15, Constitution of the State of Alaska.

Section 24. Specifies that the regulations adopted under this statute may not take effect before the statutory effective date of sections 1 through 22.

Section 25. States that section 24 takes effect immediately upon passage of the statute.



Alaska Department of Environmental Conservation
Division of Facility Construction and Operation
Municipal Loans Program

Water Bond Bill Fact Sheet

January 14, 2000

What does the legislation do?

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.

What are the Drinking Water and Clean Water Loan Programs?

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

How are the programs funded?

Each year the State may apply for two federal capitalization grants: one for the Drinking Water Loan Program and one for the Clean Water Loan Program. Both federal grants require a 20 percent state match. In state fiscal year 2000, the State received \$15.5 million in federal grants and contributed \$3.1 million in state funds.

In addition to annual contributions of state and federal capitalization money, the funds also earn interest. Funds that have yet to be loaned out are invested in interest bearing accounts and earn investment interest. Communities also pay interest when they repay their loans. Both investment and repayment interest must, by federal law, be retained in the Alaska Drinking Water and Clean Water Funds and thus contribute to the growth of the Funds.

What are the rules about how the programs are operated?

The funds must be used in accordance with federal rules derived from the Safe Drinking Water Act for the Alaska Drinking Water Fund and the Clean Water Act for the Alaska Clean Water Fund. The federal rules are complex, but an important concept is central: Once money is deposited into a fund, it must remain in the fund and unavailable for any purposes other than to make loans to communities – except in a very limited number of special cases.

How do the programs work?

Each year DEC mails applications to all Alaska municipalities. Interested communities complete and return the applications proposing specific projects for funding. DEC ranks the applications based primarily on the degree of public health benefit expected from the projects. Loan agreements with municipalities are executed for the highest-ranking projects. As construction costs are incurred, monies are drawn from the Funds and loaned to municipalities. The municipalities pay back the loans when projects are complete. This money is returned to the loan Funds where it becomes available for other projects.

For each loan project, DEC assigns an engineer to assist the community in selecting an appropriate project design, in getting permits and other authorizations, and generally in serving as an advisor to the community on the project. There is a broad range of assistance provided depending on each community's capabilities and needs. The engineers also approve all payments to communities to make certain that all costs are eligible for funding under state and federal law.

Why is bonding authority needed?

Until now, the State of Alaska has met its match obligation using general funds. However, the federal government recently offered the states another option for meeting their match requirements. The option is to use interest retained in the Funds in a form of short-term bonding exercise to meet the state match requirement. In essence, this form of bonding lets the states convert interest earned by the funds into bonds and then use the bonds to meet the state match requirement. To take advantage of that option requires that state statutes provide bonding authority. The statutes establishing the Alaska Clean Water Fund currently provide authority to use bonds for financing. That authority does not exist for the Alaska Drinking Water Fund.

Since the statutes currently provide authority to use bonds to capitalize the Alaska Clean Water Fund, does DEC plan to exercise that authority in FY 2001?

Yes. DEC intends to use the existing Clean Water Loan Program bonding authority to obtain the \$1.5 million in state match needed to capture the \$7.5 million in federal grant funds expected for FY 2001. That will save the State \$1.5 million in general funds in FY 2001.

What will the bonding costs be?

The costs for preparing bond documents and finance charges will be approximately \$50,000.

What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?

There should be enough interest earnings in the Alaska Drinking Water Fund by FY 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

What overall savings could the State realize by bonding for both the loan Funds?

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

Will bonding affect the amount of federal grant funds the state qualifies for?

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

Switching to the second part of this legislation, why is fee authority needed?

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

Are personnel and other costs increasing?

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

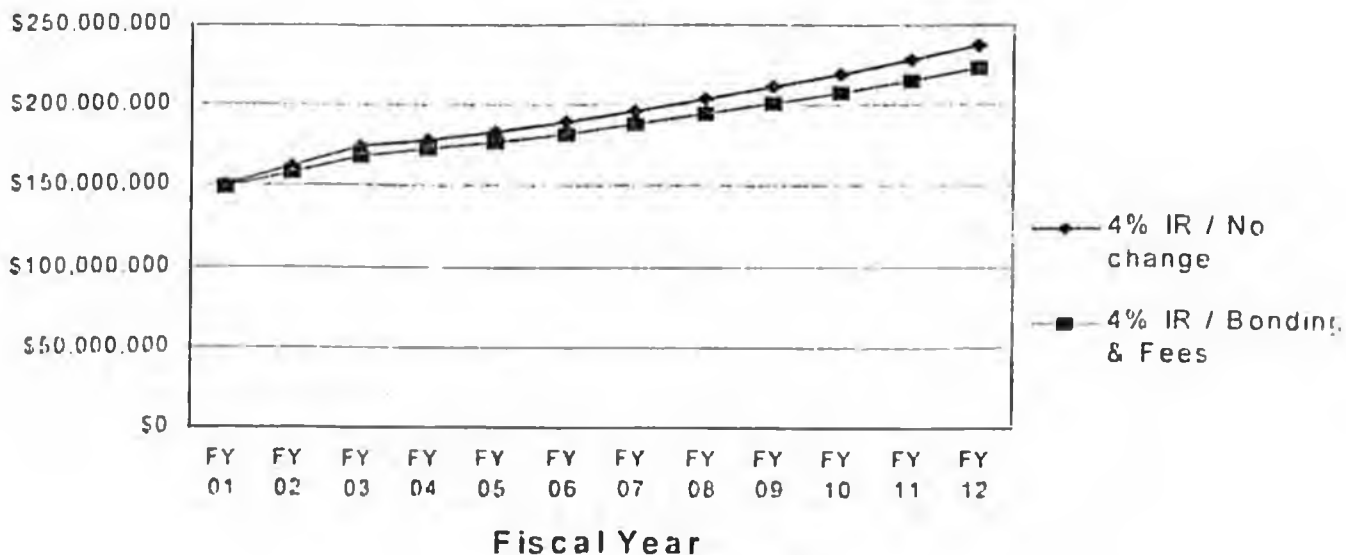
How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?

Finance charges on the loans will not go up. In fact we are proposing to lower finance rates. All of the finance charges for the loans are currently treated as interest and returned to the Funds. To assess fees, the finance charges that communities pay would be broken into two parts: a portion that is interest to be returned to the Fund, and a portion that would go to paying for program operations. For example, if the overall financing charge is 2.5 percent, 2 percent might be interest that is returned to the Fund, and 0.5 percent might go to fund program operations. Again though, the overall debt service cost to the municipalities is expected to go down.

What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?

Yes. The changes will result in slower growth in the Funds. For example, the projected annual growth in the Alaska Clean Water Fund over the next 12 years is expected to decrease from 5.3% to 4.6% per year. Similarly the annual growth in the Alaska Drinking Water Fund is expected to slow from 13.8% to 11.9%. Nevertheless, the funds will remain healthy and capable of meeting the expected demand for loans.

Clean Water Projected Growth



What will the bonding costs be?

The costs for preparing bond documents and finance charges will be approximately \$50,000.

What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?

