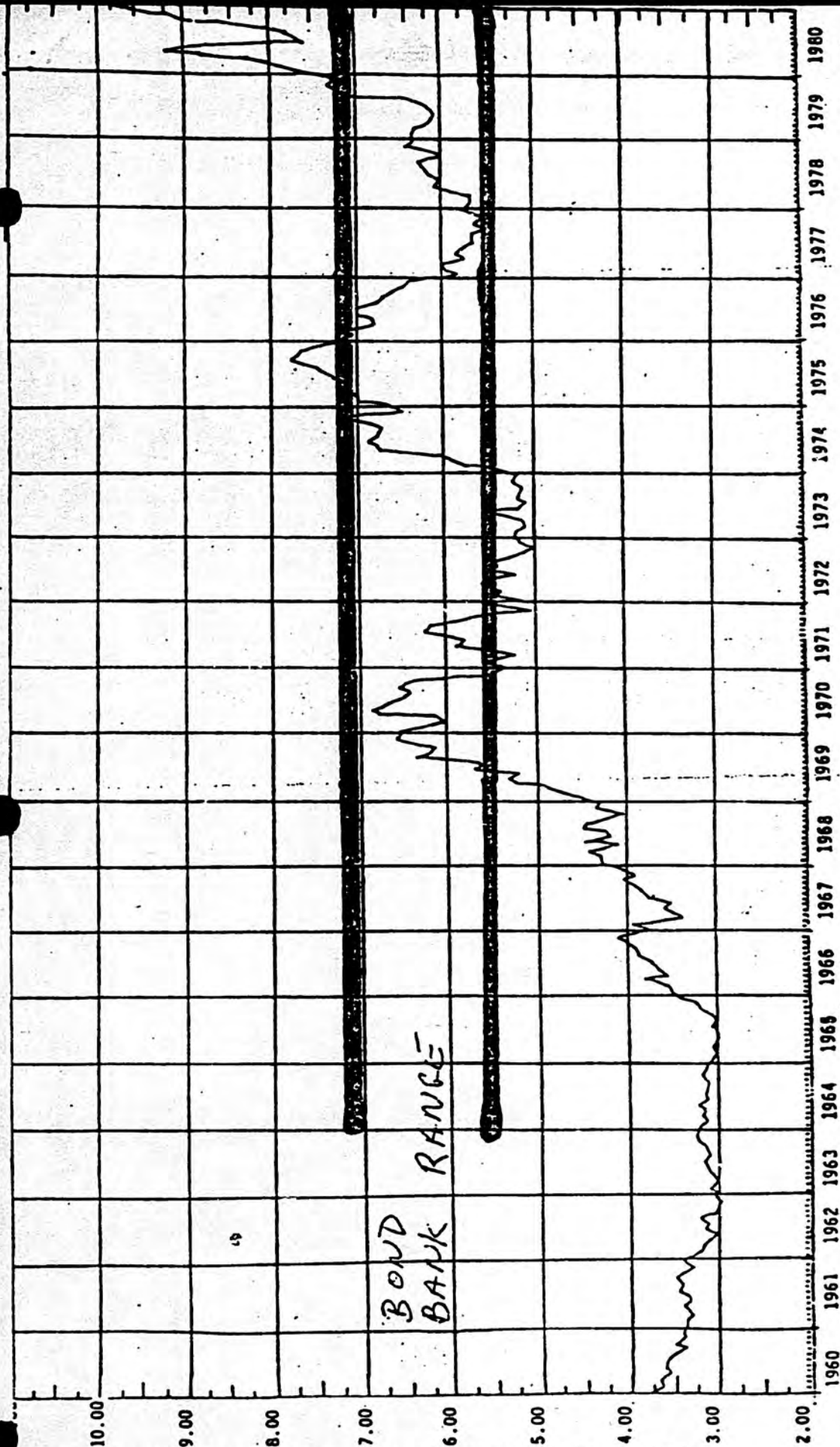


HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2780



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HOUSE FINANCE COMMITTEE

March 6, 1981

1:40 p.m.

{Tape HFC 81-12, Side 2, #543}

PRESENT

Chairman Cotten called the meeting to order at 1:40 p.m. All members of the Committee were present, with Representatives Adams and Carney arriving later in the meeting. Also in attendance: Senator Don Bennett; Commissioner Lee McAnerney and Sue Lowell, Deputy Director, Division of Housing Assistance, Department of Community & Regional Affairs; Mark Cameron, Comptroller, Alaska Housing Finance Authority; Bruce Winton, Alaska Association of Realtors, Juneau; Lisa Parker, Administrative Assistant to Chairman Cotten; Milt Barker and Elmer Lindstrom, Fiscal Analysts, Division of Legislative Finance.

CSSB 185 (FINANCE) AND HB 135

Chairman Cotten advised the purpose of today's meeting is to hear testimony on CSSB 185 (Finance):

CSSB 185(Fin) - "An Act making supplemental appropriations to the Alaska Housing Finance Corporation; and providing for an effective date."

HB 135 - "An Act relating to housing loans; and providing for an effective date."

Senator Bennett, sponsor of SB 185, explained how important the time element is in getting this bill out because of the current construction season coming up.

{Representative Adams arrived at this time.}

Chairman Cotten asked who assisted in preparing the figures for the bill. Senator Bennett advised 8 to 10 mortgage and banking people came up with the figures based on projections and actual demands.

Chairman Cotten briefly explained the differences in CSSB 185, HB 135 and HB 173 (both House bills dealing with housing loans) with regard to non-conforming home loans.

Representative Malone stated HB 135 is a companion bill to SB 148 and that the Senate Finance Committee is currently working on some changes to their bill. He explained the bills deal with a \$10 million general fund appropriation. Last year, he noted, it came to light that there should be direct lending capabilities.

{Representative Carney arrived at this time.}

In addition, Representative Malone went on to explain, it was also pointed out that loans could be approved at other than a State authority and be serviced by the Division of Housing Assistance. He added it was noted the Division could purchase loans from the other financial institutions. However, he stated the main and most important changes are the clarification of power in direct lending and having loan officers in the field offices. One further item of importance, he said, is that the Department has indicated it can supply, at this time, whatever additional cost is required other than the initial set up; and he does not yet have that fiscal note.

At this time, Commissioner Lee McAnerney and Sue Lowell, Division of Housing Assistance, Department of Community & Regional Affairs, made their presentation. Commissioner McAnerney advised the Committee it has just been this past week that they have been able to let loans. She distributed a list of "Loans Pending" (see Attachment 1) and indicated they are ready to go and will be handled as soon as possible. Ms. Lowell commented she feels the list of loans is a pretty good distribution statewide.

Representative Rogers asked how soon they felt they would know the estimated needs for the rest of this fiscal year and next year, and Ms. Lowell indicated approximately a month. Representative Rogers commented he feels this is the type of situation where the State ought to consider putting in some money to extend past this fiscal year until they have a handle on what funds are going to be necessary, instead of having to shut down the program due to lack of funds as so often happens. Representative Malone observed, "Sometimes we do not do a program a favor by dumping a lot of extra funds on top of it at the beginning."

There was discussion on the \$10 million being split four ways between the judicial districts and if this works out to an equitable distribution. Ms. Lowell advised, once 60% of the funds are gone, they will stop to evaluate this.

[Tape HFC 81-13, Side 1, #001]

Most of the loans they are receiving are from AHFC--loans that have been defined--so that they are already packaged, Ms. Lowell noted. In rural areas, she said they have offices working in Kotzebue and Nome.

There was discussion on the definition of non-conforming loans. Ms. Lowell explained non-conforming is based on the structural integrity or Bureau of Land Management (BLM) lands. As examples, she cited loans with a title question or loans being rejected because of structural irregularities. Representative Freeman commented he is concerned with loans also being rejected because of water and sewage. Representative Rogers stated the AHFC bill last year required that they not reject on the basis of on-site water and sewage. Basically, what they are conforming to, Representative Meekins observed, is national standards;

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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therefore, because of permafrost and water and sewage, these national standards don't apply because they don't take into consideration Alaska's particular problems.

In response to Representative Adams' request for a definition of rural communities, Ms. Lowell stated "rural, remote" is defined as "not connected by road or rail to Anchorage or Fairbanks, with the exception of those communities of 1,200 population or less." Brief discussion followed regarding the difference in this definition and the one presented previously by Harry Goldbar, AHFC.

Representative Carney asked if there are any conforming loans in Bethel and Kotzebue. Commissioner McAnerney pointed out the Division doesn't have to go through AHFC; though most of their current loans have come from AHFC, it is not necessary. In the rural areas, they can do direct lending, Ms. Lowell added.

Representative Buchholdt called attention to Section 10 of the bill, relating to fire insurance coverage, and stated she feels this language is very permissive. Representative Malone commented that section can probably be pulled. Representative Buchholdt asked if fire insurance coverage is required, and Commissioner McAnerney advised the Division has a Restricted Title Loss Reserve Fund. Ms. Lowell explained this is under operating loss which allows for destruction of property. Representative Meekins wondered, if a someone doesn't have fire insurance, and his house burns down, he is still liable, but the State takes up the slack. Ms. Lowell indicated that was correct; SB 1 last year established that reserve fund. In answer to a question from Representative Montgomery, Ms. Lowell advised \$500,000 is there in the fund to be used; then, it has been to be replenished so that \$500,000 remains at all times.

Representative Meekins asked how much goes into rural, as defined by the Division. Ms. Lowell stated the bill mandates that the Commissioner set up divisions within the State, and used Representative Moss's district as an example in her explanation.

Chairman Cotten asked about the recommendation for the capitalization of the program, noting they had a very busy first week. Commissioner McAnerney asked that they be given at least three more weeks to see what they receive. At that time, she said they will have a better idea of what to expect.

Referring to the rural areas, Chairman Cotten inquired if they can take pretty much whatever as there aren't any required restrictions. Ms. Lowell stated they will have appraisals done and that there are ways to tell if a house is conforming or not. For instance, she said, regarding the permafrost situation, the property would be non-conforming, not the structural. It goes on a case-by-case basis, she said. Representative Rogers stated, "This was one of the problems encountered last year; you can say what a non-conforming house is not easier than you can say what it is."

During discussion, Ms. Lowell advised interest rates as set out in SB 1 last year are a maximum of up to 10% for veterans and 8-3/4% for rural, remote and 9-10% in urban areas. She advised they have double-ending interest rates and have the flexibility to charge interest on a par with other lending institutions within regulations.

Ms. Lowell mentioned they have been flooded with requests for State land disposal--by auction or lottery--loans. In these cases, she explained, the State holds title and the people do not, and they don't know if the State is going to have conveyance; hence, the difficulty in obtaining a loan. Representative Rogers stated he thought the program was designed to cover this type of situation where the persons have to build within a certain time limit. Representative Freeman asked if they totally subsidize, and Ms. Lowell advised 5% down is required on the loan. Representative Freeman wondered if perhaps this program is getting into State land disposal. Representative Rogers indicated this is the problem and that perhaps something should be considered on the land disposal bill on the five-year plan. Representative Freeman said he feels "the problem is when you tie the two--land and housing--together. Have them pursue clear title, then go build the house."

Representative Meekins asked about the standards for qualifying in terms of income. In town, Ms. Lowell indicated it is 25% as a general rule, but she added they simply have to go on each individual case. She said they try to be flexible in their payment system. Representative Rogers asked if they were considering the energy improvements, and Ms. Lowell indicated yes. Chairman Cotten asked how many people review loans currently, and Ms. Lowell advised they have two loan examiners in the office now.

[Representative Malone left the meeting at this time.]

At this time, Chairman Cotten advised the Committee would hear a presentation by staff on HB 135. He referred to a series of three Milt Barker memorandi (see Attachments 2, 3 & 4) dealing with AHFC and mortgage loans and the Ullman bill. Calling attention to the memorandum dated March 6, Chairman Cotten asked Mr. Barker to explain the alternative methods to provide the \$133 million apparent demand in the housing market for the rest of the year.

In the wake of the Ullman bill, Mr. Barker explained, there is limited use of tax exempt bonds for FY 82. He talked about the \$200 million Alaska will be permitted to use during the next calendar year for mortgage purchases. He went on to describe the differences between pass-through mortgage certificates and taxable and tax exempt bonds and gave examples.

[Tape HFC 81-13, Side 2, #001]

Pass-through mortgage certificates are attractive to the State, Mr. Barker said, because they cost less in interest and are not listed as debt by AHFC. In answer to a question from Chairman Cotten, Mr. Barker indicated that was correct, there is \$2 million available each calendar year for FY 81, FY 82 and FY 83. There was discussion on the various tables attached to the March 6th memorandum.

Lisa Parker discussed the use of general obligation bonds for veterans' loans as another avenue and are in the process of obtaining a legal opinion on this. She also brought up the non-owner occupied program and described how this money can be used to loan to contractors or to help make rental payments. She advised there is approximately \$77,000 left in that account currently, according to AHFC. She described what the Governor will be doing regarding the request to transfer the \$12 million that comes from the mortgage and housing insurance fund and also what the Senate Finance Committee is doing with the bills.

Representative Rogers brought up the mobile home loan purchase program under Section 1. There was brief discussion.

At this time, Mark Cameron testified briefly. Referring to the Barker memorandum regarding the \$26 million mentioned utilizing mortgage pass-through, which was presented by Merrill Lynch at AHFC's last board meeting, he stated he feels Dean Witter has a difference of opinion. He said he would be hesitant to use the \$26 million and that Dean Witter indicates a bond sale would be available sometime in April. It is a question of what to do between now and July 1, he said. In response to a question from Representative Rogers, Mr. Cameron stated the \$56 million, as opposed to the \$133 million, is going to cost us less in the long run but more in the short run.

Testifying on CSSB 185, Bruce Winton commented on the situation last year where the people were rushing in before the money ran out. He stated he would like to see a program that didn't have to go with the ups and downs of the market. He also talked about the use of the word subsidy and said he feels that term is a little harsh or unfair as the State derives indirect benefits from this program. In closing, he advised the Alaska Association of Realtors support the concept of the non-conforming loans.

CSSB 185 (FINANCE) AND HB 135 HELD

Chairman Cotten announced HB 285, amending the Executive Budget Act to provide for Agency budgeting in place of program budgeting, would be introduced by the Finance Committee at the request of Representative Freeman if there were no objection. Representative Haugen indicated he strongly supports this idea.

ADJOURNMENT

There being no further business to come before the Committee, the meeting adjourned at 3:10 p.m.

Tape HFC 81-12, Side 2, #543 - End
81-13, Side 1, #001 - End
Side 2, #001 - #521

LOANS PENDING

<u>TYPE</u>	<u>NAME</u>	<u>LOCATION</u>	<u>AMOUNT</u>
Home construction	Bob Anderson	Yakatat	\$ 75,000
Home construction	Harold Martin	Juneau	55,000
Home construction	Robert Cotant	Haines	80,000
Home construction	Douglas Finley	Juneau	87,875
Home construction	Ken & Julia Leland	Ketchikan	85,000
Home construction	Ron Parsley	Gravina Island	75,000
Home construction	Eddy Nicholson	Dillingham	130,000
Construction	Mary Backford	Dillingham	140,000
Renovate	Carl Heyano	Dillingham	50,000
Home construction	Martin Zelonky	Kotzebue	110,200
Remodel & renovate	Elsa Bronson	Nome	100,000
Home construction	Bonnie Johnson	Nome	66,500
Duplex	Frank DeCostanza	Nome	100,000
Home construction	Guy Johnston	Fairbanks	33,000
Home construction	Bill Wright	Delta Junction	37,050
Building material	Clem Tillion	Halibut Cove	15,000
	Lauri Goggin	Fairbanks	65,000
Building material		Central	15,000
Remodel		Chena Hot Springs	27,500
		Bethel	25,000
Duplex	Carlson	Kodiak	75,000
Home construction	Stockwell	Palmer	24,700
Home construction	Ryan	Chugiak	99,750

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

DATE: March 6, 1981

TO: Honorable Sam Cotten, Chairman
House Finance Committee

FROM: Milt Barker, ^{MS}Fiscal Analyst
Division of Legislative Finance

SUBJECT: AHFC Mortgage Purchase Financing Plans

The attached tables delineate several alternative methods of financing AHFC mortgage purchases for the remainder of FY 81 and FY 82. The tables are for the purpose of illustrating the relative costs of various financing methods. The amounts in the tables are not recommendations.

