

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2814

reimbursable services agreement from the Department of Revenue to handle corporate income tax matters, regulations, and other matters that have arisen in the past year. He said that at times the Department of Law has used additional attorneys on the case, as needed, but up to this point the case has proceeded for pre-trial type matters like discovery, protective orders, answers, counter claims, and discussion as to how to proceed on litigation. He said that now the case is heating up and the department wants to immediately proceed with a full scale effort, which will require more funds.

Senator Sturgulewski asked what would occur if the committee only funded the supplemental for FY 81 and the regular appropriation for FY 82. Mr. Maynard responded that there could be relatively immediate problems. The case is in its early stages now, and it could go a number of ways. With a full scale effort ahead entailing a great deal of "discovery" and gathering of factual material, there could be some unforeseen surprises. The original request of \$1,027,600 was what they expect to spend over a three year period, and as the rates of expenditures won't be an equal amount every month, there possibly could be problems.

Senator Ferguson asked what amount of money we would be given to lose in this case if the work were being done "in house". Mr. Maynard stated that in the CIT case, without any changes in the legislation, a number of billions of dollars was at stake, depending on how high up the oil prices go. He said that he thought it could be around \$40-50 billion. Senator Ferguson said that he thought that AG Will Condon had already checked those figures, and the Senator felt that they were incorrect. He added that he thought it was about \$40 billion off. Senator Dankworth stated that he was quite sure that the \$40-50 billion figure did not include Alaska gas, and that when gas is "put on stream", the figure would go to about \$89 billion.

Senator Ferguson further questioned Mr. Maynard on their desire to do the work "in house". Mr. Maynard responded that the department's intention was to retain a number of "in house" attorneys as well as immediately retaining outside legal consultants, expert tax practitioners and law professors with \$400,000 of the requested figures. These outside experts would do much of the preparation work. So, he said, it wouldn't be totally an "in house" effort.

Senator Dankworth stated that AG Will Condon had informed him recently that the work would be done "in house", so apparently it had been decided since that time to expand the program. He said that he had no real objection to retaining outside counsel considering the amount of money that is involved.

Senator Dankworth questioned if the State would recover about \$700 million if the TAPS tariff case was won. Mr. Lenzer responded that he felt it would be more than that. He said that he would give a brief status report of the results of Phase I, and some estimates on Phase II depending on the ultimate results. He went on to say that the State attempted to suspend the tariff when oil initially went through the pipeline in 1977. That case was successful at the interstate commerce commission level and at the supreme court level. He had been told by the state that the seven months of "through-put" effected by that effort resulted in additional revenue to the State of \$20 million. Now the methodology being litigated in Phase I under the Federal Energy Regulatory Commission has been completed, and the State's benefit as to the "through-put" for just years 1978, 1979 and 1980 (assuming 1.5 million barrels per day for 1980) will be \$360 million additional revenue if the decision made by the judge in Washington D.C. is affirmed by the FERC. He added that under that analysis, they are also projecting approximately \$1 billion additional revenue for the life of the line, assuming use of the carriers' predictions of 25 years.

Mr. Lenzer stated that for Phase II - on just the cost of construction alone - if the rate base for imprudent management decisions can be reduced by \$500 million from a total of some \$8. billion that were expended, then additional revenue to the State for the life of the line could be estimated at about \$240 million. On the other hand, if the rate base is reduced by \$1 billion, then they are projecting additional revenues to the State for the life of the line at about \$483 million.

Mr. Lenzer went on to say that there have been two occurrences which have effected adversely their original projections. They were:

1. They had assumed at the initiation of the Phase II document discovery that the FERC staff would carry a major part of the responsibility (as is appropriate) for the litigation. So, they did not ask for additional funds for consultant fees since FERC had hired to Schress and Co. to do the major management audit for the pipeline. There seemed to be no need to duplicate the effort with state funds. FERC carried out the audit for about 1.5 years and has now stopped and has indicated that it will no longer be participating in Phase II major management audit issues. As a result, the department has had to hire additional consultants to continue this important management audit area. He estimates that these costs alone will consume almost 1/3 of the total budget.
2. Both the carriers and his office were predicting that the extensive document discovery effort period would extend

through this year. However the judge has foreshortened the schedule and they are now scheduled for hearing in November of this year. This has created a time problem as well as a monetary one.

Co-chairman Dankworth asked if the hearing judges would change along with the change of administration. Mr. Lenzer responded that the hearing judge would not be changed, but that President Reagan would have an opportunity to appoint several new commissioners to the agency that will be reviewing the hearing judge's decision.

Senator Sturgulewski asked Mr. Maynard to explain the relationship between the Alaska Pipeline Commission and the State, and if their efforts were directed to the same ends. She also asked if the APC was going completely outside for their counsel. Mr. Maynard responded that the APC would have to go outside for their counsel. He said that the reason is that the State of Alaska is one of the parties before the APC investigation. The Attorney General is presenting a case to the APC to reduce the Phase II tariff down by the cost of construction overruns. As a result, neither the Department of Law nor its consultants can represent the APC, which explains their request for appropriation. He added that the relationship is that they will be hearing the same evidence, they will be going along with the FERC decision to set the intrastate tariff and the interstate tariff. In that instance also, they cannot use the Department of Law or its consultants as they are representing a different case.

Mr. Lenzer wished to add, however, that the Department of Law has coordinated on a staff level with the APC staff. They have reviewed various topics together to avoid duplication. Also, the Department of Law will begin its depositions next Monday of owner representatives and execution contractor representatives, and the APC will share those responsibilities with the department. And finally, he stated that the Department of Law now has well over one million documents in its computer system library that they are making available to the APC to avoid duplication of effort.

Senator Stimson questioned the various appropriations in the bill. Mr. Maynard explained that the \$24 million request would be for the conclusion of the TAPS tariff case, which goes to 1987. And the \$2 million should cover the corporate oil and gas income tax case to 1983. Department of Law projections are that the corporate oil and gas case will be in appeals in either the Alaska Superior Court or the U.S. Supreme Court. He added that they are expecting appeals to last through fiscal year 1985. Senator Stimson asked what the disadvantages would be if the Senate Finance Committee appropriated only Senator Sackett's

recommendation. Mr. Maynard stated that they would be coming back again at the end of 1982 for further funding; he said that the Department of Law had sent a detailed operating budget to the Office of the Governor setting out expenses over the next three years. He cited possible future problems, i.e. changes in scheduling and/or unexpected consultant expenses. He said that they had some idea of how much money the entire case would cost, but the timeline for specific expenses was not known; that was why the Governor's Office asked them to devise a one-time appropriation for the TAPS tariff case, as well as a three-year one for the corporate oil and gas income tax case.

Senator Eliason asked if there was any possibility of recovering any litigation costs. Mr. Maynard responded that in the corporate oil and gas income tax case, the prevailing party can recover reasonable amounts of attorney expenditures. He was not sure with regard to the Federal Energy Regulation Commission proceedings. Mr. Lenzer explained that there was no specific provision allowing for recovery in addition to the revenue flow coming from the tariff decision unless they could demonstrate that the millions and millions of owner dollars used for legal fees were used imprudently. Other than that, he said, he felt it was unlikely that they could get additional attorneys' fees out of it. Mr. Maynard indicated that in the APC statutes there was a provision for the APC to recover from the parties the cost of the proceedings, so part of that money could be allocated to different parties.

Senator Eliason asked about interest on the money should the State of Alaska be successful in its case. He wondered if they would be in long term litigation over that issue as well. Mr. Lenzer stated that the interest rate under the ICC regulations is 5% for refunds - that is, unpaid amounts properly owed to the state. He said that they had filed a motion recently to ask that that amount be increased by the commission to something more appropriate, considering the price of money today. He said that he didn't feel it was a complex issue, and that the commission had ruled to raise interest rates in other regulated areas, like the gas pipeline.

Senator Ferguson asked about the number of members on the Alaska Pipeline Commission. Mr. Maynard stated that there were presently two - Commissioner Karen Corey and Commissioner Jan Williams - and that there are three commissioners authorized. He said that at this point APC is trying to merge with Alaska Public Utilities Commission, and if they are successful, they will probably not add a third commissioner. The APC is up for sunset review this year also, so if they do not merge, and if they are not sunsetted, they will probably add a third commissioner.

Senator Ferguson asked if the money for APC could be appropriated to the Department of Law. Mr. Maynard responded that it probably could not as the State is a party before the commission. The APC staff is a separate entity, and the State cannot advise them and be a party before them at the same time.

Senator Stimson noted that this situation seemed to reflect that the State is helping to fund a case against the State. Mr. Maynard said that in a sense this was so because the State plays two hands - one as a royalty owner, and the other as a regulator - and each hand must be funded.

Senator Stimson asked what they felt the chances were to win the TAPS tariff case. Mr. Maynard said that of course the companies would like to know the same thing - so 100 %. Mr. Lenzer responded that this was a fair question, and in his opinion there were a variety of identified areas, from management structure, cost controls, project controls and the failure to have a cost estimating system in place until one and one half years after commencing construction, that would seem in the State's favor. He said that they felt these deficiencies had impacted every single area of construction activity they were involved in - including labor utilization, equipment, engine and materials management, and quality assurance and quality control. So, he said, the State is not empty handed in terms of asking the judge to make a judgement that a substantial amount should be taken out of the rate base. The State should not pay for others' mistakes. He said that was the thrust of the State's argument.

Senator Stimson stated that his inclination was to support Senator Sackett's recommendation, and asked for further reasons why the full \$24 million should be funded other than that it would be convenient. Mr. Lenzer responded that the major benefit would be to have ample money to deflect unexpected changes in scheduling and consultant use that would disrupt prior plans. He referred again to the problems they had previously in these specific areas. He added that right now some of their consultants were "treading water" so that the State would not over-commit their time and resources until there is some clear signal on the funds available.

Senator Sackett noted that on the other hand, looking at the history of the whole problem, the Department of Law had not been able to anticipate what their needs would be for even a six month period. He questioned how they could know what their needs would be over a three to five year period, and added that in any case, the Legislature would be back the following year.

It was established that the back-up for the TAPS tariff case budget as well as the APC budget was in the budget workbook, and

that these same papers had been submitted to the Governor's Office.

Co-chairman Dankworth thanked the two gentlemen for their testimony. He stated that it was the intent of the committee to pass the bill out of committee as a committee substitute incorporating Senator Sackett's recommendations.

Senator Stimson moved and asked unanimous consent that Senate Bill No. 113 be passed from committee as a committee substitute with individual recommendations. There being no objection, it was so ordered, and the committee report was signed "do pass" by all members.

COMMITTEE REQUESTS

Senator Sturgulewski requested that Jay Hogan, Director of Legislative Finance, furnish the committee with a report of the positions created by RP's, and that it be done separately by budget category. She said that she was aware that a court case a couple of years ago ruled that authority over the creation of these new interim positions did not rest with the legislature, but she wanted to know if there was some way the legislature could control these additions. She stipulated that she was not talking about CIP positions, only those created by RP.

Senator Ferguson stated that he would like the same information for CIP positions in the Department of Transportation and Public Facilities. Senator Sturgulewski stated that there were some CIP's in the Department of Natural Resources and she felt it would be good to see a total.

Co-chairman Dankworth stated that he would so instruct Mr. Hogan.

ADJOURNMENT

The meeting adjourned at 9:45 a.m.

(Tape SFC 81, # 3, Side 2, 000-815)

SENATE FINANCE COMMITTEE
February 11, 1981
2:30 p.m.

(Tape SF-81, No. 4, Side 1, 000-end)

CALL TO ORDER

Co-chairman Dankworth convened the joint Senate Finance and HESS Committee meeting which he co-chaired with HESS Chairman, Senator Charles Parr, at approximately 2:30 p.m.

PRESENT

Finance members present: Senators Dankworth, Eliason, Stimson, and Sturgulewski. HESS members present: Senators Parr, Fischer, and Stimson. Also present were University of Alaska Regents Don Abel, Jr., and Ed Rasmuson; Fiscal Analyst, Alison Elgee; and administrative assistants to the Finance Committee Kathy Martinson and Judy Johnston.

UNIVERSITY OF ALASKA, BOARD OF REGENTS

Co-chairman Dankworth advised that the meeting was convened to discuss the reappointment of Mr. Abel and Mr. Rasmuson to the Board of Regents. The Governor reappointed both gentlemen to six-year terms commencing February 1, 1981, and expiring February 2, 1987. The Co-chairman welcomed Messrs. Abel and Rasmuson to the meeting and invited each to make an opening statement.

E. RASMUSON

Mr. Rasmuson advised that when he and Mr. Abel joined the Board, in February of 1975, there was no perceived financial problem at the University run by former president Hiatt. In the latter part of the following year, 1976, the University fell into severe financial crises which lasted approximately two and a half years. In 1977 there were over 40 regents' meetings, and the Board basically ran the University during this time. Mr. Rasmuson advised that over the past five years the Board has developed strong financial discipline at the University. The Board knows where the University is financially at all times, and can almost determine exactly how much is spent each month.

He advised that he would like to see the University grow to become one of the "truly great universities in the country." The University can achieve this goal in certain disciplines:

1. Engineering
2. Fisheries
3. Petroleum Technology
4. Mining
5. All energy fields.

If prominence in some fields is not achieved, Alaskan students will go elsewhere for schooling.

Mr. Rasmuson spoke to the need to strengthen the community college system. Decisions concerning these schools have in the past been made on political rather than educational bases. The presidents of individual community colleges set the tone for their schools. It is, therefore, necessary to get quality people to fill these positions.

In concluding his statement, Mr. Rasmuson advised that his time on the University Board of Regents had been both stimulating and rewarding. He added that "everyone needs something to trespass on their time, and the University certainly does." He advised that he was looking forward to continued service on the Board.

D. ABEL

Mr. Abel advised that as a graduate of the University of Alaska he took special interest during the past five years as the Board began delving into University financial problems. Past confirmation hearings before the legislature "triggered" Board action concerning these problems. The University has "gone through five presidents in the past several years, but now feels it is back on course again."

Alaska is just beginning to evolve, and the University should be part of the evolving process. The state imports over 60% of its strategic materials while over one-half of them are available in state.

The University has garnered increased public support as evidenced by increased enrollments. The University is currently experiencing a growth pattern which can benefit the whole state. In concluding his remarks, Mr. Abel advised that he is not "an empire builder," but a businessman who wishes to see the University prudently grow.

Following the opening statements, Co-chairman Dankworth opened the meeting to questions from committee members.

COMMITTEE QUESTIONS

Senator Stimson spoke to his perception of competition between UAA and ACC, advising of duplication of courses and titles. Mr. Rasmuson responded that ACC was the first community college established back in 1953. Until three and a half years ago, there was no UAA. Unlike Fairbanks where the University was the dominant force in the community, in Anchorage ACC was more dominant. The college facility in Anchorage was split, resulting in ACC and UAA. Anchorage now has an emerging university (UAA) and a very fine and dominant community college (ACC). The sense of competition would not have occurred had UAA been established before ACC. Mr. Rasmuson also spoke to a growing feeling of need in Anchorage for a "true university" with dorms, etc.--an atmosphere which would develop the comradery which exists at the Fairbanks campus. ACC should continue to develop and teach 100 and 200 level courses. Such courses will continue to be taught at UAA also in order to provide the full spectrum of courses (100 through 400 level) offered at a real University. If UAA is allowed to continue to develop, the feeling of competition will not exist ten years from now.