There should be enough interest earnings in the Alaska Drinking Water Fund by FY 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

What overall savings could the State realize by bonding for both the loan Funds?

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

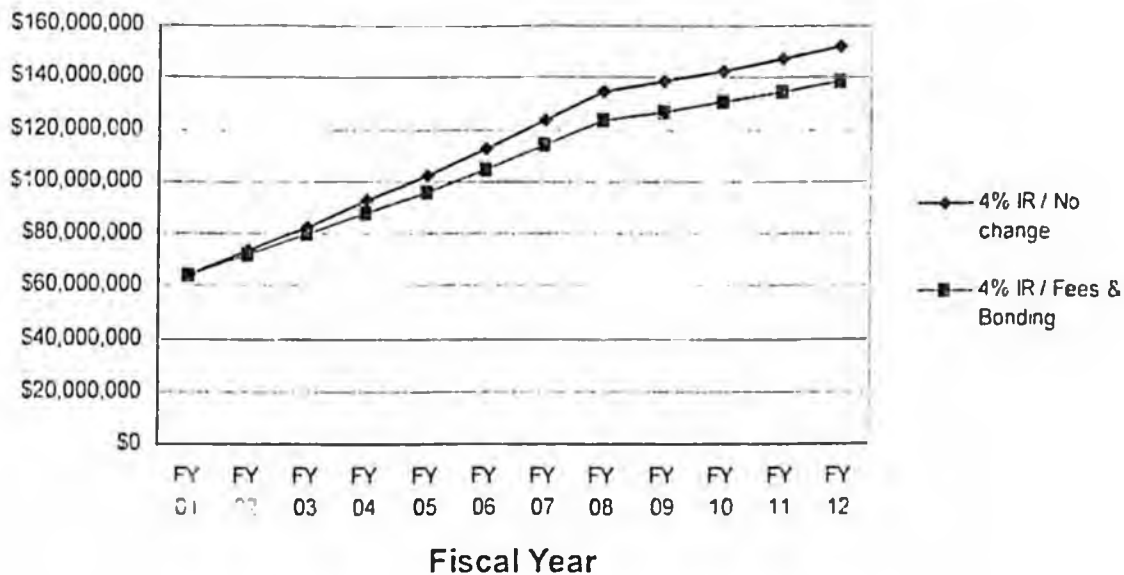
Will bonding affect the amount of federal grant funds the state qualifies for?

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

Switching to the second part of this legislation, why is fee authority needed?

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

Drinking Water Projected Growth



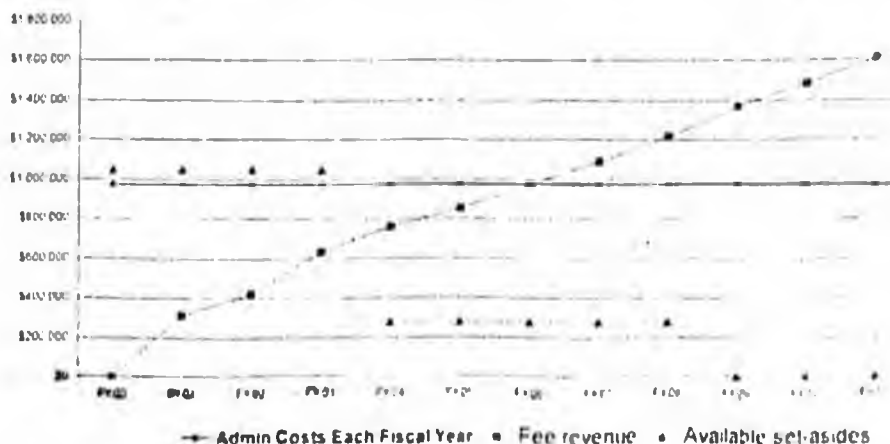
What else needs to happen?

The new finance charge structure and amounts need to be established in regulation (18 AAC 76). We are proposing a structure that satisfies the conflicting goals of trying to provide the lowest loan cost to the communities and still protect the long-term financial integrity of the Funds. We are proposing a flat loan rate of 2.5% that graduates to a bond-indexed rate when the municipal bond index hits 8 percent. Included within that rate is a designated 0.5% to pay for program administration. For purposes of comparison, the current interest rate is about 4.3%.

Will this cover program costs?

The expected revenue will be small at first and gradually increase. At the proposed rate of 0.5%, we expect to collect enough money to cover operating expenses. The following chart shows the relationship between the expected revenues and program costs.

CW & DW Set-Asides & Fee Revenue Versus Admin Costs



When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?

We will offer all communities with existing loans the opportunity to convert to the new rate structure. No communities will be stuck with higher rate loans.

If more fees are collected than are needed to cover program costs, what will happen?

Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.



**RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE
AND ALASKA CONFERENCE OF MAYORS**

RESOLUTION 00-01

**A RESOLUTION URGING THE LEGISLATURE TO PASS THE
GOVERNOR'S ADEC BONDING AND FEE AUTHORITY BILL**

WHEREAS, it is important that the State promote the health of its citizens and encourage the growth of infrastructure by assisting communities in developing safe water supplies and sanitary means of wastewater treatment and disposal; and

WHEREAS, the Alaska Clean Water Fund and the Alaska Drinking Water Fund are important financial alternatives for communities, having so far provided \$160,000,000 in subsidized, low-interest loans to communities for projects of this type; and

WHEREAS, Governor Knowles has introduced a bill to provide for the issuance of bonds as an alternative to using state general funds to capitalize the loan Funds; and

WHEREAS, the alternative financing method provided by the bill will allow the State to continue securing federal grants to grow the Funds and the amounts available for loans; and

WHEREAS, the alternative financing method provided by the bill will save approximately \$1.5 million in state general fund expenditures annually; and

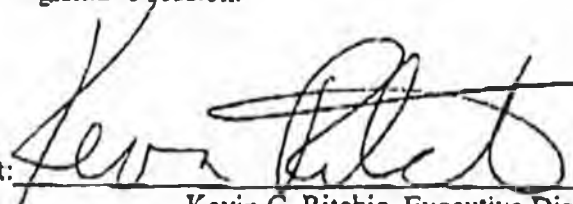
WHEREAS, the bill also reserves a portion of the finance charges paid on the loans to pay the costs of administering the loan programs to offset decreasing federal grant funding available; and

WHEREAS, reserving a portion of the loan finance charges for program administration will not increase the cost of the loans to the communities of the State nor increase the need for any State general fund dollars;

NOW, THEREFORE, BE IT RESOLVED by the Alaska Municipal League and Alaska Conference of Mayors that the Alaska State Legislature is urged to adopt the ADEC Bonding and Fee Authority legislation during the 2000 legislative session.

Adopted on January 27, 2000.

Post-It® Fax Note	7671	Date	1-31	# of pages	1
To	M... ..	From			
Co./Dept.	ADEC	Co.	AM		
Phone #		Phone #			
Fax #	465-5362	Fax #			

Attest: 
Kevin C. Ritchie, Executive Director

HB 304

TONY KNOWLES

STATE OF ALASKA

OFFICE OF THE GOVERNOR

JUNEAU

January 20, 2000

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

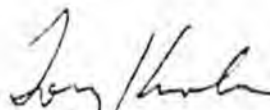
Low-interest state loans from the Alaska Drinking Water Fund and the Alaska Clean Water Fund offer municipalities the means to build drinking water and sewage facility projects. This bill I transmit today will allow the state to use revenue bonds to capitalize the Alaska Drinking Water Fund.