Total Mortgage Demand

The amount of mortgages to be purchased for the remainder of FY 81 is assumed to be \$133 million, the amount contained in CSSB 185(Finance). The amount for FY 82 is \$700 million, the estimate upon which the Governor's budget is based and which AHFC has used for evaluating alternative financing methods. AHFC now believes the FY 82 amount may be low in light of FY 81's supplemental needs. ISER recently completed a study for AHFC in which they estimated FY 82 mortgage demand at \$676.4 million.

Tax-Exempt Bonds

The U.S. Department of Treasury plans to issue temporary regulations for tax-exempt mortgage revenue bonds in six to eight weeks. Treasury officials feel these regulations will clarify enough of the issues for bonds to be marketed. They say that several housing agencies are planning to do so.

The Ullman bill, P.L. 46-499, limits AHFC to \$100 million per calendar year in tax-exempt bonds until December 31, 1983. Another \$100 million is reserved for municipalities. However, the Governor has the authority to grant the full \$200 million allotment to AHFC during calendar 1981. The Legislature can also allocate by law the total \$200 million in any manner until 1984. No tax-exempt revenue bonds can be issued after 1983.

Honorable Sam Cotten
March 6, 1981
Page 2

There are also limitations on the mortgages which can be purchased with tax-exempt bonds. The previously mentioned ISER report estimates that there will be \$192 million in demand for mortgages that meet the home purchase price limitation.

Of this, only \$168.2 million will be demand for owner-occupied single family residences, another requirement of the Ullman bill. Under special circumstances, duplexes qualify for tax-exempt financing. ISER estimated total demand for single family and duplexes within the purchase price limitation at \$175 million.

The Ullman bill further requires that home buyers cannot have owned a home within the past three years. However, since approximately 40% of AHFC's mortgagors are first-time home buyers, this limitation may not pose a problem. In the succeeding years, it will be increasingly likely to be a constraint as more households take advantage of AHFC's programs.

MB:vsw

Attachments

Table I

AHFC MORTGAGE PURCHASE FINANCING PLANS

Appropriations Required (\$ millions)

<u>Table</u>	<u>FY 81 Supplemental</u>	<u>FY 81</u>	<u>Total</u>
II. Tax Exempt Bonds and Pass-Through Mortgage Certificates	\$ 26	\$118	\$144
III. Pass-Through Mortgage Certificates	26	139	165
IV. Tax-Exempt and Taxable Bonds	42	175	217
V. Taxable Bonds	42	225	267
(No Table) Direct Purchase Funded by State Appropriation	133	700	833

Table II

AHFC MORTGAGE PURCHASE FINANCING PLAN

Tax-Exempt Bonds and Pass-Through Mortgage Certificates

	<u>FY 81 Supplemental (\$ millions)</u>	<u>FY 82 (\$ millions)</u>
Total Mortgages	\$133	\$700
Mortgage Amounts Below \$90,000 to be Subsidized	117	616
Less: Principal Repayments and Interest on SAM Fund Assets	<u>9</u>	<u>40</u>
Subsidized Mortgages to be Funded by Money Market	108	576
Tax Exempt Bonds	--	200
Taxable Bonds	--	--
Pass-Through Mortgage Certificates	108	376
Subsidy Required		
Tax Exempt Bonds ¹	--	28
Taxable Bonds ²	--	--
Pass-Through ³ Mortgage Certificates	<u>26</u>	<u>90</u>
Total Subsidy	\$ 26	\$118

Footnotes

¹Assumes mortgages earn 9.67%; bonds yield 11% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

²Assumes mortgages earn 9.67%; bonds yield 15% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

³Assumes net yield of 9.295% on mortgages; certificates yield 13.1%; 2% cost of issuance for certificates.

Table III

AHFC MORTGAGE PURCHASE FINANCING PLAN

Pass-Through Mortgage Certificates

	<u>FY 81 Supplemental</u> <u>(\$ millions)</u>	<u>FY 82</u> <u>(\$ millions)</u>
Total Mortgages	\$133	\$700
Mortgage Amounts Below \$90,000 to be Subsidized	117	616
Less: Principal Repayments and Interest on SAM Fund Assets	<u>9</u>	<u>40</u>
Subsidized Mortgages to be Funded by Money Market	108	576
Tax Exempt Bonds	--	--
Taxable Bonds	--	--
Pass-Through Mortgage Certificates	108	576
Subsidy Required		
Tax Exempt Bonds ¹	--	--
Taxable Bonds ²	--	--
Pass-Through ³ Mortgage Certificates	<u>26</u>	<u>139</u>
Total Subsidy	\$ 26	\$139

Footnotes

¹Assumes mortgages earn 9.67%; bonds yield 11% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

²Assumes mortgages earn 9.67%; bonds yield 15% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

³Assumes net yield of 9.295% on mortgages; certificates yield 13.1%; 2% cost of issuance for certificates.

Table IV

AHFC MORTGAGE PURCHASE FINANCING PLAN

Tax-Exempt and Taxable Bonds

	<u>FY 81 Supplemental (\$ millions)</u>	<u>FY 82 (\$ millions)</u>
Total Mortgages	\$133	\$700
Mortgage Amounts Below \$90,000 to be Subsidized	117	616
Less: Principal Repayments and Interest on SAM Fund Assets	<u>9</u>	<u>40</u>
Subsidized Mortgages to be Funded by Money Market	108	576
Tax Exempt Bonds	--	200
Taxable Bonds	108	376
Pass-Through Mortgage Certificates	--	--
Subsidy Required		
Tax Exempt Bonds ¹	--	28
Taxable Bonds ²	42	147
Pass-Through ³ Mortgage Certificates	<u>--</u>	<u>--</u>
Total Subsidy	\$ 42	\$175

Footnotes

¹Assumes mortgages earn 9.67%; bonds yield 11% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

²Assumes mortgages earn 9.67%; bonds yield 15% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

³Assumes net yield of 9.295% on mortgages; certificates yield 13.1%; 2% cost of issuance for certificates.

Table V

AHFC MORTGAGE PURCHASE FINANCING PLAN

Taxable Bonds

	<u>FY 81 Supplemental</u> <u>(\$ millions)</u>	<u>FY 82</u> <u>(\$ millions)</u>
Total Mortgages	\$133	\$700
Mortgage Amounts Below \$90,000 to be Subsidized	117	616
Less: Principal Repayments and Interest on SAM Fund Assets	<u>9</u>	<u>40</u>
Subsidized Mortgages to be Funded by Money Market	108	576
Tax Exempt Bonds	--	--
Taxable Bonds	108	576
Pass-Through Mortgage Certificates	--	--
Subsidy Required		
Tax Exempt Bonds ¹	--	--
Taxable Bonds ²	42	225
Pass-Through ³ Mortgage Certificates	<u>--</u>	<u>--</u>
Total Subsidy	\$ 42	\$225

Footnotes

¹Assumes mortgages earn 9.67%; bonds yield 11% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

²Assumes mortgages earn 9.67%; bonds yield 15% plus 1% servicing cost; 30 year maturity; subsidy earns 15%.

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

DATE: February 24, 1981

TO: Honorable Sam Cotten, Chairman
House Finance Committee

FROM: Milt Barker, ^{MB}Fiscal Analyst
Legislative Finance Division

SUBJECT: Direct Funding vs. Subsidized Bond Funding
of Mortgage Purchases

The cost to the state for funding mortgage purchases is the same whether the state funds the purchases directly with state monies or appropriates the subsidy required to fund purchases with bond funds.

In the case of direct funding, the cost to the state is the difference between the lower interest rate it earns on mortgages and the higher rate it could earn in the market if funds used to purchase mortgages were instead invested in the market.

Of course, the cost of direct funding is spread over time; the cost, represented by the difference between the lower mortgage rate and the higher market rate, occurs each and every year over the life of the loan.

Recognizing that a dollar in the future is less valuable than a dollar now, and measuring this difference in value by the market interest rate, one can calculate the cost of direct funding in terms of today's dollars. This is done by present valuing the difference in interest over the life of the loan.

The amount determined by this present value calculation is exactly the subsidy required to provide bondholders with a market rate of interest over the life of the bond. Working the present value calculation in reverse, the subsidy would earn enough interest over the life of the bond that the total amount, subsidy plus interest, would equal the total in interest to be paid to the bondholder less the interest received on the mortgages.

The more important considerations are the higher up-front cash outlay required for direct funding and the transfer of assets to AHFC created by direct funding. Strictly speaking, the cost

Honorable Sam Cotten
February 24, 1981
Page 2

to the state is greater for direct funding since the amounts at issue are appropriated from the state to AHFC.

Subsidy appropriations are totally consumed in paying interest to bondholders. However, amounts appropriated for direct funding increase the assets of AHFC by the amount of the appropriation in the year of the appropriation. Moreover, as these assets earn interest from the mortgages purchased, AHFC's assets will build over time.

The capitalization of AHFC involved in direct funding may make the agency less responsive to the state in the future. It also means a relative decrease in state assets and earnings which will limit the state's future ability to reassess needs and allocate resources.

MB:vsw

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Hon. Arliss Sturgulewski
Chairwoman
Budget & Audit Committee

FROM: Milt Barker ^{MB}
Fiscal Analyst

DATE: February 18, 1981

SUBJECT: AHFC and the Ullman Bill

Attached is an excerpt from a December 4, 1980, Alaska Housing Finance Corporation memo to Governor Hammond that lists provisions of the Ullman bill which have a significant impact on AHFC.

As a result of the Ullman bill, the following options are under consideration for AHFC's future financing needs:

- 1) tax-exempt mortgage revenue bonds that meet the requirements of the Ullman bill
- 2) state general obligation bonds used for veterans' mortgages
- 3) taxable mortgage revenue bonds
 - a) 30 year term
 - b) 10 year term, non-assumable mortgages
- 4) pass-through mortgage certificates

AHFC has prepared legislation which would permit the corporation to undertake any of the options except G.O. bonds. That option probably would require a constitutional amendment.

It is apparent that alternatives are available which would enable AHFC to meet its mortgage demand at significantly less cost than the \$225 million contained in the Governor's budget for FY 82.

THE OPTIONS

Tax-Exempt Revenue Bonds

Basically the Ullman bill limits Alaska's issuance of tax-exempt revenue bonds used for purchasing mortgages to \$200 million per year, of which only \$100 million could be issued by AHFC, the remainder being reserved for municipalities. Because of several other restrictions, listed in the attachment, AHFC has doubts about whether there would be even \$100 million of qualified mortgages that they could purchase. AHFC has commissioned ISER to provide them with a report, due this February, as to just how much demand in terms of qualified mortgages would exist in FY 82 as well as total mortgage demand. In any event, no tax-exempt revenue bonds can be issued after December 31, 1983 under the Ullman bill. Municipalities are waiting for Treasury regulations before taking any actions themselves.

G.O. Bonds for Veterans

The one loophole in the bill is that general obligation bonds for veterans' mortgages are not prohibited or limited. This avenue could possibly fulfill up to 40% of AHFC's demand.

However, constitutional questions about such bonds might effectively preclude their use prior to a constitutional amendment. The constitution provides that G.O. bonds are to be authorized only for "capital improvements." Some of the opinions on this issue hold that there are two tests of what constitutes a "capital improvement." One is that a tangible physical asset be created; the other is that the state acquire a legal interest in the asset.

Even if a legal opinion could be gotten which claimed G.O. bonds for veterans' mortgages were constitutional, the potential question would remain and might effectively preclude marketing the bonds. A constitutional amendment, if passed in the 1982 general elections, would not be of any assistance until the last half of FY 83.

Taxable Bonds

The most straightforward alternative to tax-exempt bonds would seem to be to issue similar bonds whose only difference would be that the interest they pay will be subject to federal income tax and thus they would bear a higher interest coupon. Of course, the required subsidy from the state to keep the homeowners' borrowing costs the same will be correspondingly greater.

However, Dean Witter is proposing that AHFC issue a shorter term bond, 10 years as opposed to a normal 30 year maturity, to take advantage of lower interest rates in the short term market. There would be some distinct disadvantages to homeowners in that their loans would not be assumable and would, in effect, have their interest rate redetermined at 10 year periods. The amortization schedule for a homeowner would still be based on a 30-year period and AHFC would have a lien for 30 years as well.

Pass-Through Mortgage Certificates

Merrill, Lynch has proposed that AHFC issue pass-through certificates which are a financial instrument that basically involves packaging and selling a group of mortgages. The certificate holders receive the mortgage payments as they are made to a trustee. Insurance guards against delinquencies. Prepayments accelerate the cash flow to the certificate holder; prepayments result from the sale and refinancing of homes.

The acceleration of cash flow results in the certificates trading at lower interest rates than a 30 year taxable bond. The certificates in effect have a 10 to 12 year maturity--though based on 30 year mortgages--due to prepayments.

Another advantage to the state is that they are not general obligations of AHFC and are not counted as part of overall state indebtedness.

FISCAL ANALYSIS

Subsidy Methods and AHFC Capitalization

An important aspect of Dean Witter's proposal is that they propose state appropriations that would be large enough to

provide the required subsidy of taxable bonds solely from the interest earnings on the appropriations. The method AHFC employed for the 1980 bond issues uses both the principal and interest to provide the subsidy. This results in a lesser amount to fund the subsidy and leaves no principal remaining when the bonds are paid off.

The Dean Witter proposal would leave the principal amount in AHFC as permanent assets. Over time, this could result in sufficient capitalization of AHFC that no additional subsidy appropriations from the state would be required. There would, however, be a possible lessening of state control of AHFC as well as a relative diminution of the general fund which would lessen the state's flexibility in reassessing needs and allocating resources in the future.

FY 81 Appropriations and AHFC Capitalization

Along the same lines, Witter proposes that AHFC be released from its requirement to return \$236 million in state loans and mortgages to the state general fund on July 1, 1983. These investments were appropriated to AHFC and pledged by them to permit a possible redemption of its 1980 bond issues in case the Ullman bill removed their tax-exempt status. As this did not occur, the state might want to consider whether these investments could be returned to the general fund sooner than 1983. An amendment to the bond resolution could be required.

As the attached statement from AHFC's 1980 third series bond prospectus indicates, only \$50.6 million of \$105 million appropriated to AHFC in cash last session was required for interest subsidies. The rest was used to purchase mortgage loans. These mortgages, in fact all assets of the State Assisted Mortgage Fund (SAM Fund), were pledged for possible redemption of 1980 bond issues. "Assets" include the interest earned on the total \$290.4 million in loans and mortgages, another \$41.5 million by June 30, 1981, bringing total assets to \$331.9 million at that date. After another two years, further interest should bring SAM assets to \$398 million at which time \$236 million would be returned to the general fund, leaving \$162 million with AHFC.