Senator Sturgulewski raised a question concerning the University's budget request for the coming year, advising that this year the University is asking for one appropriation rather than fifteen. She stated that to fund in the requested manner requires "quite an act of faith." Mr. Abel responded that the regents feel the University is now at a point where its accounting system is accurate and funding can be tracked. Single-appropriation funding will allow the University to use funding more efficiently and move it more freely to areas of need.

Senator Sturgulewski advised that she will continue to have difficulties with the above request until the conflict between UAA and ACC is resolved. Mr. Abel responded that what appears to be course duplication at ACC and UAA results from the fact that the Associate Degree has "a different thrust" than the Bachelor Degree. The A.A., offered at ACC, technically requires a lower level of learning which will "be put to work in one's employment."

As an aside, Mr. Able advised that all individuals interviewed for the position of University president applauded Alaska's system of a single president and one board of regents. These individuals advised that they were "trying to get back to this system again," because in their experience it functions "the best."

Senator Parr advised of his concern that University expansion, both geographically and course-wise, has superseded desire to

improve the University's prestige and draw the best students from around the country. Mr. Rasmuson acknowledged a need "to strive for a degree of excellence." Speaking to expansion, Mr. Rasmuson advised that the University has created community colleges and been "required to expand" because of political pressure etc. The University has further expanded via capital projects--building new buildings and maintaining them.

The University now has an "infra-structure" and feels there are certain disciplines which should be built upon. Anchorage and Fairbanks should have engineering courses which will attract students from other states. Washington and Oregon offer the closest thing to a fisheries degree. This is an important industry in the state. Alaska could be a leader in this field. Such specialization is not going to occur overnight, however. The University needs to get its accreditation, and realizes it "cannot be all things to all people"; it will have to specialize.

Senator Fischer advised of his feeling that the board of regents needs to "get down to firm basic issues such as:

1. Overall philosophy
2. Long term structure
3. Quality
4. What happens on individual campuses.

The Senator advised that he doesn't feel one can talk about quality at the University of Alaska without considering individual campuses. He further advised that he didn't favor separation of ACC from UAA because no one has shown that such separation will be better for the students. He stated his belief that little concern is shown for the students, that course duplication is irrational, and that cross-registration results in extra fees but no benefits.

Senator Fischer advised of his belief that the University needs decentralization rather than continued centralization in the board of regents. Only through such decentralization can the University achieve quality. He further called for an end to the "hassle" between Anchorage and Fairbanks, stating that each campus should concentrate on building "the very best in Anchorage, and the very best in Fairbanks."

He advocated the development of "mini boards of regents" at individual campuses which would select and schedule courses suited to the area and environment. These local boards would be overseen by a "supra board of regents" concerned with budgetary matters and the setting of overall guidelines.

Mr. Rasmuson responded that the University has attempted to permit more local autonomy. Three years ago the University began decentralization of the budget process, permitting more input at the local level. The University has also attempted to expand the role of the local advisory board. Advisory boards should have more control, especially at the community college level, in selecting courses the community wants. There is need to better define the authority of these groups. The Anchorage regents and the advisory board will be getting together for a meeting in March. Senator Fischer stated that these boards should be decision-making rather than advisory. They should constitute a board of governors and consolidate and coordinate the activities of UAA and ACC. Both institutions and the board should function under one head rather than a separate president and chancellor.

(Reverse tape, Tape SF-81, #4, Side 2)

Senator Fischer advocated that the University do away with the division in Anchorage, restructuring both schools under the name UAA, with divisions for individual schools such as the "School of Nursing." All entities at UAA would be under a single president and governing board. He stressed the need to do away with the "vertical separation" now existing at the University.

Senator Stimson spoke to problems surrounding the offering of short term courses at the University--the lack of established, understandable procedures for effecting such courses as well as the sudden cancellation of advertised courses. The Senator advised that the University could play a much more valuable role in the community if it would establish workable, understandable procedures for such offerings. Mr. Abel advised that the above situation in Anchorage is not unique to the University system. Some headway is being made at the Juneau campus, but in the past, because of paramount financial problems, the Board of Regents has not had ample opportunity to look into educational problems.

Senator Sturgulewski raised questions concerning management of the University's human resources, advising of instances where professors are not provided adequate backup and thus end up performing other than teaching functions. She questioned Mr. Abel and Mr. Rasmuson concerning management goals. Mr. Abel responded that the University has internal auditors who examine University operation. This program has been successful so far. He advised that serving on the Board of Regents is like serving on the board of a large corporation. The internal audit program is, according to Mr. Abel, "the best system . . . because we can direct them any way we want." Further elaborating on the above subject, Mr. Rasmuson advised that the Board of Regents is charged with hiring the University president and the vice-

president of finance. Statewide administration is "painfully short of qualified people at this time."

REAPPOINTMENTS AFFIRMED

Senator Sturgulewski moved to affirm the reappointment of both Mr. Abel and Mr. Rasmuson. Co-chairman Dankworth advised that such a motion would not be necessary, that with the concurrence of present committee members, his office would write a report recommending reappointment. He further stated that he did not wish to see the Legislature and University "get so tied up in the organizational process that we miss educational opportunities." He advised that the University should not just enlarge but also specialize, particularly in the areas of energy and research.

ADJOURN

There being no further matter to come before committee at this time, the meeting adjourned at approximately 3:40 p.m.

(Tape 81, #4, Side 2 (000-403))

SENATE FINANCE COMMITTEE
February 17, 1981
9:05 a.m.

(Tape SFC 81, # 5, Side 1, 000-601)

CALL TO ORDER

Co-chairman Bennett called the meeting to order at 9:05 a.m.

PRESENT

All committee members were present. Also in attendance were Kerry Romesburg, Executive Director of the Alaska Commission on Postsecondary Education; Legislative Finance Fiscal Analysts Alison Elgee and Milt Barker; Administrative Assistant to Co-chairman Senator Dankworth, Kathy Martinson; Administrative Assistant to Co-chairman Senator Bennett, Judy Johnston; and members of the press including Joe LaRocca.

BILL ASSIGNMENTS

Co-chairman Bennett made the following bill assignments:

SCR 10 - Ferguson
SB 18 - Stimson
SB 86 - Stimson
SB 88 - Bennett
SB 137 - Sturgulewski
SB 139 - Bennett
SB 185 - Dankworth

Co-chairman Bennett stated that Senate Bill No. 185 (An Act making a supplemental appropriation for the special mortgage loan purchase program) would be brought before the committee by Co-chairman Dankworth at 1:30 p.m., Thursday, February 19, 1981.

MEMBER REQUESTS

Senator Ferguson requested that he be scheduled to bring up Senate Bill No. 148 (An Act relating to housing loans) at 1:30 p.m., Thursday, February 19, 1981. Co-chairman Bennett stated that he would be scheduled for that time.

Senator Sackett requested that Co-chairman Bennett explain the memorandum that had been distributed to the members concerning sub-committee work. He asked how it related to the budget work being done by the committee as a whole. Co-chairman Bennett responded that the Senate Finance Committee had received a schedule from Representative Meekins of the House Finance Committee for the NRMEC budget sub-committee hearings, along with an invitation to interested members to attend the hearings. Attendance by Senate Finance Committee members will be based on their time available and their interest. He stated that the Senate Finance Committee would still take up these areas of the budget before the committee as a whole, but that these joint sub-committee hearings would save a lot of time, and would eliminate duplicate testimony. He added that he would try to keep members posted of any changes in the scheduling, and concluded by urging committee members to attend these joint hearings depending on their available time and interest.

TRANSPORTATION BUDGET CATEGORY

Senator Sturgulewski stated that she had set up joint meetings with Representative Freeman of the House Finance Committee on the Transportation budget. She said that she estimated it would take about 2 1/2 weeks to complete the hearings, and that she did not expect to have a report prepared for the Senate Finance Committee as a whole until about mid-March.

UNIVERSITY OF ALASKA BUDGET CATEGORY

Co-chairman Bennett stated that he had met with Jay Barton, President of the University of Alaska, and that the University of Alaska budget hearing before the committee as a whole was tentatively scheduled for March 11, 1981.

SENATE BILL NO. 88

Co-chairman Bennett advised the committee that Senate Bill No. 88 (An Act making special appropriations to the scholarship revolving loan fund) was before the committee for consideration at this time. He said that it would make a \$10 million appropriation from the General Fund for the Scholarship Revolving Loan Fund, and would establish a revolving base for the student loan program. He then requested that Mr. Kerry Romesburg, Executive Director of the Alaska Commission on Post-secondary Education, come before the committee to testify on the legislation.

Mr. Romesburg stated that the Commission has experienced a number of problems, particularly over the last three years, in getting the loan checks out in a timely fashion. The chief reason is that the Commission cannot issue a contract to the student and

obligate State money until they have the dollars to back up those contracts. The Attorney General's office has told the Commission that they have to wait until the budget bill is passed and signed by the Governor before commitments can be made. He made the point that the signing of the budget bill has been as late as June or July some years. The Commission usually has from 3,000 to 5,000 loan applications back-logged by that time, but the checks cannot be generated and sent. Many of the students are attending schools beginning in early August, and it simply is not possible to handle all the paper and get the checks out on time. Therefore, the checks are late time after time.

Mr. Romesburg said that the Commission has looked at different alternatives to solve the problem, and that the best one they have come up with is a "base" or "forward funding" concept. This would allow them to process the loans as they come in in the spring up to at least a certain level - the proposed level being the \$10 million level requested in SB 88. They could go ahead and issue checks for about 50% of the loans (compared to next years budget). He said that the second thing passage of this legislation would do is to allow the Commission to process any loan applications which are in excess of their original projections. This has been a particularly troublesome problem in especially the past three years, with inflation and the economy changing so rapidly. Their projection model is a historically based linear model, and has simply not been adequate in recent years for the following reasons:

1. They are not able to account for the total number of students going back to school because of the economy. (when the economy is down, more people go to school.)
2. A lot of people have come in for unexpected small loan amounts (like \$300 - \$500) to offset inflation.
3. Last year, the commission "really missed" because their projections, based on nine years of experience, showed that the average loan would be about \$2,400 to \$2,500. However, the average loan came in at \$3,000, and then finally leveled off at about \$2,800. So, people asked for a great deal more money than they expected.

The result of these kinds of problems, he said, was that the Commission had to make supplemental appropriations requests to the legislature. He noted that last year was the worst - that by end of July they found they were out of money. So, they went to the Governor's Office and the Budget and Audit Committee, and with the agreement of those two bodies they borrowed \$3.3 million from the Student Loan Marketing Association so that the program would be fully funded for this current year. Interest is due on this loan. He said that the legislation before the Senate

Finance Committee would provide them with a revolving "base" and would prevent this from happening again.

He stated that though the \$3.3 million loan that the Commission had borrowed from the Student Loan Marketing Association was not in the proposed legislation, there would be a supplemental request coming from the Governor's Office to allow for repayment. He encouraged the members to respond favorably to the supplemental request when it does arrive as the loan is costing the State \$9,000 a week in interest. By the end of March, the cost will go to another \$135,000, and the Commission does not have this money and will have to default on the loan unless the supplemental request is granted.

Senator Sturgulewski questioned Mr. Romesburg on how President Reagan's budget message statements on cutting federal assistance programs would impact this bill before the committee, and also how that would effect either a capital fund here or the loans themselves. Mr. Romesburg responded that it looks as though they would be moving away from the federal program because the Reagan administration has said time and again that they are going to re-impose the income restrictions on guaranteed student loans. If that does happen (using the old figures), an applicant or an applicant's family making \$25,000 or more would be ineligible to receive those interest benefits that they now receive. Again, he said, if that happens he assumes they will pull out of the program. He added that the bill before the committee at this time would not be impacted, but their budget which would come before the committee this session could be impacted. The reason is that they have projected over the next 10 years the income they will receive as interest benefits. He concluded by saying that by that time they would hopefully know what the Reagan administration intends.

Senator Stimson asked for further comment on the \$3.3 million loan the Commission took out with the Student Loan Marketing Association. Mr. Romesburg responded that in order to pay back the loan in full by March 31 (to avoid another interest payment of \$135,000), they would need \$3,570,127. He said he did not understand why the supplemental request had not arrived yet, and that it is presently in the Department of Law. He said that the initial interest payment of \$108,000 was paid out of their "300" account, and since there was no money budgeted for the expense, their "300" account is now depleted, and they will not be able to make the \$135,000 interest payment March 31.

Senator Ferguson asked if \$10 million was the "magic number". Mr. Romesburg stated that it was not, but it had been suggested as a base figure by the Budget and Audit Committee.

Senator Stimson shared a letter with the committee that he had received from one of his constituents regarding the Alaska Student Loan Program. The letter indicated that checks tend to be late, and those students who cannot afford to assume the cost until their loan checks arrive, must drop out of school. Senator Stimson stated that most of his mail in this regard refers to the long waiting period. He said that part of the problem is that the money that the Legislature appropriates is not available to the loan program until the budget bill is signed by the Governor, but with this legislation to create a revolving or "forward funding" type program, loan checks could go out on time. He felt that this was a service the Legislature should provide to its constituents.

Senator Eliason asked how this appropriation would be handled. Mr. Romesburg responded that it would go directly into their revolving fund account for the student loan program, and then they would draw on that in the form of encumbering the funds by contract to the students. He said that the interest the money draws would go to the State, and that he thought there are restrictions on an individual agencies having interest-bearing accounts.

Senator Eliason asked what the interest rate was. Mr. Romesburg stated that it was based on 1/4 of 1% of a 30 day T-Bill, and that changes continually. Senator Eliason requested that Mr. Romesburg provide him with more specific information as to the interest rates.

Senator Sackett stated that one concern of past legislatures has been the student loan program administration problems as well as the problems of individual students. He said that in 1980 they had appropriated \$8,150,000, and then added \$1,826,000 as a supplemental appropriation, for a total of \$9,976,200; however, the budget book showed that only \$9,298,900 had been used. He asked what had happened to the remaining \$700,000. Mr. Romesburg responded that they had encumbered the total amount in loan awards for students, but that there are always those students who become academically ineligible or who drop out. The money on those loans is returned to the program and is put back into the account for use the next year.

Senator Sackett asked what the total supplemental request was for repayment of the loan to the Student Loan Marketing Association. Mr. Romesburg stated that it was \$3,570,127 they need to make the full payment by March 31.

Senator Sackett recommended to the committee that the \$3,570,127 figure be inserted in SB 88 as an amendment. He stated that he felt the loan should be repaid as soon as possible.

Co-chairman Bennett stated that he felt Senator Sackett had made a good point, and moved that the following amendment be made to Senate Bill No. 88:

Page 1, line 13:

Add a new Section 2 to read: The sum of \$3,570,127 is appropriated from the General Fund to the Alaska Post-secondary Education Commission, Scholarship Loan Program for repayment of principal and interest to the Student Loan Marketing Association.

Page 1, line 13:

Change existing Section 2 to Section 3.

Change "Funding Information" at top left corner of bill to reflect new total of \$13,570,127.

Co-chairman Bennett asked for a voice vote on the amendment; and there being no objection, it was so ordered.