Both the Drinking Water and Clean Water funds are capitalized by annual federal grants that require a 20 percent state match. Bond revenues will help provide the state match for federal drinking water project money. But the state is only authorized to sell bonds for the Clean Water Fund. It makes sense to extend this leveraging power to the Drinking Water Fund.

As with existing law, the bill requires the state bond committee to conduct its activities in the best interests of the state, in a manner that will accomplish the most advantageous sale of the bonds. The bill also provides for a new, self-supporting structure to pay for the costs of operating these important loan programs.

I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles
Governor



Alaska Department of Environmental Conservation
Division of Facility Construction and Operation
Municipal Loans Program

Interest Structure and Fee Rate Regulation Amendments

FACT SHEET

February 1, 2000

What do the proposed regulation amendments do?

The proposed changes would:

- Lower the charges on subsidized loans to communities for drinking water and wastewater projects;
- Designate a portion of the new, lower finance charges to help pay for the loan programs;
- Remove superfluous or expired federal program requirements from the loan program regulations;
- Make other minor changes to clarify the intent of the loan program; and
- Repeal an unused and unnecessary chapter of the Department's regulations (18 AAC 77).

What are the Drinking Water and Clean Water loan programs?

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

What are the current finance loan charges?

The finance charges are found in 18 AAC 76.080 and 76.255. The table below outlines the current charges for both programs.

Loan Term	Finance Charge
5 - 20 years	75% of market rate (4.3% currently)
2 - 5 years	The greater of 2.5% or 33% of the market rate
Less than 2 years	The greater of 1.5% or 25% of the market rate

What would the new finance charges be?

The proposed amendments would lower the finance charge for each loan term for the two programs. Most loans made now are for 20-year terms and contain a finance rate of about 4.3%. The new structure would have loans with a flat finance charge of 2.5% or 30% of the current bond index; whichever is greater, for a term of 5-20 years. For a term of less than 5 years; the finance charge would be a flat 1% or 12.5 % of the current bond index, whichever is greater. These changes also propose to give a community

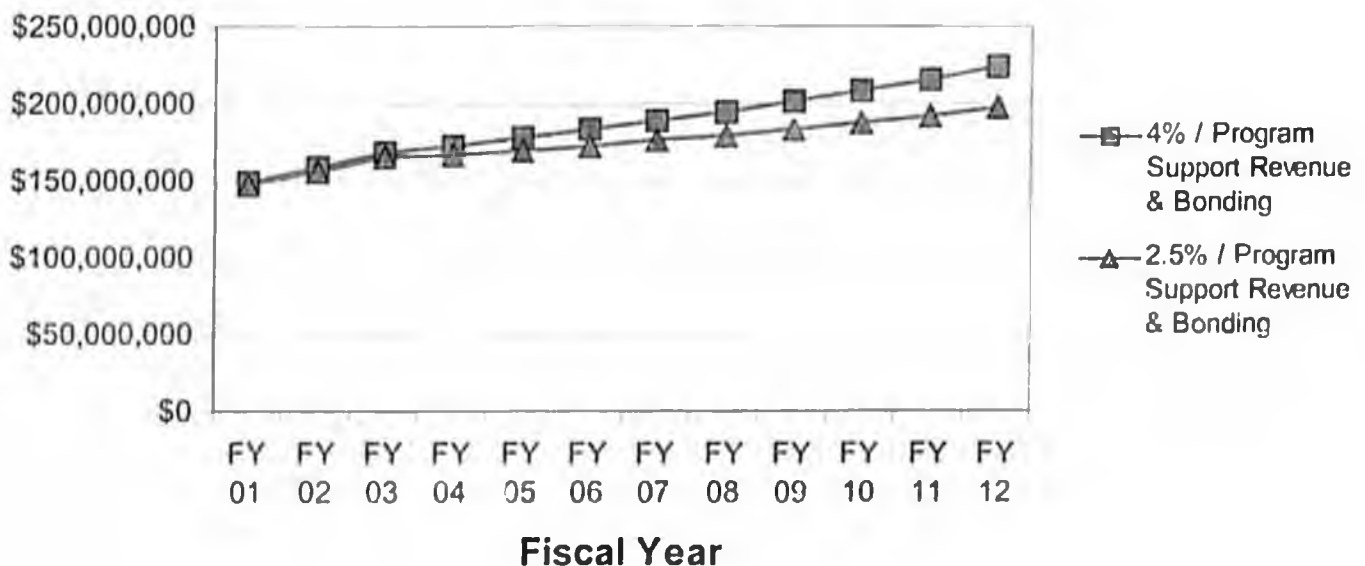
with an existing loan, one year to convert to a new finance rate. The tables below illustrate the differences between the existing rates and the proposed rates in the amendments.

Current		Proposed	
Loan Term	Finance Charge	Loan Term	Finance Charge
5-20 years	75% of market (4.3% today)	5- 20 years	2.5% or 30% of market
2- 5 years	2.5% or 33% of market	0- 5 years	1% or 12.5% of market
0- 2 years	1.5% or 25% of market		

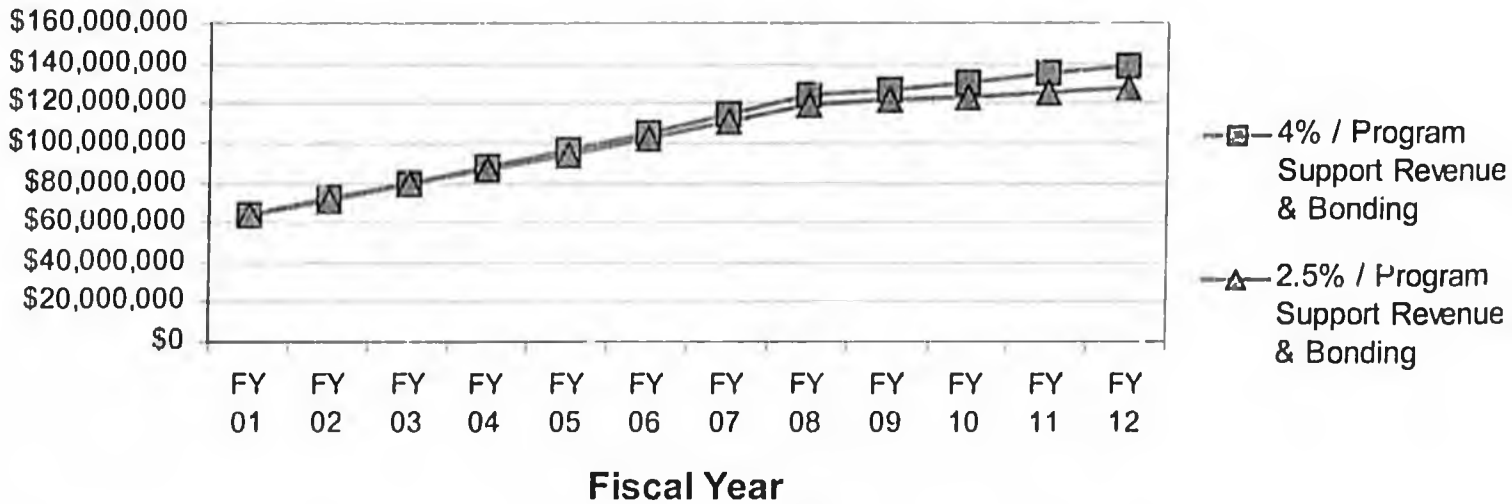
How were these rates established?