The \$162 million would also be released from its pledge for redemption on July 1, 1983. Then, it could be used as subsidies reducing the need for state appropriations for

such for FY 84. However, it is more likely that AHFC will again pledge the SAM assets at that time, if not before as a "junior" pledge, to force the state to yield these assets to AHFC indefinitely. The assets would probably be continually invested in mortgages thus reducing the need somewhat for state subsidies, but not as much as if the assets themselves were used for the subsidies. Possibly legislation could forestall AHFC's use of pledging to permanently capture excess state appropriations. Certainly future appropriations could contain language to guard against this if desired.

FY 81 Supplemental and AHFC Capitalization

For the month of February 1981, AHFC has received \$70 million in requests for mortgages. Given the amount of funds remaining from 1980 bond issues, AHFC had planned to allot \$40 million per month for the remainder of FY 81 for mortgage purchases. Five months of \$30 million deficiency is the basis for the \$150 million appropriation in SB 185.

These funds would be used to purchase mortgages directly; this type of funding of AHFC mortgage purchases has not previously been utilized. The funds will become permanent assets of AHFC. This method requires more up-front state dollars than if subsidized bond funds could be used.

AHFC plans a July 1981 bond sale of \$200 million (July 23 is the closing date). Although AHFC may very well need \$150 million before then to provide commitments, actual cash draw down should be much less. With a 110 day commitment period, up to \$203 million in loan commitments could remain undrawn on July 23, 1981, if commitments have been made at a rate of \$70 million per month through June 30, 1981.

Thus, SB 185 could contain language that would revert any portion of the \$150 million that is not expended as of July 23, 1981, to the general fund. This would ensure that subsidized bond funds rather than state appropriations are used for any loans committed to during FY 81 but drawn down after July 23, 1981. This alternative would require appropriation of the subsidy for an additional \$150 million in bonds in FY 82 in case all of the supplemental is returned and the commitments funded entirely in FY 82 from bond proceeds.

To ensure that all FY 81 commitments are funded from bond funds, the \$150 million could be made a loan to AHFC to be repaid from the July bond sale and only the subsidy appropriated. This would result in no additional capitalization of AHFC. Using the same assumptions used for figuring subsidies in AHFC's FY 82 budget request, the subsidy appropriation would be \$61.5 million.

FY 82 Appropriations

The Governor's budget contains an appropriation of \$225 million for AHFC subsidies. This amount, it is claimed, will provide the required subsidy if the bond market is at 15% and \$700 million in loans are made (only \$616 million of which will be loans for amounts below \$90,000 and thus eligible for subsidy).

I estimate a subsidy cost of \$236 million for \$576 million in subsidized loans in the same market. \$576 million is the \$616 million in loans reduced by \$40 million in principal repayments and interest on SAM fund assets during FY 82.

The above calculations assume principal and interest of subsidy appropriations are used for subsidies.

Merrill, Lynch had estimated an interest cost of 13.1% for pass-through certificates and Dean Witter a cost of 12.5% for early maturities and 13% on later maturities of their short-term taxable bond for the same market in which long term AHFC bonds would cost 15%.

Using Merrill, Lynch's 13.1% pass-through securities, the subsidy cost would be \$139 million for \$616 million in subsidized mortgages or \$130 million for \$576 million of mortgages.

The subsidy costs for Dean Witter's short-term bonds would be practically the same were it not for their plan to use only interest from the state appropriation for subsidy. On this basis, their required subsidy appropriation was estimated at \$205 million for \$616 million in subsidized bonds.

MEMORANDUM
February 18, 1981
AHFC/Ullman Bill
Page 7

Equity Considerations under Taxable Bonds

In a 15% taxable bond market with the addition of a 1% service fee for AHFC--those being AHFC's assumptions for their FY 82 budget submission--the subsidy cost is 39% of the principal amount of any loan up to \$90,000. This is so as long as the mortgage rate to borrowers remains at 9% for veterans and 10% for others.

This means that anyone can get the equivalent of a \$35,000 payment this year from the state by taking out a home loan of \$90,000 or more. Over the life of the loan, the interest on the subsidy amount of \$35,000 results in a total subsidy to an individual of \$159,000. For a low income individual who participates in AHFC's Home Ownership Assistance Program, the subsidy is even greater.

Using the preliminary 1980 census figure of 400,331 people and the 1970 census average household of 3.52 persons, the total cost of providing every household in Alaska with a \$35,000 payment this year would be \$3.98 billion.

Attachment

cc: Senate Finance Committee
House Finance Committee

PROVISIONS OF THE ULLMAN BILL

The Federal legislation generally provides for the following:

1. STATE CEILING OF \$200 MILLION PER CALENDAR YEAR. Although the legislation provides for a State ceiling per calendar year of the greater of nine percent of the average annual principal amount of mortgages executed during the past three years or \$200 million, the \$200 million figure is the greater for the State of Alaska.
2. PURCHASE PRICE LIMITATION. The acquisition cost of a residence financed by the proceeds of the bond issue may not exceed 90 percent of the average price in the area for the preceding 12 months.
3. FINANCING CAN BE PROVIDED FOR ONLY OWNER-OCCUPIED SINGLE FAMILY RESIDENCES. Only under special and certain circumstances can two to four family owner-occupied residences be financed with the proceeds of a tax-exempt bond issue.
4. HOME BUYER CANNOT HAVE OWNED A HOME WITHIN THE PAST THREE YEARS. The legislation precludes from participation a home buyer who has had a present home ownership interest in a principal residence during the immediately preceding three year period.
5. STATE HOUSING AGENCIES LIMITED TO 50 PERCENT OF STATE CEILING. The legislation provides that a State agency may issue only 50 percent of the State ceiling per year unless another allocation is made by State law. The other 50 percent is allocated to local government issuers based upon their market share for the preceding three calendar years. The initial interim authority is provided to the Governor and the termination of the Governor's authority is the earliest of (a) January 1, 1982, or (b) the effective date of any State legislation with respect to the allocation of the State ceiling.
6. THE EFFECTIVE MORTGAGE RATE CANNOT EXCEED BOND YIELD BY MORE THAN ONE PERCENT. This provision requires the Alaska Housing Finance Corporation to include in its one percent mark-up, in addition to the traditionally included cost of administration and Seller/Service fees, the cost of issuance of the bonds and some fees which are born by the mortgagor.

(home buyer). In addition to the one percent arbitrage limit, the legislation provides that other arbitrage and investment gains shall be paid or credited to the mortgagors in the most expeditious fashion.

7. ~~ALL MORTGAGES MUST BE NEW MORTGAGES.~~ No part of the proceeds of an issue under this legislation can be used to acquire or replace existing mortgages.
8. ~~NO REFUNDING OF MORTGAGE SUBSIDY BONDS IS ALLOWED AFTER THE DATE OF ENACTMENT.~~ In the event that the bond market returned to a position where the refunding by bond issue of a past issue would attain better interest rates for the Alaska Housing Finance Corporation, we would be unable to derive the benefit of such a situation.
9. ~~THIS YEAR'S MORTGAGE REVENUE BOND ISSUES ARE PROTECTED,~~ IN THEIR TAX-EXEMPT STATUS. The only positive aspect of this legislation is that it protects the tax-exempt status of the most recent \$460 million in bonds that have been issued by the Alaska Housing Finance Corporation so long as the proceeds of the issues are entirely expended in mortgage purchases or have been firmly committed to purchases within one year from the date of issuance.
10. ~~GENERAL OBLIGATION BONDS ISSUED TO PROVIDE SINGLE FAMILY RESIDENCES FOR VETERANS ARE NOT AFFECTED OR ELIMINATED.~~ The bill eliminates the ability by any State or local government unit to issue any tax-exempt mortgage revenue bonds after December 31, 1983.

State Assisted Mortgage Fund
June 30, 1980 Appropriations and Estimated December 31, 1981 Valuations

Summary of SAM Fund Balances

	Upon Initial Appropriation June 30, 1980	Estimated As of December 31, 1981
Cash and Investment Securities	\$105,000,000	\$ 50,650,000
Mortgage Loans—Appropriated	236,000,000	
—Appropriated and Purchased		281,250,000
	<u>\$341,000,000</u>	<u>\$331,900,000</u>

Summary of Estimated SAM Fund Activity—June 30, 1980 through December 31, 1981

	Cash & Investments	Mortgage Loans
Initial Appropriations		
Cash	\$105,000,000	
Mortgage Loans		\$236,000,000
Earnings on Mortgages and Investments	41,500,000	
Mortgage Principal Payments	6,750,000	(6,750,000)
Mortgage Purchases—SAM Program	(102,000,000)	102,000,000
Subsidy Cost—1980 Second Series		(9,000,000)
—1980 Third Series		(41,000,000)
Investment Securities	(600,000)	
Balance upon Completion of Purchases of State Fiscal Year Commitments July 1, 1980-June 30, 1981	<u>50,650,000</u>	<u>281,250,000</u>
		<u>\$331,900,000</u>

HOUSE FINANCE COMMITTEE

March 9, 1981

1:30 p.m.

HFC 81-13, side 2 #521)

PRESENT

All members of the Committee were present. (Representatives Carney, and Meekins arrived later in the meeting.) Present to provide testimony were Representatives Miller and Clocksin; Allen Korhonen, Deputy Commissioner, Management Services and Marsha Hubbard, Director, Division of Management and Budget, Department of Health and Social Services; Fred Muller, Deputy Commissioner, Personnel Management and Judy Crondahl, Director, Administrative Services, Department of Administration; Dove M. Kull, Chairperson, Senior Citizens Advisory Board, City/Borough of Juneau; Luanne Cutler, Research Assistant to Representative Buchholdt; Lois Lind, Director, CETA; and Billy Berrier, Legislative Counsel.

SSHB 17

Chairman Cotten called the meeting to order and stated the first bill to be considered was:

SSHB 17 -- "An Act establishing an Older Alaskans Commission; and providing for an effective date."

REPRESENTATIVE MIKE MILLER, the prime sponsor of the bill, stated the need for this bill is very great. He explained this is essentially the same bill passed by the House last year which died in the Senate. He said the only difference between the Sponsor Substitute and the original bill is that the Sponsor Substitute recognizes the restructuring of the Office on Aging into the new Division in the Department of Health and Social Services. He said the Committee also has before them the Health, Education and Social Services (HESS) Committee Substitute, which he strongly recommends be passed. He said the CS is an improvement over the Sponsor Substitute.

(Representative Carney arrived at this time.)

Representative Miller explained the origin of the bill came about one and one-half years ago through the Special Committee on Services to the Elderly. He commented on the activities of that Committee and some of their recommendations which were enacted into law last year. He said he considers this bill the "Flagship Bill" and it did not pass last year.

Representative Miller explained that right now the services for older persons are spread throughout state government. He

explained that the Commission would be a repository of all the information and services available to Alaskan senior citizens. He said they would also be the policy making group for the State. He said there are two areas where the Commission will have no jurisdiction -- the longevity bonus program and the Pioneers Homes. They think both areas are working very well as presently structured, and they "don't want any opportunity for tinkering around". He explained the Commission members would not be public employees, but would be older people who themselves would be most impacted by the decisions being made.

Representative Miller said the Committee will hear that the Department of Health and Social Services doesn't want to relinquish the administration control they have; they would rather this group be an advisory group. He said his judgment is we can trust the older people in the State to make good decisions.

Chairman Cotten commented the Bill didn't make it through last year, and he asked what had changed so that the Bill might now progress. Representative Miller said that basically the Pioneers of Alaska were afraid someone would get in and tinker around with a program they felt was already 100% alright. They were afraid something would happen in the area of the Pioneers Home last year, so they put enough language into this bill to quiet those fears.

Chairman Cotten said it is his understanding from reading the Bill that the Commission members do not serve at the pleasure of the Governor. Representative Miller said that was correct, they would be appointed by the Governor, and the Governor doesn't have to reappoint them; but they are not firable by the Governor. He said he thinks the Governor will be very discriminatory in who he appoints to the Commission. He thinks by giving the Commission a large amount of responsibility, top notch people will be appointed as members.

DOVE M. KULL, CHAIRPERSON, Senior Citizens Advisory Board, City/Borough of Juneau, presented a position paper on HB 17. (See attachment #1.)

(Tape change, HFC 81-14, Side 1.)

MR. ALLEN KORHONEN, Deputy Commissioner, Management Services, Department of Health and Social Services, presented a revised Fiscal Note for CSSHB 17 (see attachment #2). He said the original position paper submitted by the Department still holds true. He explained there is a difference of opinion on whether or not the Commission should be an administering one; the Departemnt is saying it should not be.

Chairman Cotten interrupted his testimony and requested that Representative Clocksin, Chairman of the HESS Committee, be allowed to testify at this time in order that he could return to a Judiciary Committee meeting.

REPRESENTATIVE CLOCKSIN advised the HESS Committee held statewide teleconferences on this bill, they had two committee hearings as well as numerous work sessions. The majority of the testimony they received supported creation of the Older Alaskans Commission. He explained the feeling of the HESS Committee was that despite the view of the Department of Health and Social Services, they would be able to create a more effective Commission under the Bill before the Committee. He said the Committee feels the programs should be operated by senior citizens. He agreed it is a policy judgment made by the Legislature that the Commission is more than advisory. He said the Commission moves into the actual development and implementation of policy. Representative Clocksin briefly outlined the changes in the HESS CS.

(Representative Meekins arrived at this time.)

Chairman Cotten said the language on page 5, line 21 and page 6, line 14 is of interest to him. Representative Clocksin said those are the two areas the Department specifically wants deleted from the Bill. He said if you want an advisory commission with no power those two sections should be deleted; if you want an advisory commission to be policy making and have substantive powers, leave them in.

Representative Rogers asked if they really wanted an administering group rather than an advisory group. He said they are saying older Alaskans should run older Alaskan programs; he wondered, then, if day care providers should run day care programs? He said his concern is with the idea that turning programs over to those who benefit by the programs could be creating a conflict for those administering the program. Representative Clocksin said one of the failings of the senior citizen programs is that many of the programs are being administered by an agency oriented towards helping poor people, and many of the senior citizen programs coming into the State are not just for poor people. He said it was a philosophical decision. He believes the people effected by the programs should be involved in making decisions on the programs. Representative Freeman said he seemed to be condescending in talking about senior citizens, and he asked why the bill was necessary in the first place. He wondered what value it had. Representative Clocksin said he certainly didn't mean to sound condescending. He said they received considerable testimony in HESS regarding the lack of responsiveness on senior citizen programs. He said there were complaints about the Department and the way they are administering the programs. There was further discussion on the Commission administering the programs.

MR. ALLEN KORHONEN briefly explained the types of services involved in the Older Americans Act. Chairman Cotten asked how much money they received under the Act. Mr. Korhonen said approximately \$5 million. Chairman Cotten asked if there was a general fund match. Mr. Korhonen said it is all federal funds. He explained the money comes to the Office on Aging through

Health and Social Services. Chairman Cotten asked if under the bill the State would still receive the money and then appropriate to the Commission. Mr. Korhonen said yes.

Mr. Korhonen said the original fiscal note they submitted indicated a decrease in funding of \$181.0. The revised fiscal note shows a zero net. He explained the original fiscal note was prepared without recognizing their desire to continue the Division of Adult Services. There was lengthy discussion on the fiscal note.