Senator Ferguson moved that Senate Bill No. 88 as amended be moved from committee with a "do pass" recommendation. Co-chairman Dankworth asked unanimous consent. There being no objection, it was so ordered. The committee report was signed "do pass" by all members.

GENERAL DISCUSSION

Senator Stimson asked when the Senate Finance Committee would begin meeting daily at 9:00 a.m. Co-chairman Bennett stated that it would be based on the number of bills in committee, and whether or not members requested those bills to be brought before the committee. He added that the Co-chairman would need at least a 48 hour notice before bills are brought before the committee.

DEVELOPMENT BUDGET CATEGORY

Senator Stimson stated that he did not feel that he would be ready to report to the committee on his budget category (Development) by March 1.

ADJOURNMENT

The meeting adjourned at 9:35 a.m.

(SFC Tape # 5, Side 1, 000 - 601)

sf0219810900

SENATE FINANCE COMMITTEE
February 19, 1981
9:00 a.m.

(Tape SF-81, #5, Side 2 (000-324))

CALL TO ORDER

Co-Chairman Dankworth convened the meeting at approximately 9:00 a.m.

PRESENT

All committee members were present with the exception of Senator Bennett. Also in attendance were Dwayne Carlson, lobbyist for the Alaska AFL-CIO, and Administrative Assistant to Senator Dankworth, Kathy Martinson.

SB 86

Co-Chairman Dankworth advised that the meeting was convened to "take up" the Committee Substitute for SB 86 (Act relating to expenditure of state money for relocation of the state capital, and amending the law added by the initiative popularly known as the "FRANK Initiative"). The Co-Chairman advised that the legislation has no fiscal implications, and "everyone is familiar with what the bill does." It requires that voters know what it is going to cost to move the capital. Senator Dankworth opened the meeting to comments from committee members.

Senator Ferguson advised of his belief that the capital move issue is beyond the scope of the committee. The big issue, according to Senator Ferguson, is whether Anchorage and Mat-Su should secede from the Union. He added that problems concerning unemployment, drug control, police protection, etc. are all problems which seem to be generated in Anchorage and reflect upon the rest of the state. "The big issue is not whether we move the capital, but whether we allow these areas to secede from the Union and become another state.

He further spoke to statewide need for hospitals, roads, modes of transportation, etc. to take care of people in rural areas. Senator Ferguson stated that proponents of the capital move don't understand that for one city to advocate the capital move and allow for a whole new city to be built while other needs are unmet statewide, constitutes a horrendous lack of responsibility.

He added, "If we are talking about a move, the capital can be any place. The legislature can meet wherever it pleases if it can

get a majority of the voters to agree." He advised that he believes move proponents to be playing a "shell game." The game precludes a lot of people who feel there are more important matters to deal with statewide than moving the capital.

He concluded his statement advising that while individuals may disagree concerning expenditure of state funds (given the state's "unlimited bank account") the question is not whether the capital should be moved to Willow, but whether Anchorage and Mat-Su should be allowed to create their own state, and "see how long they can live on their own merits."

At this time Co-Chairman Dankworth called a brief recess in the meeting.

Senator Ferguson left the meeting at 9:10 a.m.

Co-Chairman Dankworth reconvened the meeting at approximately 9:12 a.m.

Senator Eliason called attention to the fact that in passing CSSB 86, the committee will be amending a state initiative. He added that it seems unfair not to hold public hearings throughout the state prior to taking action. He stressed the importance of amending an initiative "of the people." To "run something like this through the legislature in a week or so" constitutes an unfairness to the people. He suggested the legislature "hold at least two hearings" on the matter before acting on it. He also spoke to poverty in many areas of the state, the need for streets, water and sewer systems, etc.

Co-Chairman Dankworth acknowledged an appreciation for the needs mentioned by both Senator Ferguson and Senator Eliason, but he stated further that the people voted to move the capital, and the FRANK Initiative says that before it is moved the people should know what the cost will be.

Senator Sturgulewski commented on the interesting number of forms the bill has taken, advising that it really relates to a perception of how state wealth should be spent. Anchorage is sympathetic to the needs of other parts of the state. She advised of her own concern regarding the "dominance of Anchorage," advising that all communities in Alaska constitute parts of the whole. She spoke further to the need to "cut across regional lines." She further stated that the people have voted to move the capital, and until something comes forward (something from outside the system) the will of the people should be accomplished.

Speaking to the issue of public hearings raised by Senator Eliason, Senator Sturgulewski stated that she has long been an advocate of public hearings, but since the bill was heard in State Affairs prior to Finance and will subsequently be heard in Rules, it will have received adequate hearing prior to conclusive legislative action.

Senator Stimson MOVED that CSSB 86 pass from committee with individual recommendations. Senator Sackett objected. Upon a show of hands, Senators Dankworth, Stimson, and Sturgulewski voted in favor of passage, Senators Sackett and Eliason voted against.

CSSB 86 thus passed from committee, Senators Dankworth, Stimson, and Sturgulewski signing "do pass," Senator Eliason signing "do not move," Senator Sackett signing "do not pass."

ADJOURNMENT

There being no further matters to come before the committee at this time, the meeting adjourned at approximately 9:20 a.m.

(Tape SF-81, #5, Side 2, (000-324))

SENATE FINANCE COMMITTEE
February 19, 1981
1:35 p.m.

(Tape SFC 81, # 5, side 2, 330 - end)
(Tape SFC 81, # 6, side 1, 000 - end)
(Tape SFC 81, # 6, side 2, 000 - end)
(Tape SFC 81, # 7, side 1, 000 - 154)

CALL TO ORDER

Co-Chairman Bennett called the meeting to order at 1:35 p.m.

PRESENT

All members of the committee were present. Senator Eliason arrived at 2:00 p.m., and Senator Ferguson arrived at 2:15 p.m. Senators Eliason, Sackett, Sturgulewski and Ferguson left the meeting at varying times. House Finance Committee members were also present - Representatives Bettisworth, Cotten, Buchholdt, Carney, Adams, Montgomery, Haugen, Hayes, Freeman, Malone, Rodgers. Also present were Senator Rodey; Judy Johnston, Administrative Assistant to Senator Bennett; Kathy Martinson, Administrative Assistant to Senator Dankworth; Elmer Lindstrom, Legislative Finance Fiscal Analyst; Ron Lehr, Director of Division of Budget and Management; and members of the press including Jean Kaiser. The following people made testimony before the joint committee meeting: Harry Goldbar, Executive Director of Alaska Housing Financing Corporation; Mark Cameron, Controller of AHFC; Tom Williams, Commissioner of Department of Revenue; John Curtis, Executive Director of Alaska State Housing Authority; Jim Crawford, Deputy Executive Director of Alaska State Housing Authority; Mike Lynch, President of Alaska State Bank; Robert Sullivan, V.P. of Alaska Mutual Bank; William Simon, Sr. V.P. of Mt. McKinley Mutual Savings Bank; Karen Morris, Real Estate Broker from Fairbanks; Kenneth Gain, Anchorage resident; Mark Korting, Past President of Anchorage Board of Realtors; Larry Crockett, Executive V.P. of Melody Homes in Anchorage; James McConaghy, owner of McConaghy Construction in Juneau; Bob Schanker, Anchorage resident; and Debby McFarland, Healy high-school student.

BILL ASSIGNMENTS

Co-chairman Bennett made the following bill assignments:

SB 150 - Bennett

SB 133 - Eliason

SB 134 - Eliason

SB 124 - Sturgulewski

SENATE BILL NO. 185

Co-chairman Bennett stated that he and Co-chairman Dankworth would alternately conduct this joint meeting on Senate Bill No. 185 (An Act making a supplemental appropriation for the special mortgage loan purchase program; and providing for an effective date). He said that the committee would be open to testimony from the public, and he thanked the House Finance Committee members who were able to attend.

Co-chairman Dankworth stated that it seems every year people in the construction trades, and builders and buyers in the market, wonder what the Legislature is going to do. The idea for this meeting was to get people involved in the market in one room to discuss the problems. He said that he hoped to set the people at ease in Alaska, and wanted to show that the Legislature intends to address the problems and see to it that there is a housing program. He asked if any member of the Senate or House Finance Committees wanted to make a statement. No member wished to at that time, so Co-chairman Dankworth asked that Harry Goldbar come forward to give an overview and relate his feelings on the bill.

HARRY GOLDBAR, EXEC. DIRECTOR, ALASKA HOUSING FINANCE CORPORATION

Mr. Goldbar stated that he would give an overview of AHFC activities and its potential needs - primarily with regard to the Special Mortgage Loan Purchase Program. He said that with no projection models to project needs for 1981, it was anticipated that about \$500 million in mortgage purchase demand would be generated in FY 81. Based on that factor, a combination of money and mortgages from the legislature, and from bond sales have produced approximately \$500 million in cash for mortgage purchases. After the initial "bubble", it appeared that the demand for mortgage purchases was about \$10 million a month higher than had been projected. In the last three months it has increased in addition about \$10 million, so that it appears that the remaining funds will be diminished before the end of the fiscal year. In light of that situation, AHFC decided to impose an allocation system on the most equitable basis they could determine based on region and production of the financial institution. That system is currently in place and AHFC cannot disseminate any more than approximately \$38 million per month. AHFC anticipates that the real demand is about \$63 million per month. Therefore, the result of the allocation system is probably not only a slight suppression of the market, but a delay of mortgage purchases and closing in FY 82 which will impact the projections for demand in FY 83. He stated that their original

anticipated monthly demand was \$42 million for FY 81, and the anticipated demand for FY 82 is slightly in excess of \$700 million. This would require an appropriated subsidy (depending on the costs of the corporation) of somewhere from \$225 - \$280 million, depending on the interest rates. The subsidy AHFC has expended to accomplish \$500 million worth of mortgage loans in FY 81 was \$50 million.

Mr. Goldbar stated that there is a reason for the increase in cost of funds in FY 81 and the substantial increase in cost of subsidy and cost of funds in FY 82. For the last year and a half, the bond market has been in disarray and AHFC has experienced a lot of uncertainty as to where it will go, both on the tax exempt side and the taxable side.

AHFC sold \$230 million in bonds in July, 1980, and expended approximately \$9 million in the appropriated subsidy amounts. In November, 1980, AHFC issued another \$230 million in bonds at a true interest cost to the corporation of 11.29% - and that is a substantial increase. The required subsidy for the second \$230 million was \$41 million. The reason for the increase in the required subsidy for FY 82 is adverse federal legislation that was signed by President Carter on December 5 which limited AHFC's ability to enter the tax exempt mortgage revenue bond market to no more than \$200 million for the State of Alaska, and under the mandates of that legislation, unless the state legislature allocates otherwise, no more than \$100 million of that could be utilized by a state housing finance agency, with the other \$100 million available to local governing units. In addition, there is some concern on their part as to whether that \$200 million is fully usable because of the obstructions the federal legislation has imposed upon the eligible properties and eligible mortgagors who can be financed with the proceeds of the tax exempt bond sale. The federal legislation requires that a person cannot have owned a home in the past three years to be eligible, and that the eligible property cannot have a purchase price which exceeds 90% of the average purchase price for the last 12 months for which statistical data is available. And in Alaska that creates other unique problems. The federal legislation was directed toward more highly populated areas, and constantly refers to counties, cities and local governing units. Alaska has a lack of those organized units throughout the state, as well as a substantial lack of data base. In addition, it will be nearly impossible for AHFC to issue any tax exempt bonds under these parameters even if they determine there is a market, as they have to wait for the federal government to promulgate its regulations. Now that AHFC is in a "source of funds market" that is substantially more costly, since December 5 they have been examining methods of reducing costs of the program and have been looking at various innovative methods that have been in effect in the lower 48. He

stated that though the Governor and the Legislature will ultimately decide, AHFC sees the following options:

1. The program as it is at a high cost - and that is a 30 year mortgage at a 9-10% interest rate.
2. Some alteration of the program in some subsequent year that would reduce the cost of the program.
3. A 30 year mortgage with a variable rate which would allow us to take advantage of shorter term money rates - for example a 10 year taxable bond.
4. A shared appreciation type mortgage, which is a vehicle which has come into some acceptance in the lower 48, although in the private market there have been some difficulties with it.
5. Deferred interest mortgages where the borrower would pay lower interest rates in the first few years of the loan and then compensate by paying higher rates in later years of the loan.
6. Or, a floating rate which is keyed to a mortgage market bill, such as the federal mortgage association.

He stated that the above were all potential methods of reducing the cost of the program. AHFC has disseminated (or purchased) approximately \$275 million worth of loans under the special loan purchase program for FY 81 at an average purchase price of \$92,700. The average loan amount has been \$84,000, and the short history of the program indicates that about 30% of the awarded loans are eligible veterans loans at 9%, and the other 70% are the normal 10% interest rate mortgages. He stated that the total loans either committed or paid to date are 32,027, and AHFC projects 5,500 to 7,000 interest loans for FY 82.

Co-chairman Dankworth asked Mr. Goldbar to explain more fully the "share" type option (# 4. above). Mr. Goldbar responded that at some time in the future a balloon payment is required which is based upon a sharing in the appreciation of the property and which pays the investor for having loan money at a lower interest rate. He said that it had been tried in the lower 48, but he felt this was a different situation since AHFC is not a profit-making venture. AHFC is simply trying to recapture some of the state subsidy that has been infused into the mortgage loan program as opposed to trying to make a profit by virtue of giving a lower interest rate and then sharing in the appreciation at a later time.

Senator Stimson asked if there were statistics showing who is borrowing the money - new Alaska residents or those who have lived in the state many years. Mr. Goldbar stated that he could provide that information at a later time.

Representative Freeman asked how much of the money was going to purchase new homes rather than older ones. Mr. Goldbar stated that he would provide that information at a later time.

Senator Rodey asked what the percentage mix was between bonds and cash that would be required for FY 82. Mr. Goldbar responded that if FY 82 money can be obtained at an interest cost of 15%, AHFC will be required to sell \$550 million in bonds and the appropriated subsidy will be in the area of \$225 million to do slightly in excess of \$700 million worth of mortgage loan purchases.

Representative Cotten questioned Mr. Goldbar on the allocation system. Mr. Goldbar stated that it had been approved by the Board on January 27, and imposed as of February 1. That was when AHFC started allocating the \$38 million per month, though it was felt that the actual demand was somewhere around \$63 million per month. Representative Cotten said there had been suggestion that once an allocation system is imposed, the demand goes up. Mr. Goldbar agreed there was truth to that suggestion.

Representative Cotten asked if Mr. Goldbar saw any reason why the Legislature should not make a supplemental appropriation this year so that the allocation system could be removed. Mr. Goldbar responded that he did not; the need and the demand are current.

Senator Eliason addressed the subsidy issue again. He asked what amount of subsidy money they were looking at if there are 5,500 - 7,000 loans next year. Mr. Goldbar responded that it would fall at about \$225 million at the 15% interest rate, with about a 2% delinquency rate. He added that for a \$112,000 loan this year the subsidy would be about \$12,000 per person per year, whereas next year the subsidy will be about \$30,000 per year.