The rates were established to make the loans more attractive. A series of projections were used to examine the impacts of different finance charges on the growth of the funds from which loans are made. The smallest finance charge that would protect the long-term integrity of the Funds was selected. To protect the Funds during inflationary periods, finance charges graduate from a flat fee to a percentage of the Municipal Bond Index when the index hits or exceeds approximately 8 percent. The charts below demonstrate the effects of different finance charges upon the growth of the Funds. By reducing the finance charge from an average of 4% to 2.5%, we reduce the rate of growth from 4.6% to 3.2% in the Clean Water Fund and 11.9% to 10.3% in the Drinking Water Fund. Both of these exercises show that the Funds will continue to grow even with the lower finance charges.

Clean Water Projected Growth



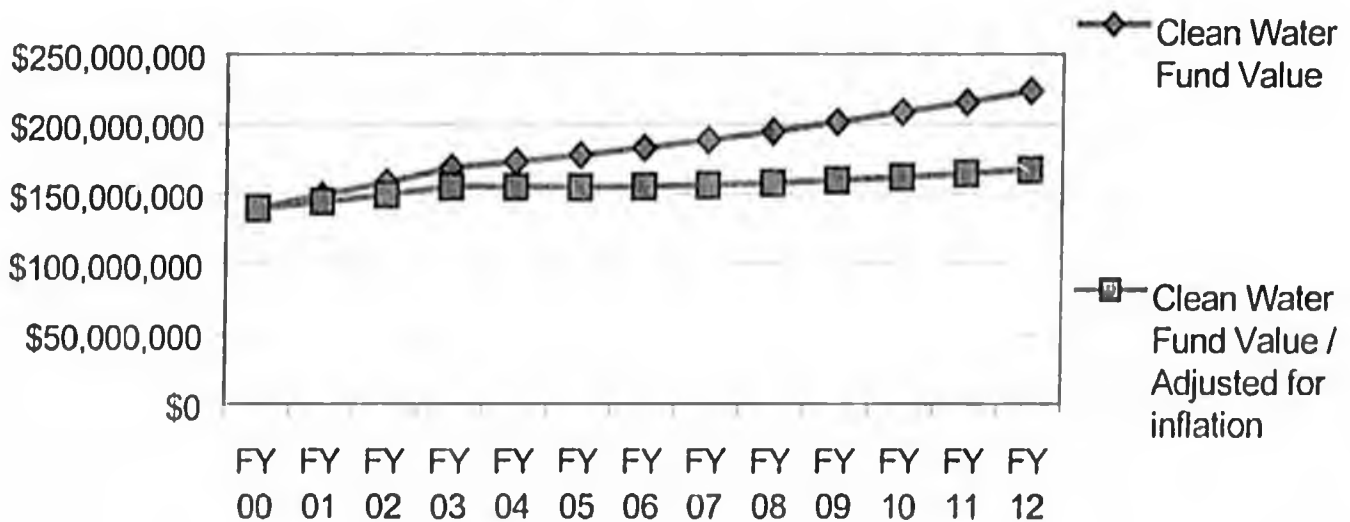
Drinking Water Projected Growth



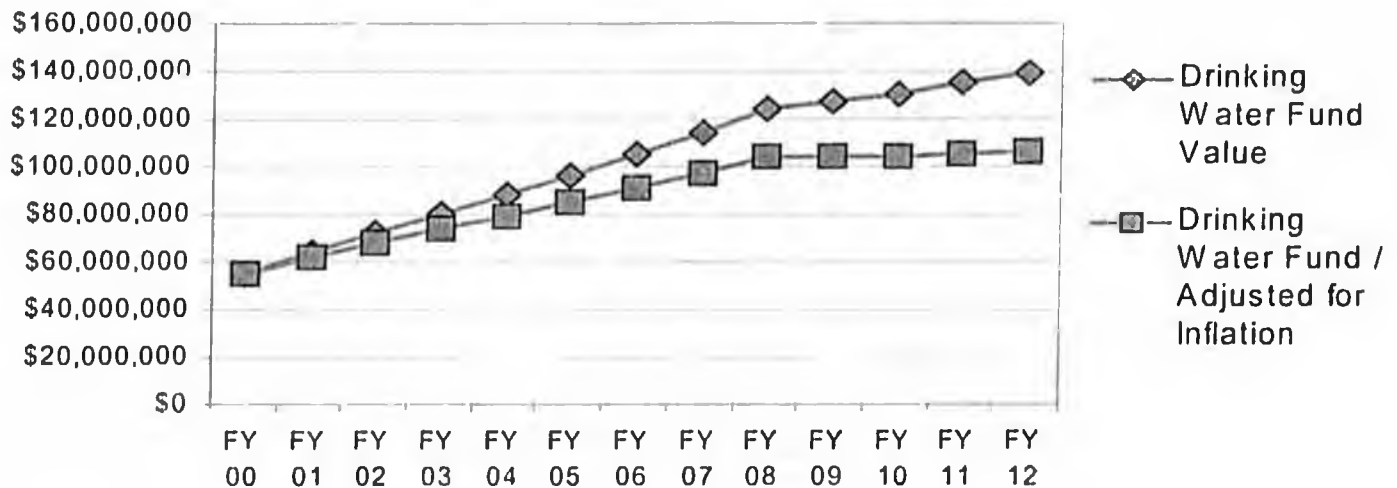
How would the new rates affect the real or inflation-adjusted growth of the Funds?

We examined whether these proposed actions would reduce the ability of the program to fund an equivalent amount of projects in the future. For our analysis, we assumed that inflation would grow at an average rate of 3% (a conservative rate used by the Permanent Fund Corporation). The graphs below plot the value of the two Funds using unadjusted and inflation-adjusted factors and demonstrate that the amount of money available for loans will continue to grow.

CLEAN WATER FUND



DRINKING WATER FUND



Switching to the next change, why is DEC proposing to use a portion of the loan finance charge to pay program operating costs?