MS. MARSHA HUBBARD, Director, Division of Management and Budget, Department of Health and Social Services, explained that when they reorganized and put together adult services and aging services, they were trying to pull them together to save money and improve the programs. She said when aging is taken out, they are left with a \$7 million program for adult services, and the only personnel they have for the program are a director, a clerk and the social workers in the field. She said they don't have the personnel necessary to do the planning for a \$7 million program. Ms. Hubbard advised they made a mistake with the original fiscal note thinking the entire program was going to the Department of Administration; when the bill was corrected, they submitted this revised fiscal note to try and re-establish the Division of Adult Services in the FY 82 budget. She commented they used this form the same way they would use a revised program. She said they don't need additional funds for Aging, but they do in fact need additional funds for Adult Services. There was further discussion. Ms. Hubbard said the program won't cost them anything more than what the Governor has proposed in his FY 82 budget. The Department of Administration has asked for five positions and the Department of Health and Social Services has asked for four.

MR. FRED MULLER, Deputy Commissioner of Personnel Management, Department of Administration, advised the Department is in favor of an Older Alaskans Commission. He commented it was not the intent of the Department to exclude any type of review of the Pioneers Homes under the bill.

(Tape Change, HFC 81-14, Side 2.)

Mr. Muller said the Department of Administration would basically be taking an administrative role. There was brief discussion. Mr. Muller said the Department of Administration fiscal note shows an increase of five members related to the Commission, for a dollar figure of \$378.4 for the first year. He said they assumed there would be six meetings a year. Chairman Cotten questioned the \$100.0 in contractual for a "needs assessment". No one appeared to know why that amount had been included. Chairman Cotten said it would appear that \$100.0 could be taken out.

There was further discussion on the Administration and Health and Social Services fiscal notes.

Chairman Cotten appointed a subcommittee with himself as Chairman to study the fiscal notes for HB 17. Representative Rogers recommended the Subcommittee look into how much the State will actually be receiving in federal funds. Representative Malone recommended that they look at how many grants per administrative person it works out to.

HB 26

The next bill to be considered was

HB 26 -- An Act relating to displaced homemakers; and providing for an effective date."

Representative Buchholdt said the Bill is not new to the House. She said it was introduced last year at the request of constituents in the Anchorage and Fairbanks areas. She said the Fairbanks program was used as a model. She said there is a HESS committee substitute to the bill. She advised it changes the definition of "displaced homemaker", and opens it up to just about anyone. Under the original bill, she said, the definition set a definite time of six years as a homemaker. She said she didn't have any real objection to the change. Representative Buchholdt introduced her Research Assistant, LUANNE CUTLER, and requested that she explain the bill to the Committee.

MS. CUTLER explained a displaced homemaker is a person, usually a middle aged woman, who finds herself "displaced" through the death of her spouse, divorce or desertion. She said it is a person who does not have any normal job skills and is without a livelihood. Ms. Cutler said passage of the bill would set up a network of agencies that would provide counseling, job training, and other services to help the person find work. She said this is not a welfare program; there is no cash assistance. She said the bill simply provides services to help a person become employable.

Ms. Cutler explained the definition of displaced homemaker under the HESS CS allows more people to be eligible for the services. She said the HESS CS sets out that therapy for prescription drug addiction be a type of service available under the program.

MS. LOIS LIND, Director, CETA, presented a revised fiscal note for the bill. (See attachment #3.) In answer to questions from Chairman Cotten, Ms. Lind said the fiscal note is conservative. She said they have not designated which entities would receive the grants. Ms. Cutler said they hope that they will be spread throughout the State. There was brief discussion on the Fairbanks program.

In answer to a question from Representative Meekins concerning the definition of displaced homemaker, Ms. Cutler explained the Bill allows the Department to promulgate regulations on who to certify as a displaced homemaker. Ms. Lind said they don't believe there should be an income criteria.

Representative Adams asked if they were duplicating any services here. Ms. Cutler commented there are some networks for displaced homemakers now and this bill would either increase the funding or coordinate with the existing group. She said they don't intend to duplicate any services.

Representative Carney asked if they gave people money. Ms. Lind said as far as the program goes with CETA in Fairbanks, they can provide them with money for on-the-job training. She said the main purpose is to deal with people who have some income but can't cope with life right now and/or are afraid to enter the job market. She said if they can assist them in becoming employed, they can become part of the labor market. Ms. Cutler said they can apply through other agencies for cash aid. There was discussion.

Representative Carney asked how they would determine which areas get the funds. Ms. Lind said they will put out statewide requests for proposals. Representative Carney asked what criteria will be used. Mr. Lind explained the bill says the community has to have a multipurpose center, and it is based on the need of the community. She referred Committee members to page 2, line 24 of the bill.

REPRESENTATIVE CLOCKSIN referred to the HESS CS definition of displaced homemaker, and said the purpose of the new definition was to eliminate family income as an eligibility criteria. Concerning cash payments, Representative Clocksin referred Committee members to page 4, line 17 of the bill, where they added the authority to provide small amounts of money for temporary babysitting and transportation. He said they did not intend this to be a subsidy for licensed day care facilities or for buying a car; the intent is if someone needs a babysitter for job training or a job interview, or cab fare to get there, this will provide it.

Representative Malone said he generally favors the idea behind the bill. He said basically we are helping people that normally belong to the middle class of our society. He asked if the program is going to be run by bureaucrats or people in the community itself. Representative Buchholdt explained the intent of the bill is that the program would be run by nonprofit organizations. There was brief discussion.

Chairman Cotten advised he would like to hold HB 26 for further testimony. He stated it would probably be brought up again on Thursday.

HB 215

HB 215 -- "An Act relating to grants to municipalities."

Chairman Cotten commented that some of the projects approved under HB 60 last year have not moved as quickly as some people thought they would. He commented at least 20% of the money is

sitting in the funds of the municipalities, and he introduced the bill to address this problem.

MR. BILLY BERRIER, Legislative Council, said the problem he was asked to address when drafting the bill was precisely what happens when money is held by the municipality. He said clearly the Legislature has the authority to make responsible conditions to the grants. He said requiring that the interest that comes from grants becomes part of the grant seems to be a responsible condition. He commented further.

(Tape change HFC 81, 15, side 1.)

There was brief discussion on grants and the way they are paid out. MS. JUDY CRONDAHL, Director of Administrative Services, Department of Administration, said she thinks the reason the 20% advance payment was included in the legislation was that a lot of projects appropriated for are very large amounts, and the municipalities couldn't afford to fund capital research in advance of letting the bids for the projects. She said it is more of a working capital fund.

Chairman Cotten said he thinks the whole process of grants to municipalities should be looked at. In answer to a question raised in earlier discussion, Representative Rogers said he thinks that only the earnings from the amounts appropriated as grants to municipalities would be valid; with the general fund earnings he didn't think they could get around the dedication of funds problem.

Ms. Crondahl said they have had questions from municipalities on what to do with the earnings. She said they have been telling them to use the earnings on the particular project. She commented there are other problems in the municipal grants area, particularly with the clause that projects constructed must be maintained by the municipality. She briefly explained. Chairman Cotten said the Committee would be looking at the whole area of municipal grants.

ADJOURNMENT

The meeting adjourned at 3:35 p.m.

Tape HFC 81-13, side 2 #521 to end
HFC 81-14, side 1 #001 to end
HFC 81-14, side 2 #001 to end
HFC 81-15, side 1 #001 to 241

The state of Alaska has been generous in the provision of services and benefits to its elderly population.

There is the Pioneers' Homes program for those older Alaskans who have lived in the state for longer than 15 years. It serves about 500 persons.

For those older Alaskans who have lived in the state for longer than 25 years, there is the Alaska Longevity Bonus. This is worth \$200 per month for about 8,000 persons.

There is the Property Tax Exemption for seniors who are homeowners, and a Renters' Rebate for seniors who rent. As of FY '80, the homeowner program served about 3,600 persons with an average benefit of \$556; the renters' program served about 1,050 persons with an average benefit of \$268. This latter program was increased last session.

There is a Senior Housing program which has assisted in the construction of about 300 units of congregate housing with, perhaps, another 150 units soon to come on line. There's a Special Assessments program and a Winterization program.

The Office on Aging channels almost \$6 million in Older Americans' Act monies into about two dozen local communities throughout the state for the benefit of older Alaskans. There is a Senior Community Employment Program which provides employment opportunities for about 91 persons over the age of 55.

There is \$1 million in grants for Older Alaskans Service program.

There is a Homemakers-Home Health Aide program which assists about 500 persons; Medicaid which primarily is spent on about 400 persons in nursing homes; and General Relief Medical, of which seven percent of the budget is spent on the elderly.

For retired state employees and teachers, there is a good pension program. The University of Alaska offers free tuition to older Alaskans. Fish and Game provides free and permanent hunting and fishing licenses. The Marine Highway system offers free travel on the ferries for older Alaskans.

All totalled, in FY '80 the state plans to spend \$57,917,156 for benefits and services for approximately 20,000 older Alaskans, half of whom are over the age of 65.

How is the money administered? Who makes the decisions affecting us older Alaskans? At present, we are in the hands of three or four different departments, half a dozen different divisions and at least 24 different program managers.

Why not a single agency - an Older Alaskans Commission to develop a coordinated, comprehensive plan to enhance all these programs? Why not take a step forward in kindness on behalf of the elderly who are frustrated by the fragmentation in the delivery of these services and the poor planning in the development of these benefits? Finding one's way around is exhausting.

And why not include on this commission informed, aggressive men and women over 60 and over 65 as knowledgeable advocates? Let older Alaskans monitor their own programs, not merely recommend.

Why not focus on quality care, standards and economical administration? All of us over 60 years of age have lived through the Great Depression and have learned how to cope. Who knows better than we, what we need?

Why not structure this Older Alaskans Commission to develop a community-based, home-centered network of services and benefits?

We need a better delivery system, greater employment opportunities and more biomedical research on the aging process.

The state has been a great help to us, but why not let us help ourselves?

In December of 1979, Dr. Arthur Fleming (who is in his 70's) of the U.S. Commission on Civil Rights, decried the image of men and women considered "on the shelf" at age 60. He explained that non-involvement in the community and marketplace leads to physical, mental and spiritual deterioration. He predicted that legislation soon will remove all age barriers to employment.

Take advantage of us. Use us. Allow us to help you.

A majority of the 20,000 older Alaskans request our legislators and our governor to grant us self determination and our civil rights by creating an Older Alaskans Commission.

Thank you.



Dove M. Kull, M.S.W., A.C.S.W.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for Sponsor Substitute for House Bill No. 17

Title "An Act establishing an Older Alaskans Commission; ED."

Requested by The Health, Education and Social Services Date _____
Committee

II. FISCAL DETAIL

Agency Affected Department of Health and Social Services

Program Category Affected Social and Economic Assistance for the Aged

BRU, Program, or Subprogram(s) Affected Aging and Adult Services

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES		98.2				
200 TRAVEL		(35.1)				
300 CONTRACTUAL		(62.7)				
400 COMMODITIES		(.4)				
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		0				

FUNDING (Thousands of Dollars)

GENERAL FUND		0				
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		3				
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The Division of Adult and Aging Services is composed of three BRU's. The BRU's are WIN, Adult and Aging Services, and Aging Grants. The components of Adult and Aging Services are Administration and Adult Services.

If the bill is not amended then the fiscal impact is as follows: (see Tables 1 and 2)

I. Adult and Aging Services BRU

A. Administration Component

- (1) transfer \$921.8 of Aging Administration funds to the Department of Administration,

(cont.)

IV. DATE March 9, 1981

PREPARED BY Marsha A. Hubbard, Director

AGENCY Div. of Management & Budget, Health & Soc. Svcs.

PHONE 465-3331

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named) Donna H. Hall

33-001 (Rev. 12/80)

- (2) the Department of Health and Social Services keeps \$261.7 of Adult Services Administration funds; in order for the division to function independently, three additional positions will be created from funds which already exist in the FY 82 budget. Funding for these positions will be generated through reorganization of the incremental request in this component. All services on that Form 6 are removed except the 100 line in its entirety, the computer terminal and printer, and the equipment.

Health & Soc. Svcs. Planner I	R/17	\$37,647
Clerk Typist III	R/8	22,896
Admin. Officer II	R/19	37,647
		<u>\$98,160</u>

B. Adult Services Component

- (1) \$6,127.3 of Adult Services program funds remain in the Department of Health and Social Services,

II. Aging Grants BRU - all of the \$7,438.3 Aging program funds are transferred to the Department of Administration,

III. WIN BRU - all of the \$849.7 WIN program funds for services to adult WIN participants remain in the Department of Health and Soc. Services.

TABLE # 1

Amounts transferred to Administration

	Adult & Aging Admin.	Aging Grants	Totals
100	655.6	76.8	732.4
200	81.7	41.9	123.6
300	122.0	4.8	126.8
400	7.0	.9	7.9
700	55.5	7,313.9	7,369.4
TOTAL	921.8	7,438.3	8,360.1
FED.	537.9	5,631.1	6,169.0
GFM	316.8	1,211.2	1,528.0
OGF	67.1	596.0	663.1
POSITIONS	18	5	23

Aging Programs Transferred to Administration: transportation, escort services, outreach, information and referral, legal services/education, residential repair/innovation, health/health screening, companionship/visiting, telephone reassurance, chore maintenance, homemaker, congregate meals, home-delivered meals, nutrition education, long term care ombudsman services, and employment.

TABLE # 2

Amounts Retained by Health and Social Services

	Aging & Adult. Admin.	Adult Svcs.	WIN	Totals
100	243.0	653.9	459.5	1,356.4
200	1.6	28.0	16.9	46.5
300	13.7	14.6	35.2	63.5
400	0.8	6.8	13.1	20.7
500	2.6			2.6
700		5,424.0	325.0	5,749.0
TOTAL	261.7	6,127.3	849.7	7,238.7
FED.			502.3	502.3
GFM			86.5	86.5
OGF	261.7	6,127.3	260.9	6,649.9
POSITIONS	6	17	13	36

Adult Programs Retained by Health and Social Services: information and referral, individual and family counseling, adult protection, homemaker and home health aide services, adult foster care, adult residential care, services to displaced homemakers, shelters for battered women, counseling for male batterers, and women's resource centers.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

POUCH B - JUNEAU 99811

*House
Cotton*

March 9, 1981

The Honorable Samuel Cotton
House of Representatives
Chairman, Finance Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Cotton:

The Department of Community and Regional Affairs supports the Committee Substitute to House Bill 26 which relates to displaced homemakers. We believe that special attention should be focused on displaced homemakers in order to assist these individuals in achieving economic independence.

The Committee's substitute to House Bill 26 has eliminated all of the Department's previous concerns, and we fully support this Bill.

Thank you for giving us this opportunity to comment on this bill.