Representative Rogers asked how many people would be able to take advantage of the \$150 million at that subsidy rate. Mr. Goldbar responded that it would be about 1,750. Senator Bennett interjected that he felt it could be almost doubled considering that the average family in Alaska is about 2.3 people. Mr. Goldbar stated that was true but that the benefit would still be per household per mortgage.

Senator Sturgulewski asked Mr. Goldbar what he felt the implication would be of a direct appropriation for all mortgage demand as opposed to deriving some capital from the capital

market. Mr. Goldbar responded that it would be very costly. He said that they would be looking at the following:

- FY 82 - approximately \$700 million
- FY 83 - approx. \$840 million
- FY 84 - approx. \$924 million
- FY 85 - approx. \$1 billion, \$16 million
- FY 86 - approx. \$1 billion, \$118 million

He said that while Alaska does have available revenue, it might be a bad time to ignore the capital market now, and then when oil revenues start to reduce at a later time, Alaska might have diminished its "name" in the capital market and find it difficult to get back in without a higher cost.

Senator Dankworth questioned Mr. Goldbar on the mobil home loan situation right now. Mr. Goldbar stated that AHFC is basically out of money for mobil home loans. The program was originally funded at \$10 million by the Department of Revenue, although he was not sure if that amount was intended for the full fiscal year. He said that at the end of 7 months, AHFC had to announce that they could not accept more loan applications. He projected that about \$12.5 million would carry the mobil home loan program through this fiscal year. Senator Bennett asked Mr. Goldbar if he approved of Section 2. of SB 185; Mr. Goldbar responded that he did, absolutely.

Representative Malone asked Mr. Goldbar what percentage of AHFC financing goes to detached type homes as opposed to other types of units, including condominiums. Mr. Goldbar requested that Mr. Mark Cameron, AHFC Controller, come forward with these figures.

(BEGIN NEW TAPE, SFC 81, # 6, Side 1, 000 - end)

MR. MARK CAMERON, CONTROLLER, AHFC

Mr. Cameron stated that it was 91% for detached units, 6% for condominiums and PUDS, and 3% for duplexes.

Representative Malone asked what the average cost per unit is for single family dwellings vs. duplexes or condos. Mr. Cameron stated that though he had no statistics for that, their maximum loan amount would indicate that there is a difference. The maximum loan amount for duplexes is \$189,000, and the maximum loan for a single family dwelling is \$147,700.

Representative Malone stated that he had been informed that AHFC had a policy to not finance smaller condominiums under 15 units. Mr. Goldbar stated that the policy is by regulation for 10 units, and it has been in effect for three years. The idea was to insure that the Home Owners Association would have the

wherewithall to address possible major structure repairs, etc., and also since there is no realistic financing available in the four and five-plex market there was concern about the impact on that market - causing conversion of these type units into condominiums and taking them out of the rental market.

Representative Malone asked if single family detached housing costs are lower, would it be appropriate for the Legislature to increase the percentage of funds to other types of housing - perhaps financing rental housing generally. Mr. Goldbar responded that the Rural Non-owner Occupied Multi-housing Program was similar to that, and it seemed to have positive effects in rural areas. He felt that it would have a positive effect in non-rural areas as well.

Representative Malone asked Mr. Goldbar if he felt the program should be revised to allow more funding to go into financing rental units, condos, or other multi-family housing where the cost might be lower. He wondered how this would effect the housing situation in Alaska. Mr. Goldbar responded that of course, with funding directed to an area that does not now have financing, there would be a positive effect.

Senator Sturgulewski pointed out that in Anchorage, the building of single family dwellings rather than duplexes and condominiums is a statement in itself about what kind of community Anchorage wants to be. She added that she felt it was a basic policy question that needed to be explored. Co-chairman Dankworth agreed with her comment.

Representative Adams asked what percentage of funds had been spent in rural area housing this past year. Mr. Cameron responded that he only had a geographical distribution of mortgages held by September 30, 1980, and that the breakout was by individual city. Offhand, he said, it was around 20%.

Senator Stimson asked if AHFC program receipts were invested as part of the subsidy. Mr. Cameron responded that the program receipts were meant for repayment of bonds, but AHFC does have an operating fund balance of about \$11 million for November 30, 1980 in unrestricted funds. About \$3 million of this amount is invested in repossessions, bankers acceptances, etc., while the rest is used as a "cushion". The remainder of the unrestricted assets will be invested in mortgages of one type or another over the next few months.

Senator Stimson expressed concern that there would be an unlimited demand created by an average subsidy of \$30,000. He wondered if AHFC shouldn't go back into the bond market and absorb the costs over the next three or four months rather than have the Legislature appropriate \$150 million immediately. Mr.

Goldbar responded that the difference created over the next three or four months would be pushing \$25 million per month in demand into the next fiscal year. He added that the mechanism for the taxable bond market is not in place yet, and there is definitely a time factor involved.

Senator Stimson asked if Mr. Goldbar thought that the cost of homes was being unnecessarily escalated by the process AHFC was using to finance homes in Alaska. Mr. Goldbar responded that he felt they were causing some additional velocity in the market by providing increased availability of housing at a reasonable cost, and by providing for a better resale value with the 30 year mortgage.

Representative Rogers asked again about the geographical breakdown, and wanted to know more specifically what the AHFC geographic description of "rural" was. Mr. Cameron stated that he would prefer to give Representative Rogers a copy of the breakdown and let him make his own decision. Representative Rogers asked for the number of mortgages for Anchorage, Fairbanks, Juneau. Representative Carney later asked for Palmer and Wasilla. Mr. Cameron gave the following figures:

Anchorage	- 50.75%
Fairbanks	- 12.06%
Juneau	- 5.02%
Palmer	- 2.07%
Wasilla	- 4.87%

Mr. Cameron stated that these figures were based on zip-code, not necessarily on the municipality.

Representative Cotten stated that he had spoken with a bank earlier in the day and that there seemed to be some discrepancy between how much money the banks felt was available for AHFC loans, and how much money AHFC today was saying there was available. Mr. Goldbar explained that since a certain sum of money is allocated on a 90 day basis, some banks may very well still have a reserve of funds. He added that he was sure the banks are aware of the ultimate situation.

Representative Carney stated that it seemed that almost all functions of the state were subsidized, and that he felt the housing industry should be subsidized also.

Representative Buchholdt asked how many people (in what average age group) were borrowing money for their first home. Mr. Cameron stated that he did not have the first time home buyer statistics with him, but that the average age group was 34 years. Representative Buchholdt requested that the information be provided at a later time. Representative Malone stated that he

felt the information would be of interest to all members of the committee and requested that this and other requested information pertaining to AHFC monies be provided to all finance committee members.

Co-chairman Dankworth thanked Mr. Goldbar and Mr. Cameron for their testimony, and subsequently called Mr. Tom Williams, Commissioner of the Department of Revenue to come forward to comment on the proposed legislation.

Mr. TOM WILLIAMS, COMMISSIONER, DEPARTMENT OF REVENUE

Mr. Williams stated that he would rather attempt to answer questions rather than comment directly, so that the committee would not be hearing duplicate testimony.

Representative Cotten asked Mr. Williams what his recommendation was for the FY 82 mobil home purchase loan program. Mr. Williams responded that the past experience of the Department of Revenue with this issue was less than they would have desired. There were problems with the program the Department of Revenue set up, though there are no apparent problems with the program that AHFC has subsequently set up. He said that the Department of Revenue experience suggested to him that there should be statutory safeguards to prevent any repetition with AHFC. He said that the Governor had instructed him to prepare legislation intended for this end. He said that the basic concept of a mobil home program remains as justified as it was originally; it is a way for people to make the transition from renting to home ownership, as well as a way for them to share in the tax advantages that IRS provides for home owners.

Representative Cotten asked if Mr. Williams was specifically recommending that AHFC handle the mobil home program. Mr. Williams answered yes.

Co-chairman Dankworth asked Mr. Williams what he thought of Section 2. in the proposed CS for SB 185, which provides for a \$12,500,000 supplemental appropriation to AHFC. Mr. Williams requested that he be able to write his response in a letter since this was the first time he had seen the legislation. Co-chairman Dankworth stated that would be fine. He thanked Mr. Williams for his testimony, and then requested that Mr. John Curtis and Mr. Jim Crawford come forward for testimony.

MR. JOHN CURTIS, EXEC. DIRECTOR, ALASKA STATE HOUSING AUTHORITY

Mr. Curtis commenced by making the following statements concerning ASHA:

1. ASHA is a public corporation created by Alaska Statute within the Department of Commerce and Economic Development.
2. ASHA is not funded by the State, but salaries and overhead are funded by the federal government, as ASHA's main business is running housing programs for the federal government.
3. Their main programs are "conventional low income programs". HUD provides ASHA with funds to build and/or operate projects. Then ASHA provides its own financing and HUD subsidizes the rents for residents over 30-40 years, which allows ASHA to pay back what it borrowed to construct the building.
4. Another main program is called the "Section 8 Program", which has two parts. First, new construction housing is built or acquired, and secondly, a tenant locates his own place and HUD subsidizes the rent.

Mr. Curtis stated that since 1973 ASHA has increased housing for elderly by 878%, and by 234% for families. He said that Mr. Jim Crawford was present to speak on the ASHA bonding programs and other financial matters.

MR. JIM CRAWFORD, DEP. EXEC. DIRECTOR, ASHA

Mr. Crawford stated that there were four areas he wished to speak on, and proceeded with the following:

1. Interim Financing (or "note" financing) - Due to SB 315 last year, ASHA project finances were arranged with Department of Revenue (at 7% last time). He added that SB 315 had restructured the ability of treasury to arrange financing, and now that that is no longer available, ASHA will be experiencing difficulties with new projects.
2. Bond Financing - Budget and Audit did an audit and recommended technical amendments to get ASHA "off the par", which is an antiquated method of selling bonds in today's market.
3. Capital Construction Funds - ASHA has construction shortfalls on federal projects. Budget and Audit made references to passing up several million dollars in HUD construction money in 1977. He stated that there are shortfalls that preclude their ability for senior citizens projects. He said that they have drafted two bills which would create a senior citizen development fund and a handicapped development fund. He said that if the legislature passes such a bill it would offset some of the

problems in the bond market. ASHA has a \$16 million bond they have been trying to sell for one and a half years. The effective rate of interest has gone from 7% to 10 and 3/4%, which would be disastrous to a senior citizen project.

4. Regulatory Duplication - Solutions to regulatory duplication in state and federal government is also being provided for in the proposed legislation.

Co-chairman Dankworth thanked the two gentlemen for their testimony, and then called for a brief recess. After the recess, he asked that Mr. Mike Lynch and Mr. Bob Sullivan come forward for testimony.

The meeting recessed at 2:45 p.m.

AFTER RECESS

Co-chairman called the meeting back to order at 2:50 p.m.

MR. MIKE LYNCH, PRESIDENT, ALASKA STATE BANK

Mr. Lynch stated that he was present to represent the Alaska Banker's Association. He stated that the bankers support SB 185, and that they are in the housing market as well as the mobil home market. He stated the following:

1. The mobil home loan program has come to a standstill in Anchorage, and the banks are having to work out lease-purchase arrangements.
2. In the area of housing, they agree with the amendment but they are not sure they agree with AHFC as to the amount. They feel there is within the banks about \$10 - \$15 million shortfall a month, so probably the amount is correct.
3. The Alaska Banker's Association feels the Legislature has to recognize the fact that each year this is a problem, which causes great dislocations in the market for builders, buyers and suppliers.
4. He stated that we should all recognize that housing effects most of the people in the state - bankers, accountants, realtors, insurance people, etc. He said that he felt it was time for some kind of permanent solution; maybe a subsidy would be in order since most of the population of the state is effected.

MR. BOB SULLIVAN, V.P., ALASKA MUTUAL BANK

Mr. Sullivan stated that he was speaking from a different point of view than probably most people present, as he had had experience on the banking side as well as having been a past director of AHFC. He said that he would like to comment on how important AHFC is to all citizens of the state, not just the 5,500 or 7,000 people who buy homes under AHFC programs. To proceed to make the following points:

1. The maximum AHFC loan amount is \$140,750, at 95% of loan to value. If a resident of the state had to go elsewhere, that loan would cost \$2,931 per month in payments. If guidelines of 25% are applied this would require the mortgagor to have an annual wage of \$102,000. He said that there are very few citizens of the state who earn that much. So, he said, the need for AHFC speaks for itself.
2. He stated that he had come to Juneau on a number of occasions, and almost without exception the discussion is on the same issue session after session. He said that he felt there was no continuity, and that we all seem to collectively provide little depth or planning so that the programs operate from "panic to panic" year after year. He stated that he felt a definite need for an adequate long-range plan, and he felt that the people present could all contribute to a viable plan.

(BEGIN NEW SIDE, SFC 81, # 6, Side 2, 000 - end)

Mr. Sullivan made further statements on the subsidy issue. He stated that the amount of money Alaskans contribute to the economy far exceeds the amounts of money being discussed today. He urged the members to conduct planning over adequate time.

On the issue of whether to have bonds or appropriation, Mr. Sullivan's view was that there were pros and cons for each. He reiterated what Representative Carney said about subsidy in its broadest use throughout the State of Alaska. He advocated that a collective group develop a system with a combination of bonds and direct appropriations. He felt that it could be done simply and quickly. He thanked the members for the opportunity to speak to them.

Senator Sturgulewski stated that she would be happy to work with any such group, although she felt solutions would be complicated rather than "simple" as there are so many intervening factors involved. She stated that hopefully they would find the "best" answer in a difficult situation. She spoke of the fact that there are many programs coming before the Legislature that want to set aside something to protect themselves from inflation, and

felt it was too much to ask for a "perfect" solution. She felt it is not an easy task to cure the nation's ills.

Mr. Sullivan stated that he did not intend to sound critical, but rather to impress the need for working collectively to solve the problems.

BILL PASSAGE

Senator Ferguson moved that CSSB 185 Finance be moved from committee with a "do pass" recommendation. Senator Sturgulewski seconded the motion. There being no objection, it was so ordered and all following present members signed "do pass": Co-chairmen Dankworth and Bennett, and Senators Stimson, Sturgulewski, Ferguson and Eliason.

RETURN TO TESTIMONY

Senator Dankworth stated that in this case, he would like to see the worry about all the conventional financing schemes put aside so that the program can be put on board for the citizens of Alaska. He said that the money belongs to the people of Alaska anyway.

Senator Bradley asked Mr. Sullivan what other states are doing in this regard. Mr. Sullivan responded that many states still have federal programs available to them - HUD, FHA, etc., though they aren't used much in Alaska. Private lenders place loans in their portfolios under different arrangements like "shared appreciation mortgages" and "pledged account mortgages". There is hardly any use of "Fanny May" or "Freddy Mac" in Alaska, and AHFC is about the only market. He said that of course Alaska is eligible for some of the other programs, but all the federal regulations must be accepted along with them, and the administration of these programs is much more complicated than AHFC.

Co-chairman Dankworth thanked Mr. Sullivan for his testimony and then requested that Mr. Bill Simon and Karen Morris come forward to speak to the committee members.