These proposed changes are found in new sections to the regulations, 18 AAC 76.085 and 76.257. It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the grants received from EPA to pay for program costs. DEC has relied on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

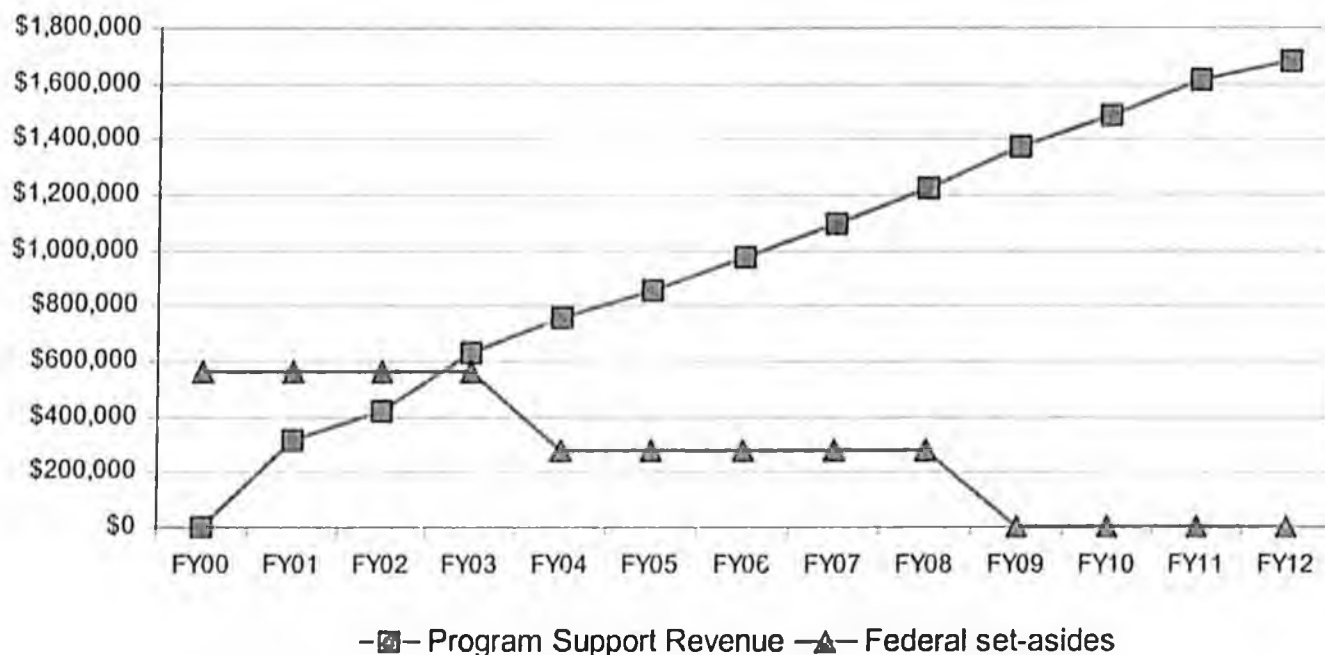
Is this needed to cover increasing numbers of personnel and other increases in administrative costs?

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

How do projected revenues compare with program administration costs?

Adding an additional revenue stream will extend the life of the federal subsidy. The following chart shows the relationship between the federal set-asides and expected revenues.

CW & DW Set-Asides & Program Support Revenue



When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?

The proposed regulations allow communities with existing loans to convert to the new rate structure. No communities will be stuck with higher rate loans.

If more money is collected than is needed to cover program costs, what will happen?

Funds will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.

As for removing unnecessary federal requirements, why are they in the loan program in the first place?

The loan program regulations include provisions that were once mandated by federal law, but are no longer required. The concepts behind the federal requirements have merit but most of them have equivalent State requirements that have to be adhered to. By not having to take the extra time, effort and money to address these unneeded issues, communities will save on project costs. Projects can be built by using less money or more capacity can be achieved by using the same amount of money.

What specific changes are proposed to remove these old requirements?

A listing of the changes is presented here:

- Section 030- discontinues two expired federal application requirements. Sections (a)(4) and (a)(7) clarifies that project facility plans and value-engineering studies are no longer required by federal law to be submitted as part of the assistance application.
- Section 060- discontinues the federal requirement for using Davis-Bacon wages on clean water construction projects. Section (a)(9) allows DEC to use Alaska Department of Labor rates instead.
- Sections 020 and 220- discontinues the requirement for federal approval of the project priority lists. The federal government does not have the authority to approve these State generated lists. Only a state may create and approve these lists. Sections 020(a) and 220(a) and (d) clarify this point.
- Section 230(c)- clarifies that EPA does not approve the department's intended use plans. Again, only a state may create and approve this plan.

What other regulation changes are proposed?

There are two other proposed changes and they are fairly simple. They are:

- Sections 030(a)(2) and 225(b)(2)- clarifies when a community submits a loan acceptance resolution. The Attorney General has opined that a community must have an ordinance that formally accepts an offer of financial assistance. These sections clarify that point.
- Section 245(a)(5)- clarifies that operation and maintenance manuals are not required on some projects. EPA does not require that operation and maintenance manuals be provided on all types of projects. This section states that the Department will determine if the manual is needed for a project.

DEC is proposing to eliminate 18 AAC 77 in its entirety, why?

This chapter was established to implement a program that was created in statute and proposed to receive State funding. The accounts have never received any funding and therefore, they have never made any loans. The regulations are for a program that is not funded now and probably never will be. We propose to eliminate the unused and unneeded regulations.



**Alaska Department of Environmental Conservation
Division of Facility Construction and Operation
Municipal Loans Program**

**Loan Fund Bonding and Fee Authority Legislation
FACT SHEET**

February 1, 2000

What does the legislation do?

Authorizes DEC to:

- Sell bonds as a means of capitalizing the Alaska Drinking Water Fund; and
- Designate a portion of the interest charged on Drinking Water and Clean Water program loans to help pay for program operations.

What are the Drinking Water and Clean Water Loan Programs?

DEC-operated loan programs that offer low-interest loans to municipalities for drinking water, sewerage and other water-quality construction projects.

How are the programs funded?

Each year the State may apply for two federal capitalization grants: one for the Drinking Water Loan Program and one for the Clean Water Loan Program. Both federal grants require a 20 percent state match. In state fiscal year 2000, the State received \$15.5 million in federal grants and contributed \$3.1 million in state funds.

In addition to annual contributions of state and federal capitalization money, the funds also earn interest. Funds that have yet to be loaned out are invested in interest bearing accounts and earn investment interest. Communities also pay interest when they repay their loans. Both investment and repayment interest must, by federal law, be retained in the Alaska Drinking Water and Clean Water Funds and thus contribute to the growth of the Funds.

What are the rules about how the programs are operated?

The funds must be used in accordance with federal rules derived from the Safe Drinking Water Act for the Alaska Drinking Water Fund and the Clean Water Act for the Alaska Clean Water Fund. The federal rules are complex, but an important concept is central: Once money is deposited into a fund, it must remain in the fund and unavailable for any

purposes other than to make loans to communities – except in a very limited number of special cases.

How do the programs work?

Each year DEC mails applications to all Alaska municipalities. Interested communities complete and return the applications proposing specific projects for funding. DEC ranks the applications based primarily on the degree of public health benefit expected from the projects. Loan agreements with municipalities are executed for the highest-ranking projects. As construction costs are incurred, monies are drawn from the Funds and loaned to municipalities. The municipalities pay back the loans when projects are complete. This money is returned to the loan Funds where it becomes available for other projects.