Sincerely,

Marie Matsuno

Marie Matsuno
Deputy Commissioner
Department of Community and
Regional Affairs

cc: Keith Specking, Office of the Governor
The Honorable Donald Clocksin, Representative



STATE OF ALASKA
OFFICE OF THE GOVERNOR

BILL ANALYSIS

Department Community & Regional Affairs	Sponsor (Principal) Buchholdt/House HESS Committee	Bill Number CSHB 26
Department Position		
Support		
Division Director Lois A. Lind	Date 3/9/81	Commissioner Lee J. Merney
		Date 9 March 81

GOVERNOR'S OFFICE USE

Comments:

☐ Position Noted

By

Date

SUMMARY

1. a) Related Bills (Similar or Conflicting)

1. b) Other Agencies Affected by Bill

Dept. of Health & Social Services

2. a) Organizational Support for Bill

**Commission on the Status of Women,
State Manpower Services Council**

2. b) Organizational Opposition to Bill

Program Effects of Bill

This bill establishes a Displaced Homemakers Program through the creation of Multipurpose Service Centers to provide the necessary counseling, aptitude testing, training, employment placement opportunities to assist displaced homemakers in achieving independence, gaining the economic security which is vital to a productive life, and improve the health and welfare of this growing group of members of society.

4. Fiscal Impact:

☐ None

☒ Fiscal Note Attached

5. Amendments Proposed:

None

6. Comments:

The Department recognizes the specific need for multipurpose service centers for displaced homemakers. The Department also believes that there is a need to expand upon this multipurpose service center concept to serve the needs of other disadvantaged groups experiencing difficulty in entering the labor market. Finally, the bill cannot be administered by the Department without funding for the necessary administrative costs.

**THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE**

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for House Bill No. 26 (HESS)

Title "An act relating to displaced homemakers; and providing for an effective date".

Requested by Finance Date 3/9/81

II. FISCAL DETAIL

Agency Affected Department of Community and Regional Affairs

Program Category Affected Social Services

BRU, Program, or Subprogram(s) Affected C.E.T.A.

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES	0	95.0	102.6	110.8	119.7	129.3
200 TRAVEL	0	30.0	32.4	34.9	37.7	40.7
300 CONTRACTUAL	0	1472.0	1589.8	1717.0	1854.4	2002.8
400 COMMODITIES	0	3.2	3.5	3.8	4.1	4.4
500 EQUIPMENT	0	3.8	3.9	4.1	4.3	4.6
600 LAND & STRUCTURES	0	0				
700 GRANTS, CLAIMS, ETC.	0	0				
TOTAL	0	1604.0	1732.1	1870.6	2020.2	2181.8

FUNDING (Thousands of Dollars)

GENERAL FUND	0	1604.0	1732.0	1870.6	2020.2	2181.8
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS *

FULL TIME	0	2	2	2	2	2
PART TIME	0	2	2	2	2	2
TEMPORARY	0	0	0	0	0	0

* These positions are not new, existing staff will be time-charged.

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The Availability of funds for the Displaced Homemaker Program is as follows:

**THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE**

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. CS for House Bill No. 26 (HESS)
 Title "An act relating to displaced homemakers; and providing for an effective date".
 Requested by Finance Date 3/9/81

II. FISCAL DETAIL
 Agency Affected Department of Community and Regional Affairs
 Program Category Affected Social Services
 BRU, Program, or Subprogram(s) Affected C.E.T.A.
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)
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	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
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600 LAND & STRUCTURES	0	0				
700 GRANTS, CLAIMS, ETC.	0	0				
TOTAL	0	1604.0	1732.1	1870.6	2020.2	2181.8

FUNDING (Thousands of Dollars)

GENERAL FUND	0	1604.0	1732.0	1870.6	2020.2	2181.8
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS *

FULL TIME	0	2	2	2	2	2
PART TIME	0	2	2	2	2	2
TEMPORARY	0	0	0	0	0	0

* These positions are not new, existing staff will be time-charged.

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The Availability of funds for the Displaced Homemakers Program will be advertised statewide and contracts negotiated through a competitive procurement process.

Projected program costs are based on a displaced homemaker program currently funded by this Department in Fairbanks. The program offers the following services, directly or by referral; assessment; counseling; job development; basic education; vocational training; and life skills workshops. The annual costs of the program as funded by this Department is \$225,000. Approximately 375 individuals are scheduled to be served.

IV. DATE 3/9/81 PREPARED BY Lois A. Lind, Director
 AGENCY CETA
 PHONE 465-4890
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

Three basic assumptions have been utilized in the preparation of this analysis:

- 1.) The Department will fund five (5) similar Multipurpose Service Centers on an annual basis through five separate contracts. Based on the current contract between the CETA Division and the Fairbanks Displaced Homemaker program, approximately 75% of the funds pay for staff directly working with displaced homemakers to provide counseling, assessment, job coaching, job development and referrals to other agencies providing additional services. Another 20% provides instructional supplies and materials, special workshops (life skills, job seeking skills, etc.) and tuition for training programs. Only about 5% goes to administrative costs such as rent, accounting, communications, and so forth.
- 2.) An eight (8) percent inflation rate will be experienced during each year for the five years of this analysis.
- 3.) Contracting for this service will prove more cost effective than the Department establishing and operating the Centers.

Total cost for H.B. 26 for FY'82:

For budgetary purposes we have used an average cost of \$290,000 for each center (\$290,000 x 5). Experience indicates some smaller centers (less dollars) would probably be funded and some centers could be awarded more than \$290,000.

Administrative costs required by the Department: \$ 154,000

Personnel Services:

Grant Administrator R17(S)	\$30,060
Field Representative R15	25,020
P.T. Clerk Typist III R8	8,358
P.T. Accounting Tech I R12:	10,566
Subtotal:	<u>\$74,604</u>
Benefits:	<u>20,396</u>

Total Personnel Services:

\$95,000

Travel:

30,000

For bidders conference, pre-award monitoring, contract negotiation, program monitoring and technical assistance.

Contractual:

Phones:	\$5,750
Rent:	5,200
Printing/Advertising:	8,000
Copier Service	750
Postage:	500
Word Processing Equipment:	2,750

Total Contractual

22,000

Commodities:	3,200
Equipment:	3,800
Including office equipment for the two full time position and two part-time position. This includes such items as desks, chairs, file cabinet and bookcases.	
Total Administrative Expense	<u>\$154,000</u>
(Administration rate to program costs = 10.62%)	

The Department staff, the Grants Administrator and the Field Representative will be responsible for negotiating and executing the contracts, monitoring, providing technical assistance and all statewide coordination.

(End fiscal Note Analysis)

HOUSE FINANCE COMMITTEE

March 10, 1981

1:40 p.m.

(Tape HFC 81-15, side 1 #241.)

PRESENT

All Members of the Committee were in attendance . Representatives Meekins, Moss and Malone arrived later in the meeting. Other legislators present: Representatives Brown and Hurlbert. Present to testify: Milton Lipton and Richard Kilgore, Oil and Gas Consultants to the State of Alaska.

MILTON LIPTON TESTIMONY

Chairman Cotten said Mr. Milton Lipton is a world renowned oil expert. He said he has been working as a consultant to the Alaska State Legislature since 1969. He asked that Mr. Lipton give the Committee background information about himself, his business, who else they consult with, and what sort of company they have. He said he expects there are some areas where there are conflicts of interest among clients, and he wondered how they handled that.

MR. MILTON LIPTON agreed there are times when there are conflicting interests between clients. He said he didn't think the client's conflicting interests caused conflicting interests in their company. Mr. Lipton said they are a petroleum economics consulting firm, headquartered in New York with offices in London. He explained the bulk of the work they do is on a continuing retainer basis, most of their clients have been with them for many years. They work for both companies and governments; they are retained by British Petroleum, Exxon and Arco, and by governments such as Alberta and Indonesia. He referred to those governments in particular because they, like Alaska, each superintend production of 1.5 million barrels of oil per day. Regarding the nature of their relationship with clients, Mr. Lipton said they never undertake special pleading for any of their clients, not before courts or tribunals. They see their role as providing direction; hopefully to be able to discern and suggest what the implications are and what decisions have to be made.

Mr. Lipton said they have been retained by the Alaska Legislature since 1969. During that period they have been exposed to virtually all the questions before the Legislature this Legislative Session.

Chairman Cotten asked that he talk about some of the issues that might effect the State regarding revenue projections, recognizing the changing nature of the worldwide oil picture. He said the

gas pipeline is included in the State's revenue projections, and he asked how Mr. Lipton saw that proceeding.

Mr. Lipton said the gas pipeline problems are partially a result of a lack of confidence in the pipeline's completion. He commented on a Memo they sent the State in May 1980 titled "Change in Perspective on Alaska Highway Natural Gas Pipeline".

(Representative Meekins arrived at this time.)

Mr. Lipton said interests in the gas pipeline project are beginning to change for many reasons -- particularly because of the delay. He said the circumstances in Canada with regard to its gas supply are changing. He explained Canada has made a tremendous gas discovery within Alberta itself, sufficient to provide their gas needs and even to export gas to the U. S. On top of that, the U.S. has developed a gas bubble of its own. He said the circumstances of the pipeline have changed. What has not changed to the State of Alaska is the importance of producing Prudhoe Bay gas and finding possible disposition. He said Alaska needs to make a decision regarding production and disposition of the gas. With the run up of costs, there are a series of questions that follow. One is, when the cost of transporting the gas from Alaska to the lower 48 gets high, will there be sufficient value to pay for the gas? Mr. Lipton said this doesn't mean the gas will not find a market, but two questions remain to be resolved: (1) will the value support the cost of the pipeline; and (2) if it does, is the "candle worth burning" or are there other alternatives? He asked, if they are going to use the full value of the oil in a competitive market to cover the costs of transportation and profit on the pipeline, what is it worth to the the State of Alaska. He said if the State doesn't have an equity in the line, their major concern is what the value of the gas is at the wellhead.

Representative Freeman said he was strongly opposed to the location and choice of lines. He said there has been talk of the State getting involved in financing of the line. He said he is opposed to that. Representative Freeman asked if this was an opportune time for someone who feels as he does to make an effort towards the reconsideration of an all-Alaskan line. Mr. Lipton said when they were asked to address the question of the possibility of Alaskan support for the present pipeline (supporting tax free revenue bonds and a direct loan) they suggested it was a premature direction to be taking. He commented further.

(Representative Moss arrived at this time.)

In answer to Representative Freeman's question, Mr. Lipton said not only is it important for the State to consider alternatives, he thinks it would be remiss of the State if it did not. He said the State should also talk about alternative ways of disposing of the gas itself.

Mr. Lipton said the biggest cost overruns are those that involve the Alaska leg of the operation. He suggested they consider the possibility of converting the gas to liquids on the North Slope. He suggested the methane that would be moved through a natural gas pipeline could be converted to methanol, and the natural gas liquid could be moved through a petroleum pipeline to tidewater. He said there are alternative transportation methods. Mr. Lipton said the State should not be waiting until it is an either/or situation. He recommended considering alternatives before committing state funds.

Concerning methane/methanol conversion, Representative Rogers said it seems to have many attractions, but the biggest cost would be the 25% to 30% methane lost in the processing. Mr. Lipton said they had actually suggested last year when the joint committee was considering petrochemical projects, that one of the things to be included in the feasibility study be the question of methanol conversion. He said the key factor is relatively straight forward -- comparing the loss in the conversion to methanol to the gain in the cost of transportation. He said it can be moved cheaper not only between Point A and Point B (other locations in Alaska), but also between Point A and Point C (the "Lower 48").

Mr. Lipton commented that every run up in the cost of transportation increases the attractiveness of natural gas pipeline processing in the State.

Chairman Cotten said Northwest is now doing some work in Alaska and it appears to be of an ongoing nature; they appear to be trying to come together from both ends. He asked if Mr. Lipton was saying this may never come to pass. Mr. Lipton said the pre-build is not being built along the same terms and conditions as originally perceived. He said the pre-build is being constructed on the basis of anticipation of increased exportation from Alberta to the United States. He said the pre-built legs can suffice if the Alaska pipeline is never built. In answer to a question from Chairman Cotten, Mr. Lipton said Canada will be developing internal sources of gas, and they can survive without the Alaska leg. The Alaska production of natural gas cannot survive if there is a gap in the Canadian system. He commented further.

Mr. Lipton said the state is left with uncertainty -- who is going to be the ultimate carrier of the risk in building the gas line.

Representative Meekins referred to a television program he saw which pointed out the lack of information the U.S. has about the amount of gas available. He said they made a good point that there was a lot of gas in the U.S., in fact, a surplus. Mr. Lipton said it depends on how you define "shortage" or "surplus". In the winter when the U.S. didn't have enough gas to fill the pipelines, he said in a sense we had a surplus because we were putting about 60% of all our gas under boilers. He said the

higher the price of gas, the more we cut off the low value uses. He said the U.S. has developed a temporary bubble. He said we have also been finding more gas. Mr. Lipton said he would not be concerned that the Prudhoe Bay gas is so much a part of the gas surplus that it cannot find a market. He commented further.

(Tape change, HFC 81-15, side 2.)

Mr. Lipton said the question is whether the value of the gas will support the value of the pipeline. He said, with the escalation of oil prices, it may very well. He repeated, the questions are (1) will the downstream value support it; and (2) is the candle worth burning? He said the downstream value will be determined in competition with what the cost of alternative energy is.

Representative Buchholdt asked, with the increasing price of oil, if coal was worth considering. She asked if Alaska should enter into the coal export market. Mr. Lipton said the rising cost of oil is causing everyone who is able to turn to alternative sources of energy. He said coal is one alternative. He said the problem with coal in North America is that it can only make a limited contribution to the rest of the world.

(Representative Malone arrived at this time.)

Mr. Lipton said to the extent they have alternative resources, it provides better opportunity for development of alternative resources. Whether they can be developed for export is another problem. He commented that many countries that have oil and gas try to use within their country those energy resources that are most expensive to transport, and export those that are least expensive. There was brief discussion. Mr. Lipton commented surplus coal is a marginal resource in this country in the same sense that oil was before Prudhoe Bay. There was brief discussion on some of the problems relating to use of coal, such as pollution.

Representative Rogers asked Mr. Lipton to comment on the corporate income tax litigation. Mr. Lipton said they are in litigation for fiscal reasons, not just because the laws may be illegal. He commented further and said the paramount problem is not the outcome of the lawsuit, but the overhanging uncertainty. He said it doesn't matter how the lawsuit comes out, it is the uncertainty for the next five years and beyond that matters. In answer to Representative Rogers' question on how the rest of the world views Alaska, Mr. Lipton said he doesn't think there is one answer to that -- different people perceive the State differently. Apart from the legal issue, Mr. Lipton said the State has to weigh the implications of moving from an income tax to a severance tax that has an entirely different impact.

Concerning the uncertainty issue, Representative Rogers asked if it would be worthwhile to consider making it clear what will happen if the State loses the lawsuit by enacting standby legislation. Mr. Lipton wondered if they wanted to "legislate

for all time". He commented all they would be doing is showing where the votes are in this legislature, they wouldn't be committing the next or following legislatures.

Mr. Lipton said the federal government has always decided for the State what its tax structure is going to be. He commented further on the effect of federal government decisions on the State. There was brief discussion.

Representative Rogers asked Mr. Lipton to comment on the annual revenue from oil to each of the three jurisdictions he mentioned earlier -- Alberta, Indonesia and Alaska. Mr. Lipton said the key point of interest is the way the countries handle taxes. He explained how the oil is taxed in Alberta. He said Alaska has an entirely different tax structure.

(Chairman Cotten left, after turning the gavel over to Vice Chairman Freeman.)

After further discussion, Mr. Lipton said he would guess the producers' share at Prudhoe Bay under the existing tax regime works out to 20%. He would suspect the average industry share in Alberta comes out to something close to that.