KAREN MORRIS, FAIRBANKS REAL ESTATE BROKER

Co-chairman Bennett asked Ms. Morris how she thought CSSB 185 would effect Interior Alaska. Ms. Morris responded that she felt many people did not understand what a shortage of housing there was in Fairbanks and the Interior. She stated that it is the "tightest" it has been in the 10 years she had been in the business, and that for example, at the present time she has one home listed. She said she is sure it will go within a week, and that there will be at least a half dozen potential buyers who didn't even have a chance to see it. She said that Fairbanks

people are buying under stress and they have no choice of inventory. She said that there are no projections at all as to what will be done for an inventory in the future. She said that the real estate industry is in an extremely reactionary situation. She agreed with Mr. Sullivan's statements, and said she would like to see some planning to avoid this "up and down" situation. She said that this bill would solve the immediate problems, but that next year the same problems would arise. She concluded by saying that the Fairbanks housing industry is a quite viable one, and the next season will depend on this supplemental appropriation.

Senator Stimson stated that it was his feeling that the Legislature should provide home loans and subsidized mortgages. He said that we have all watched the market go "up and down like a Juneau umbrella", and he wanted to assure that the commitment is with the Legislature to provide assistance provide assistance to home buyers, but he questioned what the most practical and viable approach would be. He asked Ms. Morris what she felt the solution should be. Ms. Morris responded that she felt there are a number of factors over which Alaska does not have control - like worldwide and national economies, subjection to the Ulman bill, etc. So, Alaska is not in an independent position. Therefore, she felt that the State of Alaska would just have to directly fund its own programs and be solely responsible for those programs. She said that she felt Alaska should not be continually influenced by what happens outside the state that will change arrangements previously made inside the state.

Senator Stimson asked Ms. Morris what the projections might be for the next year in the housing market. Ms. Morris stated that she did not feel adequate projections could be made as the market is changing so rapidly, with more young people buying, a higher birth rate, etc.

BILL SIMON, SR. V.P., MT. MCKINLEY MUTUAL SAVINGS BANK

Mr. Simon discussed the issue from the point of view of the contractors, suppliers, etc. He said that in Fairbanks all new housing is pre-sold and that in fact, the contractors in Fairbanks are not equipped to handle speculation building.

Senator Stimson asked Mr. Simon if he felt it would be feasible to consider some kind of a monthly limit in the next fiscal year. Mr. Simon said he did think so. He said he would like to get back into the secondary market that had been enjoyed so much outside Alaska, and that he felt the type of programs we have today would destroy that if we stay in them too long. He said that the public will demand something - maybe the committee should look at an 18 month program rather than to conduct them on a fiscal year.

Co-chairman Dankworth thanked the above two for their testimony, and called Mr. Ken Gain and Mr. Mark Korting to come forward for testimony.

KEN GAIN, ANCHORAGE RESIDENT, FORMERLY IN FAIRBANKS REAL ESTATE

Mr. Gain spoke to some of the same concerns as Ms. Morris. He also felt that AHFC could get higher rates of interest, say from the permanent fund, which now yields 13%. He felt that the permanent fund should put money back into the State of Alaska where it should be, and felt there was no need to go to the bond market when we have money in the bank here. He spoke about the new construction in the housing market and said that about 10,000 jobs are effected in this area each year. Co-chairman Bennett stated that the extra 3% interest from the permanent fund would not count unless it is subsidized back to the citizens of the State.

Mr. Gain made comparisons with gold purchases on the pension plan, made further comments on second mortgages, and on how the financing industry is changing today.

MR. MARK KORTING, PAST PRESIDENT, ANCHORAGE BOARD OF REALTORS

Mr. Korting stated that this whole issue does not apply to just a special interest group, but rather applies to all residents of the state. Basic conditions of life such as shelter must be considered. He said that as far as the current problems are concerned, the realtors predicted the current situation. They are seeing unusually low vacancy rates in houses and apartments. He said that he was concerned that the issue of rent control might come up next year if something is not done.

Co-chairman Dankworth thanked them for their testimony, and subsequently called Larry Crockett forward to speak more on the mobil home issue.

LARRY CROCKETT, EXEC. V.P., MELODY HOMES, ANCHORAGE

Mr. Crockett stated that he was present to represent the Mobil Home Association. He stated that their wish was to see funding in AHFC for "site delivery housing". He stated that for years there has been no secondary financing. He spoke to the advantages of people buying mobil homes as first homes rather than standard housing, and added that with current costs "site delivery housing" is the only housing many Alaskans can consider.

Co-chairman Dankworth asked what percentage of the market mobil housing had. Mr. Crockett responded that it was about 25%. He said that about 50% of the housing in Cordova is comprised of

mobil housing, along with a 35% figure in Kenai. He added that there is a great need for mobil housing in rural areas of Alaska.

Senator Sturgulewski asked if there was an inventory of lots in Anchorage, and Mr. Crockett responded that there was. He added that he felt that cost of building in Alaska contributed greatly to the problems of the housing industry.

Co-chairman Dankworth said he felt it had been necessary for everyone to gather in the same place and comment on the subject. He said he hoped that everyone would go home with the confidence that the Legislature will take care of these problems. He said that it had been very worthwhile to discuss funding, consistency, timing and alternatives and that he hoped for a viable and more permanent solution in the near future. He asked if there were any others in the room who wished to testify before the committee. The following people came forward:

JAMES MCCONAGHY, OWNER, MCCONAGHY CONSTRUCTION

Mr. McConaghy stated that as a local builder and landlord, he was President of the Juneau Landlord and Property Managers Association. He discussed the rental housing situation in Juneau. He stated that multiple housing could be built here for about \$45,000 per unit, condominiums for about \$65,000 per unit, and single family dwellings up to about \$150,000 per unit. He stated that there is a real need in Juneau for long term, low interest financing.

(BEGIN NEW TAPE, SFC 81, # 7, Side 1, 000 - 154)

ROBERT SCHANKER, ANCHORAGE RESIDENT

Mr. Schanker thanked the committee for the opportunity to testify. He stated that he was present to support AHFC mobil home financing. He said that the industry would be very pleased at the action taken today. In regard to planning and the future, he hoped that a reasonable amount per year would be appropriated for mobil home financing.

Co-chairman Dankworth stated that the last figure he had seen was about \$40 million. He confirmed that figure with Senator Sturgulewski, and further stated that he would like to hear from the industry on whether or not this would be an adequate figure.

DEBBY MCFARLAND, HEALY HIGH SCHOOL STUDENT

Ms. McFarland stated that people in the Healy area have had properties sub-divided so that homes could be built, but that financing was not available to them. The banks will not loan money. She asked that the committee approach the problem of

getting financing to rural areas. She stated that Healy land has been sub-divided for building retirement homes for many older coal miners, gold miners; however, only 20% of AHFC financing goes to rural areas.

Co-chairman Dankworth thanked Ms. McFarland for her testimony and stated that he felt she was speaking for a great many rural area Alaskans. Senator Sturgulewski advised Ms. McFarland that SB 185 as well as a bill introduced in the House addressed this issue. She further thanked Ms. McFarland for her testimony. Senator Stimson stated that Ms. McFarland was a high school student and expressed his appreciation that she appeared before a hearing of this type.

Co-chairman Bennett thanked the members of the committee and all those who had attended the meeting, including those who presented testimony. As sponsor of the bill, he stated that his interest is to see a good program, with continuity, that the public can count on in the future. He stated that though CSSB 185 was to provide a supplemental appropriation to continue the program through FY 81, he hoped that FY 82 projections and budgets would more adequately cover the program.

ADJOURNMENT

The meeting adjourned at 4:00 p.m.

(Tape SFC 81, # 5, side 2, 330 - end)
(Tape SFC 81, # 6, side 1, 000 - end)
(Tape SFC 81, # 6, side 2, 000 - end)
(Tape SFC 81, # 7, side 1, 000 - 154)

PLEASE SIGN YOUR NAME, TITLE, AND AGENCY FOR THE RECORD
AND RETURN THE LIST TO THE SECRETARY. THANK YOU.

NAME	TITLE	AGENCY
Steven Rieger	Leg. A.	Senator Sturgulewski's Office
Lucia Pileeno	"	Senata Sturgulewski's Office
Elmer Lindstrom	Leg. Finance	
PETER FREER	A.A.	REP. DUNKAN'S OFFICE
James A. McConaghy	Owner	McConaghy Const.
Guy Van Doren	A.A.	Sen. Ziegler
James C. Chackett	Gen. Mgr.	Melby Home Arch.
Dee D. Kincaid	President	Melby Home Inc.
Harry Reimer	Borough Assmblyman	Bank of the North
JAMES D. BLYTH	GENERAL MANAGER	Columbia Transportation
Rhodi Kavella	Alaska Resident - Anchorage	
Kenneth Goin	Voter	
De Ann Gleason	Secretary	Alaska Assoc. of Realtors
Cheryl Moseley	President	Valley Board of Realtors
Robert B. Denny	Exec. Off.	Alaska Assoc. of Realtors
Jan Cotten	Treasurer	Alaska Assoc. of Realtors
Louie J. Berg	Leg. A.	Eudson's office
James W. ...	President	Alaska Association of Realtors
DAVE KEATING	NATIONAL DIRECTOR	ALASKA ASSOC. OF REALTOR'S
Robert E. Baer	LEGISLATIVE CHAIRMAN	ALASKA ASSOCIATION OF REALTORS
GARY VLADOVICH	LEGISLATIVE CHAIRMAN	ANCHORAGE BOARD OF REALTORS
GRAYCE OAKLEY	National Director	Alaska Assoc. of Realtors
C. R. WEBSTER	Comm. m.	CEO
Suey Warwick	President	Fairbanks Board of Realtors
WILLIAM SIMON	SR. V.P.	Mt. McKinley Mutual Savings Bank

Brent LeValley	V.P.	MT MCKENZIE Mutual Savings Bank
Jon Rommelt	REALTOR	INTERIOR MTG + HOUSING ASSN
LINDA BESSE	Realtor	Remax
TRISH HURLEY-SMITH	EXEC. OFFICER	ANCH. BOARD OF REALTORS
BARB HILL	PRESIDENT	ANCHORAGE BOARD REALTORS
Mark Korting	PAST PRESIDENT	ANCHORAGE BOARD REALTORS
Alie Hartig	1st VP	ANCHORAGE Board of Realtors
Karen Morris	Real Estate Comm. and Broker	
John Curtis	Ex Dir	ASHA
Jim Crawford	Deputy Ex Dir	ASHA
George Anderson	aide/wife	Rep Anderson
Lisa Barclay	aide	Rep Anderson
Don Baker	private citizen	Anchorage
Mark Cameron	CONTROLLER	Anchorage
LeRoy ROTH	SR Underwriter	AHFC
War E Rezek	VFW	Sitka
Robert DANNON	U.P.	Underwriters Service of Alaska
DOUG GREEN	PRES	ALASKA MTG ASSUR.
Bob Fritz	Manager	1st National Bank
Joel Fuller	Mtge Loan	1st Nat. Bank
Paul A DRISCOLL	V.P.	AK. FED. S&L
Shirrel Bergstrom	lobbyist	AK. Legal Services Corp.
Sherry Hopson		Close-up Student
Betty Drefon		Close-up Participant
Ed Foster	lobbyist	AK. ASSOC. of REALTORS
Claily Cunningham	Mtge Dept	Bank of the North
Richard S. Erickson	REALTOR	Bayside Realty

John Holmquist	VP	BANK OF THE NORTH
Richard AKS		Budget + Management
Terry Eldon		Budget + Management
Marla Berg	AA	Ry. Adams
Tran Parker	AA	Sam Coter
Joseph M. McKe	Voter	Close-up program
Michael Keel		Close-up program
Malinda Price	student	Close-up program
Charles Travers	school principal	- Close-up program
Carol Foster	and	- Kertulla office
Cynthia Leposki	& Kertulla	- Senator Kertulla
Jack Smock	Leg. Aide	C & RA
Lynn Wegener		Dept C & RA
Sue Lowell		C & RA
Marie Matsuno		"
Michael S. Lynch	President	Alaska Statebank
Earl M. Miller	President	Alaska Mutual Bank
James Kelly	AA	Pat Rodey
ROBERT W SULLIVAN	VP	ALASKA MUTUAL BANK
Richard Hall	SA VP	Mutual Bank Alaska
Barry Brown	Real Estate Broker	Alaska Realty
Amos O'Brien	Commissioner of Revenue	

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SENATE FINANCE COMMITTEE
February 26, 1981
8:40 a.m.

(Tape SF-81, #8, Side 1 (000-end))

(Tape SF-81, #9, Side 1 (000-570))

CALL TO ORDER

Co-chairman Don Bennett convened the meeting at approximately 8:40 a.m.

PRESENT

All committee members were present with the exception of Senator Ferguson who arrived later in the meeting, and Senator Sackett who did not attend. Also in attendance for all or portions of the meeting were Senators Kerttula, Fahrenkamp, Rodey, Parr, and Mulcahy. Representative Malone also attended as well as Professor Belden Daniels from the Harvard School of Banking; Willis Kirkpatrick, Director of Banking; David Rose, Executive Director of the Municipal Bond Bank Authority; Wes Coyner, representing the Alaska Bankers Association; Remington Low of the B. M. Behrends Bank; Steve Hole from the Dept. of Education; Fiscal Analysts Alison Elgee, Jerry Schilz, Elmer Lindstrom, and Milt Barker; and administrative assistant to the committee, Judy Johnston.

BILL ASSIGNMENT

The Co-chairman made the following bill assignments:

SB 36 - Senator Stimson
SB 144 - Senator Eliason
SB 156 - Senator Bennett
SB 162 - Senator Sackett
SB 182 - Senator Ferguson
SB 192 - Senator Dankworth
SB 205 - Senator Dankworth

(Senator Ferguson arrived at the meeting at this time 8:50 a.m.)

SB 137

The Co-chairman moved that SB 137 (Act approving issuance of revenue bonds by the Alaska Municipal Bond Bank Authority) be brought on for discussion. Senator Sturgulewski stated that SB

1, passed last year, requires that all revenue bonds be approved by law prior to issue (AS 44.58.100(b)). The state sets the total bond amount to be issued. SB 137 represents a request for \$20 million--the pro forma amount estimated to pass through the Municipal Bond Bank during the coming year. She directed committee attention to remarks by David Rose, Executive Director of the Alaska Municipal Bond Bank, and she advised that in the opinion of the Bond Bank, the \$20 million represents "an appropriate issue."

Senator Sturgulewski MOVED that SB 137 pass from committee with INDIVIDUAL RECOMMENDATIONS. No objection having been raised, SB 137 passed from Senate Finance--all senators present signing DO PASS.

SB 139

Co-chairman Bennett moved that SB 139 (Act making a special appropriation to the Dept. of Health and Social Services for two positions at the Fairbanks Northern regional laboratory) come before committee for discussion.

Senator Parr testified concerning the legislation. He stated that while the state has three bacteriology labs, it has only one biology lab (located at Fairbanks). The Department has gotten into a "budget bind" and does not have money for the full-time microbiologist and laboratory assistant at Fairbanks. The biology and bacteriology labs currently share the same facility and personnel. The biology lab is the only one of its kind in the state. There are no private labs in state which do this kind of work. Funding requested in SB 139 will reinstate the above-mentioned position and continue the lab.

Senator Stimson MOVED that SB 139 pass from committee with INDIVIDUAL RECOMMENDATIONS. No objection having been raised, SB 139 passed from Senate Finance, SENATORS STIMSON, ELIASON, STURGULEWSKI, and BENNETT signing DO PASS, SENATORS DANKWORTH and FERGUSON SIGNING NO RECOMMENDATION.