For each loan project, DEC assigns an engineer to assist the community in selecting an appropriate project design, in getting permits and other authorizations, and generally in serving as an advisor to the community on the project. There is a broad range of assistance provided depending on each community's capabilities and needs. The engineers also approve all payments to communities to make certain that all costs are eligible for funding under state and federal law.

Why is bonding authority needed?

Until now, the State of Alaska has met its match obligation using general funds. However, the federal government recently offered the states another option for meeting their match requirements. The option is to use interest retained in the Funds in a form of short-term bonding exercise to meet the state match requirement. In essence, this form of bonding lets the states convert interest earned by the funds into bonds and then use the bonds to meet the state match requirement. To take advantage of that option requires that state statutes provide bonding authority. The statutes establishing the Alaska Clean Water Fund currently provide authority to use bonds for financing. That authority does not exist for the Alaska Drinking Water Fund.

Since the statutes currently provide authority to use bonds to capitalize the Alaska Clean Water Fund, does DEC plan to exercise that authority in FY 2001?

Yes. DEC intends to use the existing Clean Water Loan Program bonding authority to obtain the \$1.5 million in state match needed to capture the \$7.5 million in federal grant funds expected for FY 2001. That will save the State \$1.5 million in general funds in FY 2001.

What will the bonding costs be?

The costs for preparing bond documents and finance charges will be approximately \$50,000.

What about the Alaska Drinking Water Fund? Can the State do the same for the Alaska Drinking Water Fund?

Not until two things happen. First, the statutes need to be amended to provide authority to use bonds to capitalize the Alaska Drinking Water Fund. Second, there needs to be an amount of interest earnings in the Alaska Drinking Water Fund equal to the state match requirement plus bonding costs. In other words, there needs to be about \$1.5 million in interest in the Fund to execute a short-term bonding exercise. Because the Alaska Drinking Water Fund is much younger than the Alaska Clean Water Fund, there aren't enough interest earnings in the fund to take advantage of this short-term bonding option in FY 2001.

When will the State be in a position to use short-term bonds to meet its capitalization obligation for the Alaska Drinking Water Fund?

There should be enough interest earnings in the Alaska Drinking Water Fund by FY 2002. With enough interest and bonding authority for this Fund, the State would be positioned to save \$1.5 million in general funds in the FY 2002 budget.

What overall savings could the State realize by bonding for both the loan Funds?

The State could save about \$3 million each year in money needed to capture \$15 million in federal grants. Our hope is to save \$1.5 million beginning in FY 2001 and \$3.0 million in FY 2002 and beyond.

Will bonding affect the amount of federal grant funds the state qualifies for?

No. The amount of the federal grant awards will be the same whether the State match comes from general funds or bond proceeds.

Switching to the second part of this legislation, why is fee authority needed?

It costs about \$1 million each year to operate the two programs – to provide engineering assistance, to execute loan agreements, to review payment requests and issue payments to communities, to track loan debt, to collect and record repayments from communities, and to pay for audits by CPA firms. Federal law allows states to use a small part of the federal capitalization grants to pay for program costs. For the past few years, DEC has relied entirely on this source to fund program operations. With decreasing federal grant levels, this funding source will not be sufficient to cover program costs – even though those costs are expected to remain stable. Another source of funding is needed. Most states already use a portion of the repayment

interest to pay for program costs. Eventually all states will be doing the same. We think it makes sense in Alaska as well.

Are personnel and other costs increasing?

No. The number of personnel and other program costs are expected to remain at current levels for the foreseeable future. We are seeking only to replace the declining federal subsidy.

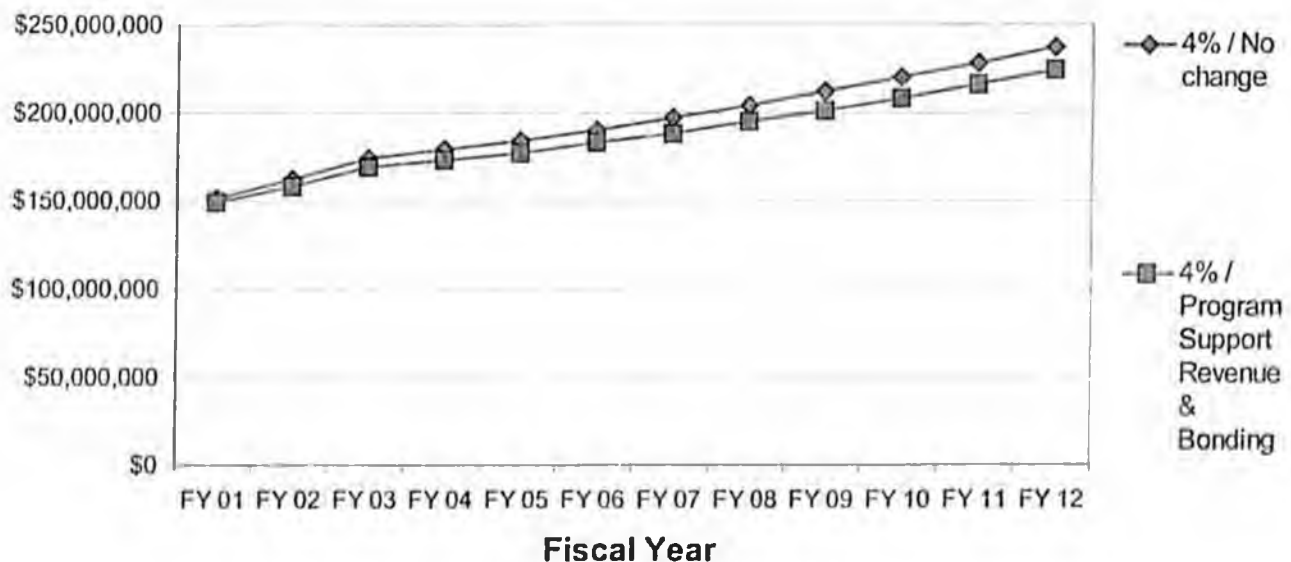
How will these changes affect the terms of the loans DEC makes to communities? Will costs go up?

Finance charges on the loans will not go up. In fact we are proposing to lower finance rates. All of the finance charges for the loans are currently treated as interest and returned to the Funds. To assess fees, the finance charges that communities pay would be broken into two parts: a portion that is interest to be returned to the Fund, and a portion that would go to paying for program operations. For example, if the overall financing charge is 2.5 percent, 2 percent might be interest that is returned to the Fund, and 0.5 percent might go to fund program operations. Again though, the overall debt service cost to the municipalities is expected to go down.