Representative Meekins asked if he was aware of any particular oil shocks that might be coming up. Mr. Lipton said the probability of a major explosion in national events within the next 24 hours is about 10%; within the next 3 years about 65%. He commented on the Iraq/Iran situation. Representative Meekins asked if the change in Administrations has had any obvious effect on national events. Mr. Lipton said it must have had at least a psychological impact.

Representative Meekins asked if he had any feeling about the kind of oil increases we will be seeing over the next 18 months. Mr. Lipton said the dollar price for the mainstream of oil is going to be on the increase. He said he thinks the Saudi Arabs will be producing less than 10 barrels per day and selling it at a higher price than \$32. How much the price will go up, he doesn't know. He said he doesn't think OPEC will let the dollar price go up any less than what they think the inflation rate is. He commented what they think it is, is not what the rate actually is. He said he would think there will be a 10%-12% increase per year over the next two or three years.

There was further discussion on the Alberta oil situation.

(Tape change, HFC 81-16, side 1.)

Representative Malone asked if their real concern in Alberta is to get an appropriate rate of return on their investment. Mr. Lipton agreed. Representative Malone said in that sense their uncertainty is different from what ours is in Alaska. Mr. Lipton said the uncertainty here is whether they will make as much or more. He said the interesting question has always been whether

or not Alaska's tax regime has built in disincentives to exploration. He said they have to judge by industry activity. He said there is no question they have been subject to higher taxation; he said there is also no question that they have not been inhibited.

Representative Malone asked, if the State were to rely on one form of taxation, in his judgment, what would be the most appropriate tax to apply. Mr. Lipton said he had difficulty with that question. He wondered why they would want to rely on one form of taxation. If it were to help the Legislature focus their minds on alternatives, he would say the income tax. He commented on the income tax. He said he didn't think it was appropriate for the State to rely on one form of taxation, but if for some reason he had to make a selection, he would recommend the income tax, but it would have to be keyed to some kind of direct end expense accounting.

In answer to a question from Representative Malone, Mr. Lipton said the level of taxation here, to some extent, may have discouraged some companies from coming in. He said that, basically, what is going to bring more companies in will be the next round of successful finds. He said it is not just an abstract process, nothing brings an industry into an exploratory area as much as a success. In answer to a question from Representative Buchholdt, Mr. Lipton said he did not know of any companies that had been discouraged from investing in Alaska. He commented that companies choose their own turf. He said he doubts if any really exciting exploratory area is neglected just because the rate of taxation is higher or lower than another area.

Vice Chairman Freeman thanked Mr. Lipton for testifying before the Committee.

ADJOURNMENT

The meeting adjourned at 3:10 p.m.

HFC 81-15, side 1 #241 to end
HFC 81-15, side 1 #001 to end
HFC 81-16, side 1 #001 to 224

hf0311811435

HOUSE FINANCE COMMITTEE

March 11, 1981

2:35 p.m.

(HFC 81-16, side 1 #224)

PRESENT

All members of the Committee were present except Representative Meekins. Also present were: Wesley W. Clubb, First National Bank of Anchorage; Dick Dolman, Alaska Pacific Bancorporation; Harry F. Goldbar and Mark K. Cameron, Alaska Housing Finance Corporation; Commissioner Tom Williams, Department of Revenue; Lorie Keen; Sue Lowell and Marie Matsum, Department of Community and Regional Affairs; Robert H. Schenker, Penney & Jensen, Inc.; and Russ Meekins Sr.

CSSB 185 (fin)

Chairman Cotten called the meeting to order and brought CSSB 185 (finance) up for consideration:

CSSB 185 (fin) -- An Act making supplemental appropriations to the Alaska Housing Finance Corporation; and providing for an effective date."

Chairman Cotten said his research indicates that they have slightly over-anticipated the shortfall for the housing program for the remaining months of the fiscal year. He recommended the Committee allow the \$133 million figure to remain in the bill. He asked if there were any questions on section 1 of the bill.

Representative Rogers asked about the approach they had discussed at an earlier meeting concerning appropriating interest subsidy in lieu of appropriating the entire amount. Chairman Cotten said he still intends to pursue that approach, but he has been advised that in the case of the Permanent Fund there may be some statutory changes required. In addition, he said there were some obstacles with the timing and getting the boards to meet. He said he intends to proceed with that approach for the future. Representative Malone said he thought they should address the question of appropriating the subsidy rather than the entire amount. He said he didn't think this supplemental was the place to do it. He said he thought the appropriation for FY 82 for Alaska Housing Finance Corporation (AHFC) would be a good place to take that issue up.

Regarding Section 2 of the bill, Chairman Cotten said the \$12.5 million figure would apparently allow them to recharge the program. He said his understanding is they are completely out of money.

Representative Freeman said he recalls there being some problem with the mobile home loan program. COMMISSIONER TOM WILLIAMS, Department of Revenue, advised there are two \$10 million mobile loan programs. He said the first is the \$10 million the Department forwarded to AHFC by receiving a bond from the Corporation saying the interest will be paid to the Department. He explained that money is the money AHFC has used. Commissioner Williams explained the Department made that Commitment last January, by March there were still no loans being made under the program. He said they decided there was a need to be served, so they set up a second \$10 million mobile home loan program. He said that second program is the one that got into difficulty and is being investigayted by the Department of Public Safety.

Representative Freeman asked if the first \$10 million had been spent. Commissioner Williams said that is his understanding. He said under the second program they had to cancel at about \$5.6 million. With the first \$10 million program, Commissioner Williams explained AHFC finally got the program started in August, and this \$12.5 million is to replenish the AHFC program. With regard to the funds from the other program, Commissioner Williams explained the rest of the \$10 million (\$5.6 million has been spent) is in the Treasury and it cannot be removed. There was discussion on the Department of Revenue mobile home program.

MR. HARRY GOLDBAR, Alaska Housing Finance Corporation, explained their average under the AHFC mobile home program is about \$2.5 million a month. In answer to a question from Representative Freeman, Mr. Goldbar agreed the \$12.5 million figure is an educated guess. He explained when they originally submitted the request there were five months left in the fiscal year, and that is how they got to the \$12.5 million figure.

Representative Montgomery asked for his analysis of the mobile home program versus a conventional loan program. Mr. Goldbar said in his estimation the mobile loan program is not a bad security. He said the delinquency rate is only slightly higher for mobile homes than for stick built -- mobile homes is 2.4% and regular homes is 1.9%.

In answer to a question from Chairman Cotten, Mr. Goldbar explained the mobile home loans are 20 year loans with an interest rate of 10 3/4%. Chairman Cotten asked why the interest rate was higher for the mobile home program. MR. MARK CAMERON, Alaska Housing Finance Corporation, explained that is their estimate based on the cost of funds to the Corporation from the bond through the Department of Revenue. He said it was a function of the rate they were paying the state under the loan. Chairman Cotten asked how the \$133 million appropriation differs from the mobile home loan appropriation. Mr. Goldbar explained the \$10 million was loaned to AHFC when the Commissioner of the Department of Revenue still had investment powers. He said basically AHFC sold the Department a note. In terms of the \$133 million, Mr. Goldbar explained the 9%-10% interest rate is set by statute. Chairman Cotten asked if they would still be loaning

the \$12.5 million at 10 3/4%. Mr. Goldbar said that is still what they are anticipating. He said they asked some lending institutions what they would charge for a mobile home loan and the response was they would charge the maximum legal rate of interest -- 18%. Chairman Cotten asked what the banks were charging for a home loan, and Mr. Goldbar said about 15%. Chairman Cotten asked if the difference was primarily because of the risk factor and Mr. Goldbar said he believed so. Representative Buchholdt said she was distressed that mobile home owners had to pay a higher interest rate. She commented further.

Representative Malone said he had some questions on Section 3 of the bill. He asked where the \$4.5 million figure came from and what interest rate they are charging for that money. Mr. Goldbar said this is also an "educated guess". He said one of the complaints about the Corporation is they have not been active enough in rural areas. He said they are anticipating being more aggressive in rural areas. He commented briefly on the program. Mr. Cameron advised the current interest rate for the program is 9.5%. Representative Malone suggested the Committee consider the issue of non-owner occupied dwellings. Chairman Cotten asked how much had been loaned out under the program. Mr. Goldbar responded \$2.6 million over a two year period. In answer to a question from Chairman Cotten, Mr. Cameron advised the last commitment they were able to approve was in January. He explained that several months prior to that they notified lending institutions that the funds were rapidly depleting. Mr. Goldbar said there has been an increasing interest in the program. In answer to Chairman Cotten's question, he said he was not entirely certain they would be able to commit the entire \$4.5 million, but they do intend to try. Representative Malone asked if there were people willing to apply for the money. Mr. Goldbar advised they have received inquiries from the rural housing authorities concerning multi-family housing.

Chairman Cotten said the definition of rural has come up in the past. He asked how AHFC defines "rural" under this program. Mr. Cameron said the definition is a community not linked to Anchorage or Fairbanks by road and it must have a population of 4500 or less. There was discussion on the definition. In answer to a question from Representative Adams, Mr. Cameron advised the percentage of loans made to those areas defined as rural comes to 7.6%. Representative Carney asked how they would go about changing their regulation defining rural. Mr. Goldbar said it would require board approval to proceed to public hearings. He said he thought that would take about 30 days. Mr. Goldbar said the basic reason for that definition of rural was so that funds would go primarily to the very rural areas of the state -- the outlying areas. Representative Malone asked what percentage of the population of the state fits into their definition of rural. Mr. Cameron said just under 27% of the population is in what they define as rural.

(Tape change, HFC 81-16, Side 2.)

There was further discussion on the definition of rural. Chairman Cotten said he thinks this discussion is a result of earlier discussions members of the legislature have had about rural. He asked if there was a different definition for rural under other programs. Mr. Cameron said no. He said there is nothing to prevent any of the \$133 million from going to rural communities. There was further discussion on the program.

Chairman Cotten said that under Section 1 of the bill, he assumed the figure would meet the demand for this fiscal year. He asked if Mr. Goldbar had any comments on that section. Mr. Goldbar said the demand for that program has been higher than they originally anticipated and it continues to climb. He advised, if they completely remove the allocation system, their first request for funds will be in the neighborhood of \$110 million to \$120 million. He said that figure is based on the demand they have seen and the fact that the demand for the program is in the upswing. There was brief discussion on the allocation system.

Representative Freeman said he assumed to goal of the program was to provide adequate housing for Alaskan citizens. He asked what figures they had to show that the funds were actually going to construction of new homes for Alaskan citizens. Mr. Cameron said 358 single family new units were constructed under the program since July 1980. He said that is 22% of the program, and the dollar figure is approximately \$72 million. He commented on an article that indicated that 70% of the new units financed in 1980 were financed by AHFC. He said he would expect more than that next year.

Representative Rogers asked what the average mobile home loan was. Mr. Cameron said \$24,200. Representative Rogers asked what the dollar limits were on other loans. Mr. Cameron explained they are limited by regulation for the dollar amount of a loan they can grant per individual, per unit. He said the maximum single family loan is \$90,000 and for duplexes it is \$130,000. He commented further, and said this information is on page 10 of the booklet they passed out to Committee members at an earlier meeting. There was further discussion on who gets the loans. Mr. Goldbar commented they have had a short history (only 9 months) in the program. He said they are trying to gather as much information as they can; however, they do have to approach the situation with some conservatism because they don't want to get into the area of invasion of privacy. Mr. Goldbar said they do try to comply with the legislative intent mandating that the homes be the principal residence. There was further discussion.

Chairman Cotten advised the Committee would receive testimony on the program from others present.

MS. LORIE KEEN, Juneau Resident, told the Committee of problems they had with trying to sell their mobile home in Juneau. She said two banks in Juneau told qualified buyers they would have to pay an additional \$500-\$800 above closing costs for a mobile home loan. In answer to a question from Chairman Cotten, she said the

buyer had to put 5% down, pay closing costs, plus .5% more on a twelve month basis above the interest, to the bank before AHFC reimburses them. Representative Malone said as he understands the situation AHFC has to buy the paper from the banks, and he asked if the costs weren't normally incorporated into the long term loan. Ms. Keen said they used to be, but haven't been since the first of the year. She commented further on the difficulties of getting a mobile home loan.

MR. WESLEY W. CLUBB, The First National Bank of Anchorage commented on a problem that is developing as far as his institution is concerned. He explained that in 1978 their volume for the month end February was 190 applications totaling \$12.6 million; in 1979 for the same period they had 162 applications totaling \$11.8 million; in 1980, 197 loans totaling \$14.5 million; and at present in 1981 they have 562 loans totaling \$40,471,000. Mr. Clubb explained that at this time, using the AHFC allocation, they will receive approximately \$8 million per month, which puts them about \$32 million short to cover their home loan applications. He commented on the allocation for the Juneau and Anchorage branches of the bank.

Representative Malone asked how much this would change if they raised the interest rate to 15%. Mr. Clubb said probably all of it. There was brief discussion on interest rates.

Mr. Clubb said their real concern is that, based on the dollars allocated to them, they will have to shut down closing loans on the 20th of this month. Chairman Cotten asked what would happen if the supplemental were approved. Mr. Clubb said in his opinion it would calm the present problem. He said all they are doing is putting off a crisis.

(Tape change, HFC 81-17, side 1.)

MR. DICK DOLMAN, Alaska Pacific Bancorporation, said he would like to reinforce everything Mr. Clubb said on the need for the supplemental appropriation. He said right now his bank has 90 applications totaling \$9 million, with only \$4 million in reserve. He said they are short of funding for 50 home loans. He advised the First National Bank in Fairbanks has 50 applications for \$3 million, and they only have \$400,000 in outstanding allocations, which means they will only be able to fund six loans.

Concerning the problem mentioned by Ms. Keen, Mr. Dolman said he expected she was talking about a warehousing fee. He explained a lender making an AHFC loan carries the loan on its books until it is funded by AHFC, which takes an average 25 days. He explained if the lender's cost of funds is 15% and the interest on the loan is 10%, the lending institution carries the loan at a 5% per annum loss.

Concerning Committee members' questions on who gets the loans, Mr. Dolman said they see a significant amount of upgrade. He commented further on who applies for loans through his bank.

MR. ROBERT SCHENKER, Penney & Jensen, Inc., advised they are a real estate firm in Anchorage dealing with mobile homes. He said he would like to indicate their support for passage of CSSB 185, since AHFC has been out of mobile home loan funds since January 20. Mr. Schenker said the public feels AHFC is an excellent program. He commented on a mobile home park survey taken in Anchorage which indicated that 52% of those selling their mobile home bought a home. He said they are going from an equity position in a mobile home to some form of conventional housing.

Representative Buchholdt asked him to comment on the difference in interest rates between conventional and mobile homes. Mr. Schenker said 10 3/4% is probably the best rate ever achieved for mobile homes in Alaska. He said that historically mobile homes have a higher interest rate. He said from his dealings with people who have taken advantage of the \$10 million mobile home program, he feels they are satisfied with the 10 3/4% rate. There was brief discussion.

MR. RUSS MEEKINS SR. said he has been involved with mobile homes since 1977. Regarding the risk of mobile home loans, Mr. Meekins said at the beginning there was a risk, but it was developed by the industry itself. He explained that every mobile home was sold by a dealer and the dealer would have full recourse, so the bank had no worry. On that basis, the banks accepted any piece of paper the dealers sent them. When the market dropped and some of the homes were not worth what was on the contract, and the homes were sold for a loss, it was the fault of the dealers and banks. Mr. Meekins said since 1974 HUD has come up with regulations on mobile homes in Alaska. He said under the AHFC program someone is sent out to appraise the mobile homes before a loan is approved. He commented on the construction of mobile homes built after 1974. He recommended they consider lowering the interest rate for mobile home loans.