SB 18

Co-chairman Bennett next moved that SB 18 (Act relating to special education) be brought on for discussion.

Senator Fahrenkamp testified on behalf of the legislation, advising that the original bill was designed to assist level 3 and 4 profoundly handicapped special education children. Such children regress as much as 5 months or more during the summer when they receive no training.

The Committee Substitute for SB 18 includes all special education and exceptional children and constitutes a comprehensive program under Dept. of Education formula funding. Senator Fahrenkamp advised that programs for handicapped children have been neglected the past few years, and expressed concern that help for level 3 and 4 children might be lost in a large comprehensive program.

She expressed further concern regarding the effective date for the program, advising that the program must start at the beginning of the summer rather than at the beginning of the fiscal year, July 1, 1981.

She further stated that the Fiscal Note for the original bill is approximately \$3 million, while the Fiscal Note on the CS is approximately \$7 million. The original bill was designed to cover a specific group of handicapped children rather than all exceptional children.

Responding to questions raised by Senator Sturgulewski concerning the Special Education Task Force, Senator Stimson advised of his understanding that the subject bill is intended to meet a need not covered by legislation emanating from the Task Force.

Senator Sturgulewski advised that she co-sponsored the original bill because of a need to assist the severely handicapped rather than for the purpose of creating a large expanded program.

Senator Parr appeared before the committee advising that in offering its committee substitute the HESS committee fully supported the intent of the original legislation. However, the original bill would allow school districts to "come in and ask for 'x' amount of money which the Dept. of Education would have to give them. Hess, thus, "went to a formula approach which would evenly distribute funding." Funding would also be distributed according to severity of the handicap. The Fiscal Note represents the amount required if every exceptional child in the state is given special educational instruction during the summer. Not all areas of the state have available facilities and teachers--the Fiscal Note represents the maximum amount needed.

Senator Sturgulewski expressed her desire that the program be limited to level 3 and 4 children, remain under the formula, and commence the beginning of this summer. Level 1 and 2 handicaps can be addressed in the legislation recommended by the Special Task Force.

Advising that he was unaware of the full implications of the committee substitute, Senator Stimson asked that the bill be held, and Co-chairman Bennett requested that Senators Stimson,

Sturgulewski, Fahrenkamp, and Parr meet on the subject legislation and bring the bill before finance for action at the next committee meeting.

Senator Ferguson asked Senator Fehrenkamp if she had objection to raising the formula by \$2 to \$7 million, advising that he hated to see the legislature begin making categorical grants to school districts and school boards. Senator Fahrenkamp advised that increasing the formula presented no problem as long as the service contemplated by her original bill is provided. Senator Sturgulewski advised that Senator Ferguson is "talking about a major change" when he suggests "tinkering with the formula." She stated that changing the formula might not ensure the program SB 18 proposes. She suggested the committee await the outcome of a current study of the formula. Senator Ferguson stated that given the urgency of the program, rather than waiting for completion of the study perhaps it would be wiser to expand the formula and tie additional funds to the purpose stated in SB 18.

Marian Endicott next appeared before committee with her son, Clark, advising that Clark is a level 4 special education child. She requested an immediate effective date for the summer program contained in SB 18, advising that the July 1, 1981, budget date does not allow sufficient time for a workable program. She further stated that it is difficult to track how funds tied to the formula are actually spent. Special education funds are inadequate. Funding for level 3 and 4 children needs to be increased.

At this time Co-chairman Bennett ordered a brief recess in the meeting, 9:05 a.m.

The meeting reconvened at approximately 9:10 a.m.

Senator Rodey and Professor Belden Daniels appeared before committee to discuss state economics. Senator Rodey advised that last year the Senate Banking Committee dealt with a number of technical bank issues as well as loan issues facing the legislature. During the interim the committee continued its work and produced a packet of legislation to be introduced during the current session. Professor Belden Daniels of the Harvard Banking School is principal advisor to the Committee.

Professor Daniels spoke to the "extraordinary flurry of development finance and saving institution activity and innovation in which the state has been involved for the last 3 or 4 years." He stated that at the present time the State of Alaska has the most comprehensive set of development finance institutions and savings institutions of any government in the world. This situation has pluses and minuses.

Development finance institutions created by the state include ARRC, CFAB, AIDA, AHFC, and revisions to the remaining direct loan programs. Through action of the last legislature, the state created and modified a substantial set of state savings institutions which will grow rapidly over the next several years. These include the permanent fund, which although not unique in the United States, is rare and better designed than others, the general fund surplus, and the pension funds. Alaska also has a \$3 billion private capital market which is chartered and regulated by the state. Alaska has a network of commercial banks, mutual savings banks, savings and loan associations, credit unions, and insurance companies. It is most important that the state remain sensitive to the manner in which state development finance institutions and state savings institutions enhance, compliment, and cooperate with the private financial market. It is very important that the "Goliath of the state" with its \$3 to \$4 billion in current income and projected \$6 billion in next year's income does not inadvertently "trample or overwhelm the David of the \$3 billion private financial market which is absolutely essential to the economic growth and development of the state."

One of the most important concerns of the interim Banking Committee was review of state regulations with state and banking community representatives to insure cooperation and collaboration.

Three tasks attempted by the report include:

1. Review of chartering and regulation of the private capital market in order to modify it in ways which stimulate greater economic activity.
2. Review of ARRC, CFAB, AIDA, and AHFC in order to be confident they are structured and operating in manners which best collaborate with the private capital market.
3. Comment on the Permanent Fund, the Pension Funds and General Fund Surplus in order to note ways in which these large savings institutions can collaborate with development finance institutions and the private capital market so as to stimulate growth in the state's economy.

In accomplishing the above, Professor Daniels considered three premises:

1. There are real limits to which the executive and legislative branches can "forcefeed" the economy of Alaska through surplus revenues.

Limitations include:

- a) Markets--Alaska has a very small local market.
 - b) It is extremely expensive to service that market.
 - c) High costs of production limit exports.
 - d) There is a shortage of skilled management.
2. The federal government in Washington has profound impact upon Alaska, over which Alaska has limited control.
 3. Money itself. Alaska's most abundant resource at the present time is capital, but it cannot by itself overcome the market or federal limitations.

Professor Daniels stressed the fact that "subsidizing the cost of money does not increase economic activity." Such financing represents a political act. This can be seen most recently in terms of the vote on \$150 million for housing finance. Essentially, this financing amounts to a \$30 thousand subsidy to about 1,750 Alaskans--generally wealthy Alaskans. It represents a political rather than an economic decision. He further stressed the fact that the state has "a young, vital, growing private capital market." It is "a vital engine for economic development." The state needs to encourage its growth and development, and take care to ensure that it is not accidentally overwhelmed or stepped on through the use or misuse of state surpluses.

The state's development finance and savings institutions are generally well designed. None of them are inventions. They are all based on proven models in other parts of the United States, Canada, the world. The fundamental problem is that the state does not have sufficient tools of accountability to determine whether or not these institutions are accomplishing the ends for which they were created. Such institutions can be very well designed on one hand but badly implemented on the other hand. The state does not, at this time, have evidence demonstrating

whether or not these institutions are on the right course. This is the outstanding issue with regard to these institutions.

As a general observation, Professor Daniels advised that from his years of experience he has developed an "order of battle" for public involvement in capital markets. It says that the state should proceed with caution from the least risky, least costly forms of intervention through a four-step process to the most costly, most risky form of intervention. One does not go from level one to two or two to three until possibilities at each level have been exhausted. Alaska's involvement in the capital market is "a little bit out of kilter." There has been so much emphasis devoted to creation of ARRC, CFAB, AHFC, the permanent fund that more obvious things have been overlooked.

Two forms of regulatory intervention first apply. These don't cost the state any money. The state is essentially affecting the private market and the private market is taking the risk and "running the show." First, under passive regulation, the state charters and regulates commercial banks, savings banks, savings and loan associations, credit unions, insurance companies. The state charters these institutions to stimulate economic activity. However, in time the state begins imposing regulations which instead of stimulating activity, cut off economic activity, impose costs, limit competition, etc. The interim committee reviewed such regulations and has formulated legislation dealing with the "unwriting" of unnecessary regulations.

Under active regulation, the state can stimulate creation of new privately-chartered, privately-managed financial intermediaries which get out into the marketplace and start "kicking up a little bit of dust." This is the most active area of development finance in the Lower Forty-eight at the present time. The report to the interim Banking Committee contains a number of models for possible implementation.

CFAB was created not to be a state institution--not to be on the public dole--but to be a private institution competing in the market place. It currently functions as both public and private, but not entirely either. It has real possibilities.

Professor Daniels stressed the preferability of first employing passive intervention before active state intervention. The state can spend public money to try to create new economic activity in a manner which will decrease the cost of economic development. The state can spend money in ways which will decrease the risk of economic development, and the state can spend public money to increase the liquidity of private financial institutions. All of these methods of passive intervention use the private market as the vehicle for stimulating economic activity. With regard to

decreasing costs, the state can either subsidize the borrower or the lender. Alaska is very good at subsidizing the borrower, but that doesn't do a great deal to create new economic activity. Subsidies are never deep enough to change the economic behavior of the borrower.

Responding to a question from Senator Sturgulewski, Professor Daniels advised that last year the legislature effected a number of fundamental reforms within AHFC and AIDA which put a stop to "back door financing," cleaned up management of the general fund surplus, and shifted AHFC and AIDA from positions as direct lenders, like the direct loan programs, to agencies which must go to the marketplace and raise funds through the bond market. This allows a market test of what is happening, and imports capital from the Lower Forty-eight instead of spending state dollars. Professor Daniels advised he is troubled by the recent \$150 million appropriation to AHFC because it means the state is going back into the direct principal financing business, and because the subsidies do not create more housing than would normally be created (they probably inflate housing prices), and they distort the private market.

Responding to a question from Senator Eliason, Professor Daniels spoke to "capital market imperfections," advising that "the smaller the borrower, the younger the borrower, the more unusual the product or the process, the further away it is from the center of the capital market (if it's in Bethel instead of Anchorage), the greater the increase in cost of making the loan. In private capital markets, very often it's not the risk of the loan that prohibits the private lender from making the loan, it's the fact that there are easier loans to be made in terms of gathering information and making the deal. It is easy to make a loan to a successful company with a well-known name. It is difficult to decide to make a loan to three village cooperatives to try a herring run never before tried. If one subsidizes the lender (not in terms of risk) in terms of the cost of going out and making these deals, the state can encourage economic activity which would not have otherwise occurred--sound economic activity. As a dramatic example, Professor Daniels advised that John Hancock, the third or fourth largest insurance company in the United States (a \$20 billion institution), last year made one loan to one firm under \$100 million in sales. That firm has a 70% worldwide market share, and is in a business that can't fail (the Pendaflex File Company). Hancock put a confiscatory penalty clause on the loan which disallows prepayment, because the cost to them of gathering information and putting together the loan was so expensive compared to easier things. If this situation exists under the above circumstances, the situation is compounded in smaller businesses and the Alaskan bush.

No state has yet taken a step toward such a subsidy. If such a project is undertaken, it is important that the subsidy come after performance, so the state is in the position of rewarding performance. A number of foreign countries have done this fairly successfully.

Co-chairman Bennett asked if the source of Alaska's money, which belongs to the people of the state, isn't much different than moneys belonging to John Hancock or Chase Manhattan. He added that it is acceptable for those institutions to loan anywhere in the world where they can get two or three extra points of interest or where they have a better deal. However, most of the people in Alaska want their money instate. Many Alaskans continue to drive on gravel roads and live in log cabins and other substandard conditions compared to the Lower Forty-nine states. While normally accepted banking practices might prevail in other states, the Alaska legislature must react to a unique scenario which doesn't prevail elsewhere. Senator Bennett advised he found it interesting to follow the cycle whereby money in the permanent fund is shipped out where it gets three or four additional interest points, while the people within the state are not assisted because a better deal can be gotten outside. Under this scenario the money can never really be brought home to take care of the people who own it. The \$150 million for AHFC is a supplemental. Last year roughly \$450 million went into housing. Although approximately \$600 million has recently gone into these loans, when one visits many Alaskan communities, housing remains substandard. Alaska is in a "catch-up" position. The roads are full of potholes. Co-chairman Bennett advised that while he agrees with the recommendations of Professor Daniels, he doesn't see how they can be implemented while basic problems exist which must be addressed.

Professor Daniels advised that he agreed with the political and economical realities of Senator Bennett's statement. He stated that the ultimate aim is to determine a method of using the state surplus in a manner which is good for Alaskans. He advised that problems occur when methods which seem good are in reality not so good. Specifically, in terms of substandard housing, Professor Daniels advised that the manner in which the \$150 appropriation is structured is unlikely to create housing to cure substandard conditions. The funding is more likely to create wealthy housing in urban areas. Funding for substandard housing can be stimulated by financing some of the high information costs to the lender. Credit insurance reduces the risk to the private market. Last year the legislature created a credit insurance program in AIDA and upgraded and improved the credit insurance program in AHFC. It is important that both programs be actively used; they can be used to change the risk of substandard housing finance.

The state can also increase funds (liquidity) in the private market. Funding can:

1. Be given to the private sector in deposits. Unfortunately costly restrictions are generally attached to such deposits, and the state is never sure the money ends up coming back to Alaska.
2. Create a secondary market in the state to specifically purchase loans that qualify as loans to Alaskans in lower income areas or smaller borrowers (the state can "target" funding through AIDA and AHFC).

Professor Daniels advised that at this point the crucial thing the state must do is adopt the proposals of the Interim Banking Committee in terms of regulation of the private market. Some fine tuning of development finance and savings institutions is also desirable in addition to dealing with the accountability issue. The mechanisms are in place to do the job, but some problems exist. The state is operating in a worldwide market; the state is still part of the federal government, and as bankers say, "you can't push a string up a wall." Professor Daniels further advised that he has never seen "good money make a bad deal good."

Professor Daniels directed committee attention to page 7 of the executive summary (copy attached) and advised of three things the state could do with regard to private financial institutions:

1. Ease entry into the marketplace--stimulate competition.
2. Ease limits on the uses of funds--take away restrictions on how funds can be used.
3. Ease limits on gathering funds--the sources of funds.

Generally, the state is doing well. It has fairly easy rules for entry of new banks, and it has statewide branching. Professor Daniels recommended that the state allow foreign banks but insist upon reciprocity. Interstate banking is coming and the state should be prepared for it.

Concerning uses of funds, last year there was a fundamental revision of federal chartering and regulation of all deposit institutions. An important task for the state and financial community was review of federal changes to ensure that the state is in a favorable position with relation to these revisions.

Professor Daniels stated that legislation emanating from the Interim Banking Committee will keep state reserve requirements coincident with federal reserve requirements.

Other states have created high risk loan pools (3 to 5% of portfolio) which permit banks to take higher risks. He advised that contrary to what the public might think, banks in Alaska are "out there doing some pretty risky stuff by Lower Forty-eight standards."

Professor Daniels expressed delight at recent Senate action which eased usury restrictions on loans over \$25 thousand. The usury limit during times of high inflation simply rations out of the marketplace small borrowers (Alaskans) that should be assisted.