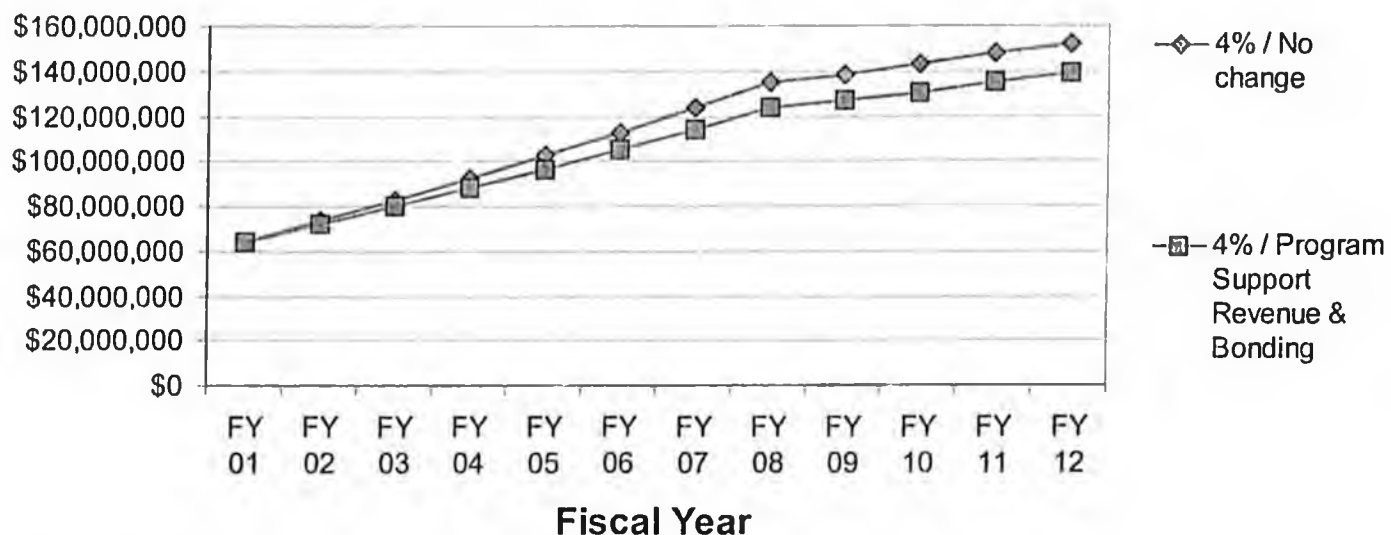
What about the impacts on the amount of money available to loan out? Will the changes reduce the rate of growth of the funds?

Yes. The changes will result in slower growth in the Funds. For example, the projected annual growth in the Alaska Clean Water Fund over the next 12 years is expected to decrease from 5.3% to 4.6% per year. Similarly the annual growth in the Alaska Drinking Water Fund is expected to slow from 13.8% to 11.9%. Nevertheless, the funds will remain healthy and capable of meeting the expected demand for loans.

Clean Water Projected Growth



Drinking Water Projected Growth



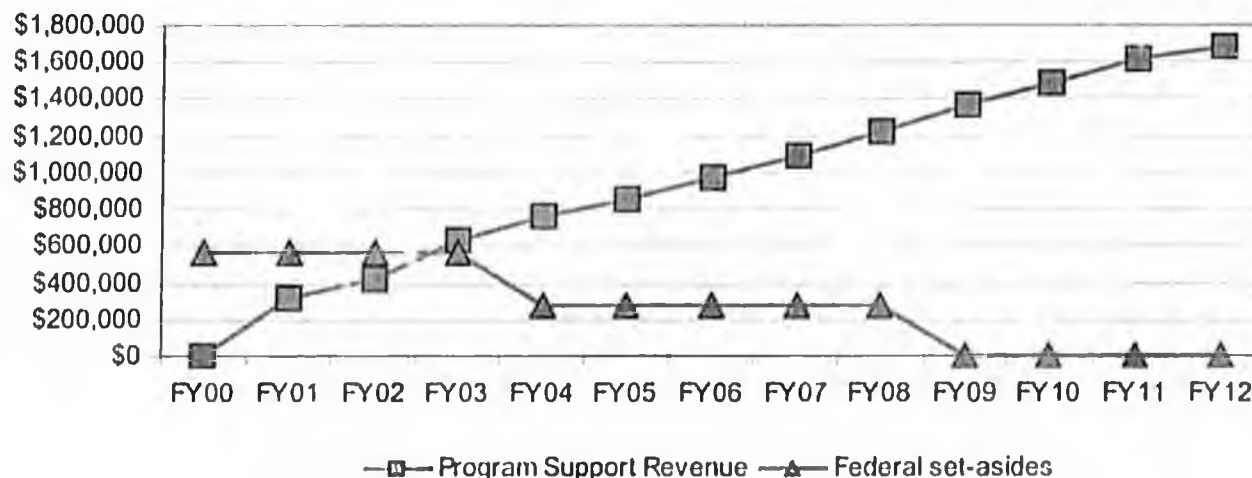
What else needs to happen?

The new finance charge structure and amounts need to be established in regulation (18 AAC 76). We are proposing a structure that satisfies the conflicting goals of trying to provide the lowest loan cost to the communities and still protect the long-term financial integrity of the Funds. We are proposing a flat loan rate of 2.5% that graduates to a bond-indexed rate when the municipal bond index hits 8 percent. Included within that rate is a designated 0.5% to pay for program administration. For purposes of comparison, the current interest rate is about 4.3%.

Will this cover program costs?

The expected revenue will be small at first and gradually increase. At the proposed rate of 0.5%, we expect to collect enough money to cover operating expenses. The following chart shows the relationship between the expected revenues and program costs.

CW & DW Set-Asides & Program Support Revenue



When interest rates go down, what will happen to the existing loans made at higher rates? Will communities be stuck with the higher rate loans?

We will offer all communities with existing loans the opportunity to convert to the new rate structure. No communities will be stuck with higher rate loans.

If more fees are collected than are needed to cover program costs, what will happen?

Fees will be deposited into an income account. Each year we will request that the legislature appropriate funds from the income account to an operating account to cover program costs. If there are more funds in the income account than are needed to cover program costs, we will use those excess funds to make loans to communities.

(7)

HOUSE COMMITTEE REPORT

Date Referred to Committee: January 21, 2000

FURTHER REFERRALS:

Judiciary
Finance

Date of Committee Action: February 8, 2000

The COMMUNITY AND REGIONAL AFFAIRS Committee considered:

HB 304

HOUSE BILL NO. 304

CLEAN WATER FUND/DRINKING WATER FUND

"An Act relating to issuance and sale of revenue bonds to fund drinking water projects, to creation of an Alaska clean water administrative fund and an Alaska drinking water administrative fund, to fees to be charged in connection with loans made from the Alaska clean water fund and the Alaska drinking water fund, and to clarification of the character and permissible uses of the Alaska drinking water fund; amending Rule 3, Alaska Rules of Civil Procedure; and providing for an effective date."