There was brief discussion on the interest rate under the special mortgage loan purchase program (section 1 of the bill), and the rate the bonds will be sold at.

RECESS

Chairman Cotten called for a recess at 4:26 p.m. and recalled the meeting to order at 4:45 p.m.

ADJOURNMENT

Chairman Cotten advised it was his intent to adjourn the meeting at this time and reconvene at 9:00 a.m. tomorrow morning. The meeting adjourned at 4:48 p.m.

Tape HFC 81-16, Side 1 #224 to end
HFC 81-16, Side 2 #001 to end
HFC 81-17, Side 1 #001 to 567

HOUSE FINANCE COMMITTEE

March 12, 1981

9:05 a.m.

(Tape HFC 81-17, side 1 #567)

PRESENT

All members of the Committee were in attendance except Representatives Carney, Buchholt and Moss.

CSSB 185 (fin)

Chairman Cotten called the meeting to order and brought CSSB 185 (fin) up for consideration:

CSSB 185 (fin) -- "An Act making supplemental appropriations to the Alaska Housing Finance Corporation; and providing for an effective date."

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that CSSB 185 (fin) be amended by adding the following three new sections:

"Sec. 4. The sum of \$735,000 is appropriated from the general fund to the Department of Commerce and Economic Development for contracts to municipalities in rural Alaska for performance of energy audits and energy conservation improvements under AS 46.11.030(c) and AS 45.89.020(c)(2).

Sec. 5. The sum of \$2,550,000 is appropriated from the general fund to the residential energy conservation fund, Department of Commerce and Economic Development, for refunds and grants under AS 45.89.020.

Sec. 6. The sum of \$2,113,600 is appropriated from the general fund to the Department of Commerce and Economic Development for costs of performance of residential energy audits under AS 46.11.030."

Representative Montgomery OBJECTED TO THE MOTION.

Representative Rogers said the existing AHFC program which will be aided by this bill is a very important program that helps 2,000 households with their housing needs statewide. He said the amendments he is advocating for the energy program would aid 11,000 applicants to that program. He commented further. Representative Montgomery MAINTAINED HIS OBJECTION to the motion. There being NO FURTHER OBJECTION, the amendments to CSSB 185 (fin) were approved.

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that a House Finance CS for CSSB 185 be prepared incorporating the above amendment, and he further moved that HCS CSSB 185 (fin) be REPORTED OUT. There being NO OBJECTION, HCS CSSB 185 (fin) was reported out with a "do pass" recommendation.

ADJOURNMENT

The meeting adjourned at 9:13 a.m.

Tape HFC 81-17, Side 1 #567 to #612

HOUSE FINANCE COMMITTEE
March 12, 1981
1:40 p.m.

(Tape HFC 81-17, side 1 #612)

PRESENT

All members of the Committee were in attendance. Also present were: Representative Clocksin; Senator Stimson; Fred Muller, Department of Administration; Paul Gulyas, Assistant Director, Post Secondary Education Commission; and Jerry Schilz and Alison Elgee, Legislative Finance Division.

SB 88 am

Chairman Cotten called the meeting to order and advised the first bill to be considered was SB 88 am:

SB 88 am -- "An Act making a special appropriation to the scholarship revolving loan fund; and providing for an effective date."

SENATOR STIMSON explained Section 1 of the bill creates a scholarship revolving loan fund which will allow the Post Secondary Education Commission (PSEC) to process loans in the Spring when they begin receiving applications from students. Senator Stimson said under the present situation they have been doing a disservice to students. He said it has also been difficult for a number of years for the PSEC to adequately project what their demand for loans will be. He commented the PSEC believes this revolving loan fund could resolve both these problems.

Senator Stimson said last year the PSEC ran out of funds and had to go to the federal student loan program and borrow the money. He advised they have been paying back that loan at the rate of \$9,000 a week. He explained they added section 2 to this bill because they felt this would a good vehicle for paying that loan off expeditiously.

Representative Moss asked if this bill was similar to the one that almost passed last year. Senator Stimson explained last year they were working on forward funding. He said this is basically the same concept. Representative Moss said he didn't see any increased cost in their operating budget, and he was in favor of the bill.

Chairman Cotten asked for further information on the \$10 million revolving loan fund. Senator Stimson explained this bill establishes the fund. He said the PSEC would still have to come before the Legislature for their request for what they think the

student loan program will be. He explained the fund makes the money available before the regular amount comes available with the operating budget. Dr. PAUL GULYAS, Assistant Director, Commission on Postsecondary Education, said the \$10 million "is just to take up the slack". He said they would still be making their request through the operating budget.

Representative Malone said, suppose the Legislature established the \$10 million fund and appropriated \$15 million for the student loan program, and the demand for loans was \$25 million. He asked what they would do. Dr. Gulyas explained they would use up the \$10 million revolving fund and whatever the appropriation was. Representative Malone said he thought this bill was to provide advance funding for several years. Senator Stimson said the \$10 million is available before they actually get the appropriation.

(Tape change, HFC 81-17, side 2.)

Representative Montgomery asked if the \$10 million would always be intact or if over-expenditure of loans would decrease the amount. Senator Stimson said it could do both. He said if the demand is so great, it may be necessary for the PSEC to come back for additional amounts for the revolving loan fund.

Representative Montgomery asked if they could expend up to \$10 million more than what is budgeted. Senator Stimson said that is possible. He commented that what has happened in the past is that they have come in with a supplemental request every year anyway. There was further discussion on the merits of the bill.

Chairman Cotten advised he received a Memo from legislative counsel recommending that the title be changed. He MOVED AND ASKED UNANIMOUS CONSENT that the title of the bill be changed to "An Act making special appropriations for the scholarship loan program; and providing for an effective date." There being NO OBJECTION, it was so ordered.

Representative Montgomery said he supported the concept of a revolving loan fund, but he thought the money in the fund should be maintained. Senator Stimson said he agreed in theory, but the more practical aspect of what happens is that we see major delays in the student loan program. Dr. Gulyas said the biggest problem with the program right now is screening applications and making decisions prior to the time a student commits himself to going to school. He said the \$10 million appropriation would alleviate that problem, and allow them to make decisions as soon as applications come in in the Spring. Dr. Gulyas said it is a revolving loan fund in the sense that all the student loans come back into the same fund. There was further discussion. Senator Stimson said what they are trying to do is create a \$10 million fund, primarily so that \$10 million is available in the Spring. He said if that is not provided, their experience has been that the PSEC will come in with a supplemental request. He said the \$10 million means no student would be denied a loan during the school year. He said when the Legislature convenes they could appropriate more money to the student loan fund if they desired.

He said the money is not for administration of the program; it is strictly for loans.

Representative Malone MOVED TO REPORT OUT SB 88 am (H)(new title). Representative Freeman OBJECTED. He said it seemed logical if they appropriated money from a loan program that the funds would be paid back, and those funds could be used for making additional loans. Dr. Gulyas agreed that is a logical conclusion and is the intent of a revolving loan fund. He pointed out the program is relatively new -- established in 1971-72 -- and is still at a rapid growth rate. He pointed out it takes 6-7 years to complete an undergraduate degree these years, and there is a period of time from when the loan is first taken out to when a person is ready to enter the job market and begin making payments on the loan. He explained at this time most of the money is going out; also, pay-back is not always at 100%. There was further discussion.

Representative Freeman REMOVED HIS OBJECTION to the motion. There being NO FURTHER OBJECTION, SB 88 am (H) was reported out with a "do pass" recommendation.

HB_26

Chairman Cotten said the next bill to be considered would be HB 26.

HB_26 -- "An Act relating to displaced homemakers; and providing for an effective date."

Representative Buchholdt presented proposed amendments to the CS for HB 26 (see attachment #1) which clarify points brought up by Representative Malone at the earlier meeting concerning recipients under this program.

Representative Buchholdt MOVED AND ASKED UNANIMOUS CONSENT that the amendments be adopted. There being NO OBJECTION, it was so ordered.

Representative Moss MOVED AND ASKED UNANIMOUS CONSENT that the Committee report out CSHB 26 (fin) incorporating the above amendments. There being no objection, CSHB 26 (fin) was reported out with a "do pass" recommendation. Chairman Cotten pointed out the bill is being reported out with the revised fiscal note in the amount of \$1604.0.

SSHB_17

Chairman Cotten brought SSHB 17 up for consideration.

SSHB_17 -- "An Act establishing an Older Alaskans Commission; and providing for an effective date."

Chairman Cotten reminded the Committee they are considering CS SSHB 17 (HESS). He said he has a revised fiscal note in the

amount of \$185.4, which allows them the positions of Executive Director and Accounting Technician II. There was brief discussion on the fiscal note. Representative Malone MOVED TO ACCEPT the fiscal note. Representative Rogers OBJECTED. He suggested they might need all the positions they requested. In answer to a question from Representative Buchholdt, Chairman Cotten said it was not his intent to cut travel for the Commission, they cut \$5.0 from the travel request because they did not allow all the positions requested. There was further discussion.

The question was called for. Seven in favor - two opposed (Rogers and Buchholdt). The REVISED FISCAL NOTE WAS ADOPTED.

Representative Buchholdt MOVED AND ASKED UNANIMOUS CONSENT that CS SSHB 17 (HESS) be reported out. There being NO OBJECTION, it was so ordered. CS SSHB 17 (HESS) was reported out with a "do pass" recommendation.

HB 110

Chairman Cotten advised the next bill to be considered would be HB 110.

HB 110 -- "An Act relating to the WICHE student exchange program."

REPRESENTATIVE CLOCKSIN advised there is a HESS CS for HB 110.

(Tape change, HFC 81-18, side 1.)

Representative Clocksin explained CSHB 110 (HESS) combines HB 110 and HB 139 ("An Act relating to the WICHE student exchange program; and providing for an effective date.") There was brief discussion on the WICHE program.

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that CSHB 110 (HESS) be reported out with the fiscal note in the amount of \$61.0. There being no objection, it was so ordered. CSHB 110 (HESS) was reported out with a "do pass" recommendation.

ADJOURNMENT

The meeting adjourned at 2:45 p.m.

Tape HFC 81-17, Side 1 #612 to end
HFC 81-17, Side 2 #001 to end
HFC 81-18, Side 1 #001 to 279

Sponsor's suggested amendments for CS HB 26(Finance)

PAGE 2

- line 2--- delete "public or private"
delete "organizations" and replace it with "corporations incorporated under AS 10.20"
- line 13--- delete "public or private"
delete "organizations" and replace it with "corporations incorporated under AS 10.20"
- line 22--- "Public and private nonprofit organizations" and replace it with "Nonprofit corporations incorporated under AS 10.20"
- line 23--- add the following sentence to the end of the line: "In order to be eligible for financial assistance under this chapter, a nonprofit corporation incorporated under AS 10.20 shall be governed by a Board of Directors whose membership is broadly representative of the community which it serves."

(LC for TB: 3/11/81)

HOUSE FINANCE COMMITTEE

March 13, 1981

1:40 p.m.

(Tape HFC 81-18, side 1 #279.)

PRESENT

All members of the Committee were in attendance. (Representative Carney arrived later in the meeting.) Present to testify: Commissioner Tom Williams, Department of Revenue.

HB 1

Chairman Cotten called the meeting to order and brought HB 1 up for consideration.

HB 1 -- "An Act making a special appropriation to the Alaska permanent fund; and providing for an effective date."

Chairman Cotten advised there are 23 sponsors to the bill, and the prime sponsor is Representative Freeman. He invited Representative Freeman to testify on the bill.

REPRESENTATIVE FREEMAN advised the Governor has introduced a similar bill (HB 69) that includes some language not included in this bill. He suggested the Committee take a look at that bill. He said last year the Legislature approved a bill depositing \$900 million into the Permanent Fund as the funds were available. He advised the last \$100 million will be deposited next Monday. He said he can't see any ill effects from passage of that bill last year, and he recommends the Committee pass this bill appropriating \$1.8 billion into the Permanent Fund. Representative Freeman stated that with the amount of money the State has, it would be irresponsible on the Legislature's part if they didn't set aside amounts for future generations.

Representative Meekins questioned the effective date of the legislation. He said last year language was included so the funds could be phased in. Representative Freeman recommended the Committee talk to the Commissioner of Revenue about that. He said if he had his way, the bill would become effective today, and the funds would be deposited tomorrow.

Representative Rogers said a concern many people have is that money be available for housing loans and so on. He said his understanding is the Permanent Fund Board of Trustees has increased the amount from the Permanent Fund that is going into the home loan program. He asked if Representative Freeman had any comments on this. Representative Freeman said his feeling has always been that he wants to make the money that goes into the

Permanent Fund as safe as they can make it. He said he is not going to quarrel with any investments as long as they are good ones. He said he didn't want any soft loans or worthless investments.

Representative Rogers referred to the \$80.0 fiscal note and said he didn't recall ever seeing a fiscal note on an appropriation bill before, and he wondered if it was necessary to fund it.

Representative Freeman commented on his reasons for introducing the legislation.

(Representative Carney arrived at this time.)

Representative Freeman said he believes they have enough money to see aside this \$1.8 billion and still appropriate for other legislative priorities.

COMMISSIONER TOM WILLIAMS, Department of Revenue, advised the Governor introduced HB 69 ("An Act making a special appropriation to the Alaska Permanent Fund; and providing for an effective date.") which accomplishes the same thing as Representative Freeman's HB 1. He said the Administration completely supports both bills. He said he thinks the Permanent Fund appropriation is going to be one of the most important pieces of legislation to come up. He said it is an investment of our future and the future of those that come after us, and it is the most responsible thing they can do. He said they anticipate there will be enough funds available in the coming fiscal year that this \$1.8 billion could be appropriated and there would still be more than \$4 billion left.

Representative Haugen asked if they appropriated this amount of money and follow up with a large appropriation for the hydroelectric efforts, would there be a cash flow conflict. Commissioner Williams said there shouldn't be. He said they are talking about a \$500 million a month average income this year. He said last year language was included in the Permanent Fund legislation making it clear that the \$900 million would be deposited as quickly as possible. In answer to a question from Representative Meekins, Commissioner Williams said they would not transfer funds out of the Treasury into the Permanent Fund if that was going to imperil the rest of the funds in the Treasury. He said the point is, there are enough funds available. Commissioner Williams commented on their revenue projections, and said their forecast is being revised right now raising the figure from what it was when he testified before the Committee on HCR 6. He explained the revised forecast should be available next week.

Representative Montgomery asked what the schedule would be for depositing the \$1.8 billion. Commissioner Williams said it is difficult to answer that right now. He said if they have funds available in July they would make the appropriation in July. Representative Montgomery asked if they could put part of the appropriation in any month. Commissioner Williams said, if that

is what is necessary to meet the demands of the treasury, that is right. He said HB 69 includes language that the appropriation will not lapse at the end of the fiscal year. He said they didn't think there was a likelihood that the \$1.8 billion wouldn't fit in very comfortably; but, if for some reason there was a disruption, it would be good to have the appropriation continue on, so that any part of the appropriation that couldn't be handled in the fiscal year could be carried over to the next fiscal year.

Representative Rogers asked if he saw any problem with adding the same language that was in last year's bill. Commissioner Williams said no problem whatsoever.