Regulation of mutual savings banks and savings and loan associations should be modified to parallel federally-charted institutions.

Usury limits should also be changed with regard to credit unions. Legislation to accomplish this will be forthcoming.

A state insurance program should be instituted for credit unions.

Professor Daniels concluded his remarks at this time, and Co-chairman Bennett opened the meeting to committee questions.

Senator Eliason inquired concerning net benefits to be derived if all of Professor Daniels' recommendations are adopted. Professor Daniels advised that the net benefit would occur through a combination of all the institutions--the development finance institutions, the private market. In the end, Alaskans will be in much better positions than people in the Lower Forty-eight.

Senator Stimson asked Professor Daniels for his opinion concerning the structure of ARRC, specifically three trustees as opposed to a board-type structure. Professor Daniels responded that having been involved with the design of ARRC from its inception, his recommendation from the very first meeting was that "a troika is not sound." The state needs someone who's in charge. He advised that the trustees have recognized this in employing a president for ARRC. Professor Daniels stressed the need for patience regarding ARRC, AHFC, AIDA, etc. since they are all "very young institutions." He said that he believes that ten years from now the legislature will "sit down and look at them and see that they've all made it." Boards and staffs of newer institutions need better understanding of "what they're up to," and the legislature has a strong responsibility to develop tools of accountability which ensure that performance can be measured.

Professor Daniels advised that he worries about the amount of money in ARRC. By national standards it is a very large venture capital institution and could be forced into putting out money faster than it really should.

Responding to a question from Senator Kerttula concerning the structure of ARRC, Professor Daniels advised that there are four institutions in the United States like ARRC (publicly chartered, publicly capitalized, publicly managed, equity financing development agencies). Three of the institutions have a mixed public/private board consisting of a majority of private members. The staff is independent of civil service and can be hired and fired based on performance. Professor Daniels spoke briefly to the misunderstood bonus issue regarding CFAB, advising that it represents an effort to reward performance. The idea of reward for success is very important.

Senator Sturgulewski raised questions concerning market intervention relative to financing of hydroelectric projects, the state's future potential ability to bond, the question of ownership, etc. Professor Daniels advised that the above concerns represent issues of performance measures and accountability. He advised that regarding cost benefit analysis--in terms of "soundness" of projects to be financed, environmental impact analysis, soundness of the financing structure, the entire area of capital budgeting--there is no coherent approach at this time in the state.

The meeting adjourned at 10:00 a.m.

(Tape SF-81, #8, Side 1 (000-end)

(Tape SF-81, #9, Side 1 (000-570)



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BANKING, DEVELOPMENT FINANCE AND ECONOMIC DEVELOPMENT

February 14, 1981

Prepared Under Contract With
The Legislative Council For The
Senate Banking Committee

Executive Summary & Recommendations

Counsel for Community Development, Inc. is a firm specializing in development finance and economic development in this country and overseas. Since 1971, we have been actively engaged in financing urban and regional economic development, especially for local development organizations, and designing development banks to support those activities at the federal, state and local level. The firm was founded in 1971 by Belden Daniels, who teaches development finance at Harvard.

Members of the project staff are:

Belden Daniels, Project Director
Steven Klein, Project Manager
Beth Siegel
Nancy Barbe
Harry Lirtzman

I. INTRODUCTION AND SUMMARY

Since 1978, the Alaska Legislature has created, expanded or substantially reformed a host of state development finance institutions intended to stimulate and diversify the economy for the benefit of Alaskans. These include the Alaska Renewable Resources Corporation (The ARRC), the Alaska Commercial Fisheries and Agriculture Bank (CFAB), the Alaska Industrial Development Authority (AIDA), and the Alaska Housing Finance Corporation (AHFC). During this same period, the legislature has also fundamentally revised or eliminated many state direct loan programs, incorporating many into AIDA.

In each instance, these innovations were intended to complement or enhance the ability of Alaska's private capital market to further stimulate and diversify the Alaska economy. This young, \$3 billion market includes commercial banks, mutual savings banks, savings and loan associations, credit unions, insurance companies and pension funds.

In 1980, the Alaska Legislature also created or substantially reformed its principal state savings institutions: the Alaska Permanent Fund was created, the management of the General Fund Surplus was reformed, and the state Pension Funds portfolios were revised. These three state savings institutions also have some limited capability to collaborate

with the state development finance institutions and Alaska's private capital market to finance some of the growth of the economy without violating their fiduciary responsibilities.

This report is designed to accomplish two principal objectives:

First, to review Alaska's private financial institutions to determine if the state's chartering and regulation of these institutions could be modified to stimulate greater economic activity in the state.

Second, to review Alaska's state development finance institutions to determine if they are structured and operating in a way which does in fact enhance the ability of Alaska's private capital market to contribute to the state's economic development.

In addition, we will briefly comment upon Alaska's state savings institutions to determine if there are some limited ways in which they could collaborate more closely with both the state development finance institutions and private financial institutions to finance the growth of the state's economy.

Putting the State's Financial Innovations in Perspective

In seeking to put this three-year burst of legislative innovation in some perspective, there are first three key premises which underlie our analysis.

- There are real limits on the use of state revenue surpluses by state policy makers to "force feed" sound, new economic activity in Alaska. Alaska has a small internal market which is extremely expensive to service; very high costs of production which limit exports; and a shortage of skilled management. The heavy impact of federal tax, expenditure and regulatory policies further constrain state initiatives. Finally, the one relatively abundant supply factor, capital, cannot by itself overcome other market, management, production or federal constraints. To the extent that capital is the essential missing factor, the issue is increasing its availability, not subsidizing its cost.
- Alaska's young, \$3 billion private capital market is a vital machine for stimulating the state's economic development. On the one hand, it should be Alaska public policy to enhance the growth of this market in ways which contribute to the strength of the economy. If, on the other hand, great care is not exercised by the state, there is a real danger that the private financial market will be inadvertently overwhelmed by the use or misuse of the larger state surpluses.

- Although in general the state's development finance and savings institutions have been soundly designed, neither the legislature nor Governor have at present adequate "accountability" tools to insure that the performance of these institutions meets the purposes for which they were created.

Proceeding from these three premises, our experience in dealing with economic development and development finance issues in other jurisdictions suggests that there is a way of intervening in the economy which proceeds on a step-by-step basis from least costly and risky to most costly and risky alternatives. We suggest that the following four-part conceptual framework provides a useful tool to Alaska policy makers in refining the way in which the state-chartered private financial institutions and the state-created development finance and savings institutions fit together both to complement each other and strengthen the economy.

First, passive regulation of private capital markets: The state can review the way in which it charters and regulates commercial banks, mutual savings banks, savings and loan associations, credit unions, insurance companies and state and local pension or trust funds to insure that they operate in ways which maximize economic activity

consistent with fiduciary responsibility. Unfortunately many state regulations impose costs, limit competition and constrain economic activity rather than the other way around. We call this review moving from negative to positive regulation. The risks and costs to the state are low since the ownership and management is wholly private.

Second, active regulation of private capital markets:

The most interesting and innovative area of state development finance activity today is "active regulation." Here the state sponsors the creation of new publicly chartered but privately capitalized and managed development finance institutions which are capital market perfecting. Many interesting models are emerging which involve limited cost and risk to the state.

Third, passive intervention in private capital markets:

At a higher order of risk and cost, the state can create economic incentives which reward successful economic development behavior of private financial institutions. These incentives can take three forms; they can: (a) decrease the high costs of economic development; (b) decrease the high risks; and/or (c) increase the liquidity of private financial institutions which make such investments. Although this form of intervention involves some risk and cost to the state, properly structured the benefits both exceed and precede the cost. The mode is passive because the financing vehicle is a private financial institution.

Finally, active intervention in private capital markets:

After having exhausted all three less risky and costly forms of regulation or intervention, the state can create publicly chartered, publicly capitalized and publicly managed development finance institutions to complement and collaborate with the private capital market in stimulating state economic development.

In the body of this report, we weigh the relative balance between these four forms of public-private collaboration. We conclude that in intervening in the economy to stimulate economic development, Alaska has tended to choose first the more risky and costly alternatives, rather than less risky and costly approaches. Although this is contrary to the way most states have proceeded, the imbalance can be corrected reasonably easily. This legislative session could "fine tune" the statutes governing private financial institutions, state development finance institutions and state savings institutions to encourage more effective collaboration among the three.

To accomplish this, we make the following 32 specific recommendations:

II. RECOMMENDATIONS

A. Passive Regulation

1. Although state barriers to new bank entry are relatively low, state officials should adopt a flexible capitalization standard. By varying initial capital requirements to match the market to be entered, state officials can encourage entry of commercial banks into outlying areas (page).

2. State officials should encourage the entry of foreign banks which intend to lend actively in Alaska. Foreign bank entry can increase competition and create a banking community which engages more energetically in economic development (page).

3. Interstate banking is, like foreign banking, a complex issue which both may or may not benefit the state. On balance, in our judgement the gains of interstate banking outweigh the losses if state central liquidity and management facilities such as those proposed for credit unions in recommendation 12 are established for all state-chartered financial institutions.

4. State reserve requirements should be eliminated as new federal reserve requirements are phased in (page).

5. Bank officials should encourage banks to establish special high-risk, high-reward portfolios. Regulators should classify these loans on the basis of reward as well as risk and should encourage federal regulators to do the

same. Such portfolios (perhaps 5% of total loans) would enable banks to participate more actively in financing economic development activities. Good "leeway" models exist in a number of eastern states (page).

6. In light of federal policy and legislation the state usury ceiling should be eliminated from all loans except consumer loans of less than \$10,000. This alternative represents a compromise between economic and political considerations. The rate should also float on a daily, not quarterly basis.

7. State regulation of mutual savings banks should be modified to parallel new federal regulation of federally chartered mutual savings banks.

8. State regulation of savings and loan associations should be modified to parallel new federal regulation of federally chartered savings and loan associations.

9. The usury limit for credit union lending should be changed to parallel that imposed on other depository institutions. Credit unions are a vital force in the Alaskan financial community and a lower usury rate unnecessarily and unfairly hinders their operations.

10. A state insurance program for credit unions should be instituted. Such a program could either operate exclusively in Alaska or, better, Alaska credit unions could participate in the insurance program of another state

such as California. Such insurance would be less expensive, just as sound as the FDIC, and self-sustaining.

B. Active Regulation

11. CFAB should not, at this time, be regulated as a bank, as it is not a deposit-taking institution. On the other hand, CFAB, like all new state-chartered development finance institutions, is insufficiently accountable to the executive and legislature for carrying out its public purposes.

12. Alaska credit unions should establish a Corporate Central Credit Union to provide members with liquidity, managerial resources, data processing services and economic forecasting and market research services. A more aggressive model exists in British Columbia than in the lower 48--the British Columbia Central Credit Union. Accountability to credit unions must, however, be insured.

13. Alaska policy makers should design a mechanism to encourage actively greater in-state investment by insurance companies doing business in the state. The most exciting model is Massachusetts' Capital Resource Company (MCRC).

14. Legislators should consider the institution of a privately funded but publicly chartered venture capital corporation to provide risk capital to new ventures not in the renewable resource fields. The model of the Maine Capital Corporation is very useful.

C. Passive Intervention

15. The state should subsidize the lender for the high costs of development loans, doing so, however, only after those loans have been successfully made and the costs incurred by the lender. The state should not subsidize borrowers, for this creates no new economic activity. It is merely a gift at taxpayer expense. High interest rates merely reflect high inflation.

16. AIDA officials should consider instituting a credit insurance program similar to that being contemplated in Connecticut to improve the marketability of industrial revenue bonds.

17. State officials should establish a linked deposit system for Alaska banks to improve their liquidity and provide additional funds for investment in the Alaskan economy.

D. Active Intervention

18. AIDA should adopt a program which targets its financing of commercial and retail to existing downtown areas. There is no need to offer subsidized financing for suburban projects.

19. AIDA officials should encourage the utilization of the local development corporation (LDC) §503 program of the Small Business Administration. The program presents good opportunities for small business development which is an essential component of any economic development strategy.

20. AIDA's role as a counter-cyclical financial institution should be clarified. AIDA and the banks must establish a cooperative rather than a competitive relationship. AIDA should be a secondary marketer in periods of high credit demand and a credit insurer in times of slack demand.

21. AIDA's proposal to institute a "Supported Stand Alone" program to finance intermediate sized projects which have no access to national capital market is sound. The program should not be funded by an appropriation but instead should be financed by premiums paid by borrowers. This recommendation is not dissimilar from number 15.

22. AIDA's proposal for a "Small Business Loan" program is sensible only if a substantial segment of business borrowers are not eligible for tax-exempt financing. Further, the program should not be financed by legislative appropriation. Instead, taxable bond financing could be utilized and the interest rate can be subsidized by state appropriation.

23. AIDA's proposal for a "Working Capital - Inventory and Refinancing Program" should not be adopted. These are areas traditionally financed by banks and AIDA should not intrude into the bank's domain.

24. AHFC should be encouraged to finance mortgages with taxable bonds in light of federal legislation which may eliminate tax-exempt mortgage revenue bond financing. Taxable bonds could then be sold to a wide variety of/

investors including the Permanent Fund, General Fund Surplus and state pension funds.

25. The recently proposed "House Refinancing" program is unsound. It is inflationary. It is poorly targeted, and funds may be used for speculative purposes which do not benefit the Alaskan economy. Further, the program is an inequitable distribution of the state's wealth.

26. The state division of business loans' policy of turning over the administration of direct loan program portfolios to the private market is sound and should be continued.

27. The ARRC has too much capital to be a true venture capital firm. It should, however, be encouraged to continue hiring skilled staff and to develop entrepreneurial skills among Alaskans.

28. Although the ARRC should continue to work cooperatively with banks, it should not allow itself to be used as a "dumping ground" for loans which banks should make. The ARRC must not become a substitute for excessively risk-averse private capital.

29. The state should consider the establishment of an equity financing institution for community-based enterprises. The model of the Massachusetts Community Development Finance Corporation is instructive.

30. The state should consider the establishment of an equity-financing institution for new products and processes not limited to the renewable resource area. Models exist in Connecticut and Massachusetts.

31. The state should consider the establishment of an institution which fosters the skills required to produce new economic activity. There are numerous valuable models around the country.

E. Accountability

32. The state legislature should give serious consideration to the establishment of a system of reporting and analysis to ensure that the state's system of development finance and savings institutions is accountable to them and to the executive both for sound management and for adhering to the public purposes for which they were created. These include such development finance institutions as the ARRC, CFAB, AIDA, AHFC and continuing direct loan programs, as well as such savings institutions as the Alaska Permanent Fund, general fund surpluses and state pension funds.

The basis for these recommendations is spelled out in Section III, A Conceptual Framework.

SENATE FINANCE COMMITTEE

March 3, 1981

9:40 a.m.

(Tape SFC 81, # 10, Side 1, 000-486)

CALL TO ORDER

Co-chairman Bennett called the meeting to order at 9:40 a.m.

PRESENT

All members of the committee were present, with the exception of Senator Sackett who was excused. Also in attendance were Legislative Finance Fiscal Analysts Alison Elgee, Jerry Schilz, Elmer Lindstrom and Bob Grogan; Legislative Finance Director, Jay Hogan; Administrative Assistant to Co-chairman Bennett, Judy Johnston; and Administrative Assistant to Co-chairman Dankworth, Kathy Martinson.