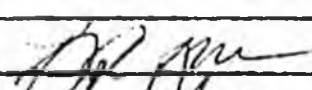
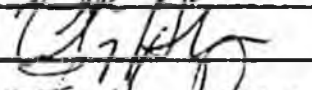

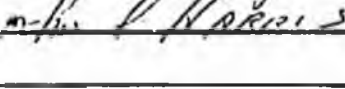
recommends it be replaced with the following committee substitute _____
 the same title
 a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) Revenue - fiscal note(s) _____
DEC

zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	MURKOWSKI			✓	
	HALCRO			✓	
	DYSON				✓
	HARRIS	✓			

CHAIR'S SIGNATURE





Alaska State Legislature

HOUSE COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS

Representative John Harris, Representative Carl Morgan, Co-Chairmen
State Capitol, Room 110, Juneau, Alaska 99801-1182
(907) 465-3882

AGENDA

February 8, 2000

1. Call meeting to order

2. Roll call Rep. Dyson
 Rep. Kookesh
 Rep. Halcro
 Rep. Murkowski
 Rep. Joule
 Rep. Morgan
 Rep. Harris

3. Consideration of bills on agenda

 HB 304 – Clean and drinking water funds

 Testifiers:
 Dan Easton, director of facility construction & operations DEC
 Dianna Bennett, finance director, Anchorage WWU
 Larry Hancock, Cordova City manager
 Craig Tillery, AG's office Anchorage

4. Announcements or other business

 Next meeting: Thursday, Feb. 10-

5. Motion to adjourn

FISCAL NOTE

Bill Version: HB 304

(H) Publish Date: 1/21/00

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) _____ Dept. Affected DEC
 Title AK Bonding - AK Drinking Water Fund BRU Facility Construction and Operation
 Component Facility Construction and Operation
 Sponsor Rules Committee
 Requester Governor Component No. 637

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	70.0	70.0	70.0	70.0	70.0
-----------------------------	------------	-------------	-------------	-------------	-------------	-------------

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)	(1,551.4)
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1075 Clean Water Loan Fund	0.0	0.0	(395.5)	(455.3)	(455.3)	(455.3)
1100 Drinking Water Loan Fund	0.0	70.0	(380.4)	(448.4)	(448.4)	(448.4)
Drinking Water Fund Bond Recpts	0.0	1,551.4	1,551.4	1,551.4	1,551.4	1,551.4
Clean Water Administrative Fund	0.0	0.0	395.5	455.3	455.3	455.3
Drinking Water Administrative Fund	0.0	0.0	450.4	518.4	518.4	518.4
TOTAL	0.0	70.0	70.0	70.0	70.0	70.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This legislation would provide for:

- 1) Using bond proceeds instead of GF Match to capitalize the Alaska Drinking Water Fund; and
- 2) Using fees deposited into (and appropriated from) two new administrative funds to pay the operating expenses of the Clean Water and Drinking Water loan programs. (Continued next page)

Prepared by: Dan Easton, Director Phone 465-5135
 Division Facility Construction and Operation Date/Time 12/30/99 12:04 PM
 Approved by: [Signature] Date 12-29-99
 Agency Dept. of Environmental Conservation

COMMITTEE COPY PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 304

Revision Date/Time (Note if correction)	Dept. Affected	DEC
Title <u>AK Bonding - AK Drinking Water Fund</u>	BRU	<u>Facility Construction and Operation</u>
	Component	<u>Facility Construction and Operation</u>
Sponsor <u>Rules Committee</u>		
Requester <u>Governor</u>	Component No.	<u>637</u>

ANALYSIS: (Continued)

The Drinking Water and Clean Water Loan Programs offer low-interest loans to municipalities for drinking water and sewerage facility construction projects. Loans are made from the Alaska Drinking Water Fund and the Alaska Clean Water Fund. Both funds are capitalized by annual federal grants that require a 20 percent state match. The Funds also earn investment and repayment interest.

To date, the state capitalization match requirement for the Drinking Water Fund has been met with GF Match. Federal law provides an alternative to general fund outlays for satisfying the state match requirement. States may use bond financing as match for federal funds to capitalize the Fund, and repay the bonds from interest earnings from the Fund. Statutes (AS 37.15.560) currently provide the bonding authority for the Clean Water Fund needed to take advantage of this funding mechanism. This legislation would provide the same bonding authority for the Drinking Water Fund.

Beginning in FY 2002 there will be sufficient interest in the Alaska Drinking Water Fund to meet the match requirement. Interest will be converted to bond proceeds and supplant the annual general fund appropriation. The effect will be to save approximately \$1.5 million in GF Match that year and each year thereafter. Bonding costs will be about \$70.0 per year.

This legislation would also provide authority to collect fees as a means of funding the operation of the two loan programs. Federal law allows states to set aside four percent of the federal capitalization grants to help pay for program administration. To date, annual operating expenditures of \$973.7 have been met with this Loan Fund set aside. With decreasing federal grant levels, the Loan Fund set-aside is also decreasing and is no longer sufficient to cover the costs of program administration. This legislation would create two new administrative funds into which loan fees would be deposited. Money could then be transferred from these administrative funds to the operating budget to finance program operating costs. This legislation would result in fully fee-supported loan programs by FY 2005.

Prepared by:	<u>Dan Easton, Director</u>	Phone	<u>465-5135</u>
Division	<u>Facility Construction and Operation</u>	Date/Time	<u>12/30/99 12:04 PM</u>
Agency	<u>Dept. of Environmental Conservation</u>		

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office



**RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE
AND ALASKA CONFERENCE OF MAYORS**

RESOLUTION 00-01

**A RESOLUTION URGING THE LEGISLATURE TO PASS THE
GOVERNOR'S ADEC BONDING AND FEE AUTHORITY BILL**

WHEREAS, it is important that the State promote the health of its citizens and encourage the growth of infrastructure by assisting communities in developing safe water supplies and sanitary means of wastewater treatment and disposal; and

WHEREAS, the Alaska Clean Water Fund and the Alaska Drinking Water Fund are important financial alternatives for communities, having so far provided \$160,000,000 in subsidized, low-interest loans to communities for projects of this type; and

WHEREAS, Governor Knowles has introduced a bill to provide for the issuance of bonds as an alternative to using state general funds to capitalize the loan Funds; and

WHEREAS, the alternative financing method provided by the bill will allow the State to continue securing federal grants to grow the Funds and the amounts available for loans; and

WHEREAS, the alternative financing method provided by the bill will save approximately \$1.5 million in state general fund expenditures annually; and

WHEREAS, the bill also reserves a portion of the finance charges paid on the loans to pay the costs of administering the loan programs to offset decreasing federal grant funding available; and

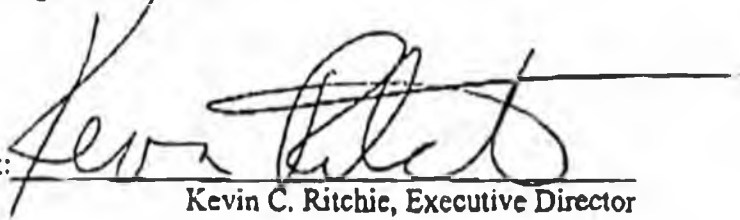
WHEREAS, reserving a portion of the loan finance charges for program administration will not increase the cost of the loans to the communities of the State nor increase the need for any State general fund dollars;

NOW, THEREFORE, BE IT RESOLVED by the Alaska Municipal League and Alaska Conference of Mayors that the Alaska State Legislature is urged to adopt the ADEC Bonding and Fee Authority legislation during the 2000 legislative session.

Adopted on January 27, 2000.

Post-It® Fax Note	7671	Date	1-31	# of Pages	1
To	Mace	From	[Signature]		
Co./Dept.	ADEC	Co.	AML		
Phone #		Phone #			
Fax #	465-5362	Fax #			

Attest:


Kevin C. Ritchie, Executive Director