In answer to questions from Chairman Cotten and Representative Montgomery, Commissioner Williams said the Permanent Fund is different from the Treasury. He said the Permanent Fund Corporation has control of the fund and the assets of the Permanent Fund. He explained Treasury transfers the money over to the Corporation and legally, at that point, the money goes into the fund. He said the money will be transferred to the Permanent Fund as rapidly as possible consistent with the treasury's cash flow. Representative Montgomery said without a schedule it is possible that the money will not be transferred until the end of FY 82. Commissioner Williams said he can promise that they will not hold off on the transfer of money.

Representative Freeman said he is hearing pretty much the same arguments he heard last year when he introduced the legislation. He said he didn't see any problem with the Department transferring the money. He said if something happens and the projections go awry and they don't have the money available, the Department isn't going to put it into the Permanent Fund. He said it seems the experience they had with the \$900 million went very well, and he doesn't see why they can't do it again. Representative Malone agreed with Representative Freeman, and said the Legislature is in session six months out of the year and it is hard to envision the Legislature not being around to be able to respond to a disaster.

Representative Rogers asked Commissioner Williams to address the fiscal note. Commissioner Williams said they are investing \$1.8 billion, and they need to buy a lot of security. He commented on the need for the fiscal note.

(Tape Change, HFC 81-18, side 2.)

Commissioner Williams said they have to have a safe place to keep the bonds and they do transfer them in and out. He said these things are not free, banks do charge fees; the fiscal note responds to the additional needs involved with Treasury dealing with such a large portfolio. Representative Rogers asked if the funds shouldn't go to the Permanent Fund Corporation rather than Treasury Management. Commissioner Williams explained Treasury is serving as the investment assistant for the Board.

Representative Rogers asked if the positions would be transferred when those responsibilities were transferred to the Corporation. Commissioner Williams said that was correct.

Representative Moss asked how much of the portfolio has been invested in Alaskan projects. Commissioner Williams said not very much right now. He explained the Permanent Fund is required to invest at market rates. Representative Moss asked if he was saying it was better to invest the Permanent Fund outside of Alaska. Commissioner Williams said no, he is saying financing for Alaskan projects is available through other programs that have been set up and are more attractive to investors. There was brief discussion.

Representative Meekins asked how the Governor arrived at the figure of \$1.8 billion and Commissioner Williams said he did not know. Chairman Cotten commented the caucus has reviewed some of the spending priorities and has determined there is room for \$1.8 billion to go into the Permanent Fund and still have money left over for other needs. Representative Freeman explained how he arrived at the figure of \$1.8 billion. He said basically he just doubled the appropriation made last year to the Permanent Fund.

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that HB 1 be amended by adding a new section to read "The appropriation made by section 1 of this Act is not a one-year appropriation and does not lapse under AS 37.25.010." There being NO OBJECTION, it was so ordered.

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that HB 1 be amended by adding a new section to read "Beginning July 1, 1981, the commissioner of revenue shall make monthly deposits to the Alaska permanent fund of the appropriation made by this Act. A monthly deposit to the Alaska permanent fund shall be in the amount determined by the commissioner of revenue to be in excess of the general fund revenues necessary to finance state government operation for the month in which the deposit is made." There was brief discussion. There being NO OBJECTION, it was so ordered.

Representative Rogers MOVED AND ASKED UNANIMOUS CONSENT that the above amendments be incorporated into a Finance Committee Substitute, and that CSHB 1 (finance) be reported out. There being NO OBJECTION, it was so ordered. CSHB 1 (finance) was reported out with a "DO PASS" recommendation.

ADJOURNMENT

The meeting adjourned at 2:35 p.m.

HFC 81-18, side 1 #279 to end
HFC 81-18, side 2 #001 to 396

HOUSE FINANCE COMMITTEE

March 16, 1981

1:30 p.m.

{Tape HFC 81-18, Side 2, #395}

PRESENT

Vice Chairman Freeman called the meeting to order at 1:30 p.m. All members of the Committee were present, except Representative Malone. Representatives Rogers, Carney, Haugen and Cotten arrived later in the meeting. Also in attendance: Representative Don Clocksin; Dr. Kerry Romesburg, Executive Director, Commission on Postsecondary Education, Department of Education; Ron Lehr, Director, Division of Budget and Management, Office of the Governor; Director Jay Hogan and Alison Elgee and Jerry Schilz, Fiscal Analysts, Division of Legislative Finance.

SSHB 32

Vice Chairman Freeman advised the first order of business is consideration of SSHB 32:

SSHB 32 - "An Act relating to undergraduate and graduate scholarship loans; and providing for an effective date."

Representative Clocksin, Chairman of the Health, Education & Social Services Committee, presented a sectional analysis of the HESS Committee Substitute for SSHB 32.

{Representative Rogers arrived at this time.}

Representative Clocksin highlighted the proposed increase from \$3,000 to \$6,000 that would be made available to an undergraduate student in any one year. He referred to the backup that was presented at the HESS Committee hearings regarding the figures that calculated the cost of living inside and outside the State and on-and-off campus.

{Representatives Carney and Haugen arrived at this time.}

Representative Meekins asked whether the HESS Committee considered automatic inflation adjusters, and Representative Clocksin responded that, because of the different areas of the country involved, this is pretty difficult to do. He advised the HESS Committee discussed it, but no one looked into it. Representative Rogers asked if they considered increasing the maximum of the scholarship revolving loan fund, and Representative Clocksin indicated this was not presented to the committee.

Referring to page 2, line 6, Representative Clocksin noted HESS discussed in some detail proposals for forgiving the interest

rate. Among the suggestions, he said, was to provide forgiveness for those attending schools in Alaska up to as much as 100%. But for graduates, he said, it was felt this was not feasible; the objective was not to base forgiveness on attendance in Alaska. The decision of HESS was to add one year of residency. He said rate of default was discussed, but they did not include it.

There were several questions raised about availability to students in VocEd, Representative Clocksin said, but HESS decided not to include it here, as SB 88 already addresses that question, and the revolving loan bill provides significant support for VocEd. He added the HESS Committee also wrote a letter to Dr. Kerry Romesburg on the matter.

Noting there is an increase in part-time students at the community college level, Representative Rogers asked if the question of these students receiving a pro-rata share was discussed. Representative Clocksin advised this was also addressed in his letter to Dr. Romesburg. He added there was no policy decision by HESS, but they did feel it was extremely important. Representative Rogers observed the student loan program favors full-time students over part-time, and he feels every effort should be made to encourage part-time students.

At this time, Representative Montgomery requested the HESS Committee Report be read into the record. The recommendation for CSSSHB 32(Hess) is as follows:

Do Pass - Representatives Clocksin, Cato and Duncan.

Other Recommendations - Representative Beirne "do not pass unless amended"; Representative Martin "agree wt. Rep Beirne".

Representative Montgomery said this bill disturbs him for a variety of reasons, and he feels he must make this known to the Committee. He noted the disagreement of the HESS Committee as evidenced by the Committee Report. The original intent of the bill was to assist the students, he said, but he feels increasing--doubling--the amount of money available to a student, as this bill does, plus the fact that they are now taking five years instead of four to complete their schooling, makes it too easy for students to "get way over their heads" in debt. Another consideration, he stated, is that the Legislature has increased its support of the University at Fairbanks and Juneau, in addition to all the community colleges; and he feels there are already plenty secondary education loan programs available to help. He stated he is very much in favor of education, but what disturbs him most is the "easy money" aspect. He said he doesn't think "we are doing a person a favor" by allowing him/her to incur a debt of up to \$77,000 for their education. He wondered "if these people have the maturity to handle this."

Representative Meekins indicated he went through this program himself, and he thinks it is a good idea. "We pay for grades 1-

12; why not for 13 and above?" he queried. During discussion, Representative Moss asked if HESS considered what effect raising these limits would have on the revolving loan fund. In response, Representative Clocksin referred to a report on fees and living expenses for college students living off campus that was prepared for Representative Gardiner. Referring to both bills, Representative Moss asked if any consideration was given to placing restrictions on the student loan program operating budget, and Representative Clocksin indicated he didn't know. During further discussion, Representative Rogers agreed with Representative Meekins that it is reasonable to pay a percentage of the costs.

(Chairman Cotten arrived at this time and conducted the meeting.)

Referring to a comment brought up by Representative Buchholdt, Representative Meekins suggested perhaps recognition should be given as an incentive for scholastic achievement. He agreed it should not be a "free ride". Representative Clocksin advised HESS felt it was not a good policy to award scholastic achievement as there are scholarship programs that cover this.

{Tape HFC 81-19, Side 1, #001}

Representative Adams said he shared the comments made by Representative Montgomery, in that this should not be fully funded. He feels the students should participate in their education financially and that more money should be spent in-state rather than out-of-state. He also brought up the increase in the default rate.

There was brief discussion on the fiscal note dated 2-17-81.

Representative Carney inquired if HESS received any testimony on the possibility of requiring co-signers, and Representative Clocksin indicated no and added the delinquency rate is declining in Alaska. Representative Carney commented he feels this is a good idea, and his only concern is that perhaps the 10% delinquency rate is taking advantage of the program to the detriment of the rest of the students.

Representative Rogers commented, through his research regarding incorporation of grade point average into this program, he finally decided it was just not possible on the basis of grades, as the courses vary so much.

Concerning that portion of the bill dealing with scholastic achievement, Representative Buchholdt explained this was an attempt by the students themselves to provide more accountability to the program. Representative Montgomery commented he is a proponent of so called "late bloomers" and not concerned with recognition of scholastic achievement, but what bothers him is the large amount of money involved. For example, he said, last year because of the job shortage, most people applied to this program. During discussion, Representative Haugen asked if

anyone is required to sign if the student has not reached his majority. Representative Buchholdt recalled a bill requiring parents to co-sign, and it was turned down because it was thought the students themselves should be responsible, regardless of the financial status of their parents.

There was further discussion on the variation in the definition of good standing between colleges and universities. Representative Rogers pointed out some schools only accept grades from their own schools and noted the difference in requirements at different schools.

Representative Meekins requested the option to propose an amendment from the House floor on this bill, providing this meets with Committee approval. There was no objection.

(Representative Meekins left the meeting at this time.)

Dr. Kerry Romesburg began his presentation by distributing to the Committee a handout (see Attachment 1) on the repayment schedules. He then explained how this would work. The percentage of students using their loans in Alaska is increasing, which shows that the program is maturing, he said. He noted availability of institution and repetition of program are the results when they survey the seniors as they do each year.

Chairman Cotten asked about the requirement that the borrower must be employed at least three years in the State. Dr. Romesburg explained how this works, using agriculture as an example. If they demonstrate that they cannot find employment in the State, then they receive their cancellation. This law was a requirement by the Legislature, he added.

Representative Montgomery asked how payment is made, and Mr. Romesburg stated it is sent to the school. Representative Montgomery observed he feels these increased funds would also increase the out-of-state students and decrease the in-state. He added he feels this is just "too much too fast".

Representative Carney asked how the Department deals with forgiveness. If the court rules the student must pay and he does not or he skips, Dr. Romesburg advised, then the Department simply writes this off. However, he noted, this figure is low because the program is relatively new and they still maintain contact or know where most of the students are.

Representative Rogers asked for an explanation of the "good standing" policy. Dr. Romesburg used Fairbanks, with its stringent good standing requirements, who defines it on a semester-by-semester basis, as an example. Alaska Pacific, he said, uses a sliding scale, as does the federal government.

There was brief discussion on several minor language amendments regarding the regulations and standards required presented by

Representative Rogers. There was additional discussion on the forgiveness provisions.

Responding to Committee questions, Dr. Romesburg explained the memorial scholarship loan programs are established by the Legislature in the name of a particular person, such as the Michael Murphy Memorial Scholarship. Most State money goes into that program directly, he advised. People usually donated their annual leave to the scholarship, he said, but due to some changes in the annual leave policy, this practice is not expected to continue. It is a moot point, he observed, as money for memorial scholarships is donated and practically non-existent.

Representative Haugen read an excerpt from the budget document and inquired about the increased cost in administrating this program. Representative Montgomery added he feels the \$4.2 fiscal note is unrealistic and that it is going to be more. Noting the July 1 effective date and assuming passage of the bill in April, Representative Rogers wondered if there would be time enough to switch over. Dr. Romesburg indicated yes, that if anyone applied, he/she would be contacted or notified of the passage of this bill. He also encouraged the 40% cancel rate be done retroactively.

Chairman Cotten appointed a subcommittee on SSHB 32, consisting of Representative Buchholdt, chairman, and Representatives Rogers and Montgomery, that would report back to the Committee of the Whole at a later date.

SSHB 32 HELD

HB 285

HB 285 - "An Act amending the Executive Budget Act to provide for agency budgeting in place of program budgeting; and providing for an effective date."

Chairman Cotten advised HB 285 was introduced by the Finance Committee at the request of Representative Freeman. Stressing he is very much in support of this bill, Representative Freeman described how the current budget format is used and how inconsistent it is. House Finance Committee members have complained, he said, but nothing has been done. He also pointed out the Senate Finance Committee has introduced an identical bill.

At this time, Jay Hogan presented a handout (see Attachment 2) on "Improving the Budget Process in Alaska" and explained this is a section of several earlier reports done by a consulting firm in the early 1970's.

{Tape HFC 81-19, Side 2, #001}

One of the keys to program budgeting, Mr. Hogan advised, eventually recommended by the consultants was that government

ought to be reorganized along program lines. He went on to explain HB 676, 1972, outlined how the Agencies would be organized, with the exception of the Governor's Office. HB 285 and an identical Senate bill would go through the Executive Budget Act and change all to program budgeting.

(Representative Moss left at this time.)

During discussion, Chairman Cotten, noting the Division of Legislative Finance prepares the budget shortform books, asked if they couldn't be directed to come out with a program budget, and Mr. Hogan indicated this would be no problem. Representative Adams asked if this has been done before by the Legislature in the past, and Mr. Hogan advised that, in 1972, effectively the Legislature went off Agency budgeting and to program budgeting. He indicated it is a matter of legislative preference. He stated the budgets are keyed to programs now and are prepared at Agency level. When the Agency gets the resulting appropriation, he said, they are put on the books in Agency order, and the actual expenditure occurs in Agency order. In the past, he stated, the Legislature has felt better dealing with Agencies, from the stand point of accountability, as opposed to programs.

Representatives Freeman and Haugen argued that it is much easier to track a budget when it is shown all together, rather than one program being split among three or four different Agencies, as is so often the case. Representative Rogers noted the University of Alaska program budget is their Agency budget.

Representative Montgomery asked Mr. Hogan if he supports Agency budgeting as being better than program budgeting. Mr. Hogan stated he doesn't personally think it matters which way the budget is done, but added it has been his experience the Legislature prefers the Agency system, in that the Agency has total responsibility and accountability. Representative Montgomery then asked if Mr. Hogan feels anything should be changed in the bill. Mr. Hogan distributed a handout (see Attachment 3) regarding language amendments to sunset legislation as recommended by the legislative auditor. He advised these amendments would not change any dates or any of the schedules at all, but only refer to specific department names instead of program names.

Noting the responsibility of appropriating money rests entirely with the Legislature, Representative Freeman stated he feels duty bound to do the very best he can and that it is extremely important the budget be presented in a form easily understandable. Representative Rogers stated he advocates more control through statutory budgeting.

Representative Adams requested the bill be held in order to have further time to study it.

At this time, Ron Lehr presented brief testimony against the bill. He advised Budget & Management recommends against the bill