SECURITY NOTICES

Co-chairman Bennett advised the committee members that notices had been received from Security regarding leaving the committee room door open, leaving the coffee pot turned on, etc., and requested that those using the room after hours be a little more careful. He stated that since meetings other than Finance meetings are held in the room, he would explore the possibility of having Security assume these responsibilities.

BILL ASSIGNMENTS

Co-chairman Bennett made the following bill assignments:

SB 138 - Dankworth
SB 174 - Ferguson
SB 202 - Dankworth
SB 223 - Sackett

MEETING ANNOUNCEMENT

Co-chairman Bennett advised that the committee would meet March 4, 1981 at 9:00 a.m.

COMMITTEE POLICY DISCUSSION

Co-chairman Bennett stated that he would like committee members to do whatever they can to avoid adding new positions in their operating budget categories, and said he felt in many cases, old positions could be used for new functions. He said that it would be important to cut entire offices, projects and/or functions

rather than cutting the budget "piece meal", like individual positions, travel, etc.

He stated that the joint meetings with the House Finance Committee seemed to be going very well, but stressed that areas where figures conflicted would have to be worked out later in free conference. He stated that the policy would be "zero growth in government" and that the committee should strive toward this in every way possible.

Senator Sturgulewski stated that she wished to comment to the committee concerning the Transportation Budget Category. She said that a series of audits had been done, and there were very, very strong recommendations to deal with the basic organization of that structure and the whole method of handling budgeting for Capital Improvements Positions (CIP). She stated that there is no control over DOT positions, and she felt this was her "number one priority" in that budget category. To help put the issue into perspective, she cited the following figures:

1. The Personal Services for CIP positions (there are about 1,500 in DOT) amounts to about \$50 million. This amount only shows up as a line item in the capital budget.
2. The DOT portion in the General Government budget category (Planning and Programming) is about \$54 million. The amount Senator Sturgulewski is considering is about \$159 million. Within these figures, there is a movement of a number of indirect costs. (She passed out copies of an overview of those indirect costs from R.D. Shumway, Deputy Director of Design and Construction in DOTPF.) The request is to place these programs under the General Fund rather than in the Capital Budget as was previously done. She stated that this was some help, but there were still many unaccounted for positions that do not go through the normal budgeting process.

Senator Sturgulewski stated that she was trying to develop a strategy whereby those CIP positions would become accountable, and that until then she did not feel growth could be controlled.

Co-chairman Bennett stated that he agreed, but that there was also the ability of the Legislature to order contracting to the private sector. Senator Sturgulewski responded that she had been told that this was already being done, but there is no way to obtain a breakdown of those contract figures as the amounts only show up as a line item. Co-chairman Bennett also suggested contracting out whole functions and gave the example of the Ketchikan Pioneer's Home. He added that he felt 75% of DOT surveying could be contracted out.

Co-chairman Dankworth gave examples of how the committee's job could be made more difficult by the departments by their moving positions around so that they won't show up. He added that in his category he was most worried by positions that were never

authorized by the Legislature. Then the following year, the department requests a shift in the source of funding for the positions into the General Fund.

Senator Sturgulewski stated that the issue seemed to her to be the need for accountability on all those positions. She added that she felt the above departmental actions were in violation of the Budget Act. Co-chairman Dankworth agreed and added that he did not feel the Legislature should absorb all of these positions merely because they were put in without legislative approval.

Co-chairman Dankworth commented on the Capital Budget and how "inter-twined" it was with the Operating Budget. He asked that subcommittees feel free to consider the Capital portions along with the Operating portions and make recommendations to him. Senator Sturgulewski reiterated that her interest in the Capital Budget was to get control of the CIP positions.

Co-chairman Dankworth pointed to a book that had been provided by Director of Budget and Management Ron Lehr, which condenses the Capital Budget, and stated that he felt it would be valuable to all members.

COMMITTEE MEMBER REQUEST

Senator Eliason requested that he be scheduled to bring up the following bills:

SB 48
SB 133
SB 134

Co-chairman Bennett stated that those bills would be scheduled over the next few days.

MEMBER COMMENTS ON BOTTOMFISH PROGRAM

Senator Stimson commented on the Bottomfish Program and how the proposal was put in as a capital project effecting three or four different budgets. He added that this means all these positions will surface in the Operating Budget next year, and he wanted the members to be aware of this and scrutinize the program very closely. Co-chairman Bennett stated that he was having his staff research fisheries and they were finding that there were probably 16-18 departments effected, and that the programs were so disparate that the one hand didn't know what the other hand was doing. He stated a great need for consolidation.

PROGRAM BUDGETING

Co-chairman Dankworth stated that he had been assigned Senate Bill No. 17 (An Act amending the Executive Budget Act to provide for agency budgeting in place of program budgeting). He stated that others including Senator Sackett had agreed that program budgeting is not telling the Legislature what it wants to know.

and that it spreads functions into too many different areas. He asked for comments and/or recommendations from committee members on this bill.

MEMBER QUESTIONS - UA AND NRMEC BUDGET CATEGORIES

Senator Stimson asked how the committee as a whole would consider the University of Alaska and NRMEC budget categories. Co-chairman Bennett stated that the committee would look at the budgets page by page, and that the Legislative Finance staff would be available to provide additional information or to answer questions.

ADJOURNMENT

The meeting adjourned at 9:55 a.m.

(Tape SFC 81, # 10, Side 1, 000-486)

SENATE FINANCE COMMITTEE

March 4, 1981

9:05 a.m.

(SFC-81, #10, Side 2, 000-604)

CALL TO ORDER

Co-chairman Don Bennett convened the meeting at approximately 9:05 a.m.

PRESENT

All committee members were present. Also in attendance were Eric Yould, Executive Director of the Alaska Power Authority; Dave Hutchens, representing the Alaska Rural Electric Cooperative Association; Jay Hogan, Director of Legislative Finance; Fiscal Analyst Elmer Lindstrom; administrative assistants to the committee Kathy Martinson and Judy Johnston; and representatives from the press including Joe LaRocca.

BILL ASSIGNMENT

Co-chairman Bennett made the following bill assignments:

SB 103 - Eliason
SCR 9 - Eliason
SB 166 - Sackett

SENATE BILL NO. 174

Co-chairman Bennet moved that SB 174 (AN ACT MAKING A SUPPLEMENTAL APPROPRIATION TO THE ALASKA POWER AUTHORITY FOR THE POWER PRODUCTION COST ASSISTANCE PROGRAM) be brought on for discussion.

Senator Ferguson spoke concerning the bill, advising that Section 1 of the original bill provides for a \$1,050,000 appropriation from the general fund for the power production cost assistance program. Such funding represents a supplemental request. The State Affairs' committee substitute adds \$2,540,000 to the bill for the Susitna Hydroelectric project, and \$50,000 for the Takatz Lake project. The proposed Finance committee substitute removes the Takatz Lake project since it will "be taken care of in other legislation."

At this time Eric Yould, Executive Director of the Alaska Power Authority appeared before committee, testifying in favor of the State Affairs' committee substitute. He advised that the \$1,050,000 included in Section 1 provides funding for the power production assistance program. The program was "put in place last session to ameliorate the high cost of electricity in rural Alaska." Rural rates run as much as ten times higher than urban

centers. The program represents an interim measure to keep electrical costs down until a permanent solution is found.

The legislature appropriated \$2.4 million to the fund, but that amount was cut in half by the governor because it represented an inequitable distribution of funds. If the program is to continue, it requires the additional funding sought in the subject legislation. The program balance as of February is \$700,000. The Power Authority expects a monthly draw-down of \$350,000 until the new fiscal year beginning in July. A total of \$1,750,000 is needed to carry the program through June. In the event more funds are appropriated than actually needed, excess funds will lapse back into the general fund.

Responding to a question from Senator Dankworth concerning the average cost of electricity in rural areas, with and without the Power Authority subsidy, Mr. Yould responded that the largest electrical utility in the bush is AVEC which provides power to 40 villages. The average cost to consumers is 45 cents per kwh compared to 6 cents per kwh in Anchorage. The power assistance program reduces the 45 cent charge to roughly 25 cents per hour. Roughly 15 cents is cut from the cost although different areas will register different impact according to electrical costs in the area.

In response to a question from Senator Sturgulewski concerning the manner in which the program functions, Mr. Yould advised that utilities are required to file data with the APUC which sets forth administrative charges and operating costs. Only the power production portions of utility costs are subsidized. If electrical costs are 30 cents per kwh and 10 cents represents administrative costs, only 20 cents will be subsidized.

Senator Sturgulewski asked if the program is "working . . . efficiently" and whether or not it encourages conservation. Mr. Yould replied that "administratively it is working very well." He added that changes could be effected to make the program more equitable since it currently discriminates against some villages. He further advised of a problem arising from the fact that there is no "cap" or upper limit on what the legislature might fund in the future. Mr. Yould advised of his original understanding that a 40 cent cap was to be placed on the program. However, the cap is not in place. A cap would provide a stimulus for conservation. He advised that the governor is considering placing a cap on the program.

Senator Stimson spoke to problems relating to the manner in which the governor is approaching energy problems, advising that the governor cut the Power Assistance Program in half last year, and cut over \$3 million "this year," while the finance committee is already "looking at a supplemental to get through FY 81. Referring to information earlier provided him by Mr. Yould, Senator Stimson set forth the following power assistance program projections:

FY 82	-	\$4.8 million
FY 83	-	\$6.24 million
FY 84	-	\$8.1 million
FY 85	-	\$10.5 million

Senator Stimson stressed a need for the governor to be realistic in terms of what the program will ultimately cost. He further advised that the state should be seeking alternative energy sources. Senator Stimson asked Mr. Yould if it is possible for the legislature "to be looking at other alternatives to the program." Mr. Yould advised that the Alaska Power Authority is seeking long term solutions. He further advised that the power assistance program is under a five-year sunset clause, and unless continued by legislation will terminate in that time. He stated that placing a 40 cent cap upon the program might lessen the above-projected figures.

Senator Stimson stated that the governor's FY 82 budget request "indicates it is time to find some other alternatives." He added that the governor has provided no alternatives, and the legislature is faced with need to increase the budget to provide for the power assistance program.

Senator Sturgulewski asked what effect the 40 cent cap would have on the foregoing projections, and Mr. Yould stated that he had not projected the effect. Senator Ferguson requested that Mr. Yould do so and provide the information to the committee.

Senator Dankworth stated his support for the legislation, advising that when state resources are liquidated, the citizens should reap the benefits.

Senator Eliason requested that Mr. Yould speak to the need for Section 3 of the State Affairs' committee substitute (the section dealing with the Takatz Lake project). Mr. Yould advised that the Takatz Lake hydroelectric project will provide power to Sitka. The Power Authority included funds to re-evaluate the project in its budget two years ago. The funds were eliminated from the governor's budget the first year. The legislature put the funds back in last year, and they were eliminated again. The governor has since concluded that Takatz Lake is a "worthwhile endeavor." He attempted to reinstate funding, but an opinion from the attorney general advised that he is not allowed to put funding back into a project which has been vetoed. There are currently no funds available to reassess the viability of Takatz Lake. For this reason, Senator Eliason requested that the project be incorporated in the State Affairs' version of SB 174. In anticipation of the availability of these funds, Mr. Yould advised that the project has been brought before and approved by the Power Authority board of directors, and an engineer has been selected.

Senator Eliason advised that he supports removal of Takatz Lake from the Finance committee substitute for SB 174 since the

project is included in other legislation. He voiced support for the Finance committee substitute.

Senator Ferguson moved for passage of the Finance committee substitute with individual recommendations.

Senator Sturgulewski asked for an overview of Section 2, relating to Susitna. Mr. Yould stated that the Alaska Power Authority has entered into a 2-1/2 year "field exploration and assessment of Susitna." The study will address whether or not Susitna should be constructed. The Power Authority has been directed by statute to report back in March concerning whether or not the project appears viable, and the Authority should proceed with field investigations. In April of 1982 when the study is complete and the alternative energy study has been completed by the governor's office, the Authority will be in a position to advise whether or not construction of Susitna should proceed (or, more appropriately, the state should apply for license through the Federal Energy Regulatory Commission--the same procedure used for small projects throughout the state).

To date, the legislature has appropriated roughly \$18 million for a program which was to cost \$26 million in January 1980 dollars when Acres American was "brought on board." Projecting the needed funding over the 2-1/2 year study period results in a total study cost of \$29.6 million. Since initiation of the study, the project has "had some scope changes as a result of recommendations by the FERC, public participation program, and outside consultants to the legislature." In addition, changes, or additional costs, as a result of fuel and logistical support increases have made it imperative to move funding out of the licensing phase of the program into the present phase to ensure that the project proceeds smoothly. As a result of scope changes, small cost overruns, and the fact that the program was underfunded last year, the Authority has identified a need for \$2.54 million in order to make it through the FY 81 field season. Mr. Yould advised of his understanding that the governor supports the request and will be introducing a supplemental to cover it. Funding, however, will "run out by the first of April." If the Authority does not have funding by then, it will have to "virtually stop all of the contracts." The Authority has been notified by Acres American, as a contract stipulation, that Acres is within 60 days of exceeding funds allocated for completion of the study.

Mr. Yould advised that he had on hand additional information for distribution to committee members. Senator Sturgulewski spoke to a need to have information available "somewhat ahead of such a major request." She also stated that it appeared Mr. Yould was able to adequately document the Authority request.

Senator Stimson moved that the Finance committee substitute for SB 174 pass from committee with individual recommendations. No objection having been raised, the Finance committee substitute for SB 174 passed from committee--all members signing do pass.

SENATE BILL NO. 48

Co-chairman Bennett moved that SB 48 (ACT RELATING TO GRANTS FOR NORTHERN TECHNOLOGY) be brought on for discussion. Senator Eliason advised that the Executive Director of the Alaska Council on Science and Technology was not available to testify at this time. He further advised that Senator Sturgulewski wished to propose an amendment to the bill. Senator Eliason asked that the bill be held in committee for future consideration.

FEDERAL BUDGET IMPACT

Jay Hogan next appeared before committee, calling attention to a publication by the National Conference of State Legislators and National Governors' Association. The publication deals with the federal economic recovery plan. The publication provides a valuable service in that it analyzes the federal budget in terms of the states at large. It does not indicate specifically how the budget will impact Alaska. Publications by the conference will be distributed as they become available, keeping members informed of the "latest turn of events at the federal level."

Co-chairman Bennett announced the following committee meetings:

Thursday, March 5, 1981

9:00 a.m.

Discussion of SB 25, SB 26, and SB 148

Friday, March 6, 1981

9:00 a.m.

Discussion of SB 133, SB 134

Tuesday, March 10, 1981

9:00 a.m.

Discussion with Milton Lipton

Wednesday, March 11, 1981

9:00 a.m.

Discussion of SB 4, SB 191, and SB 205

ADJOURNMENT

The meeting adjourned at approximately 9:30 a.m.

(SFC-81, #10, Side 2 (000-604))

SENATE FINANCE COMMITTEE

March 5, 1981

9:05 a.m.

(Tape SFC-81, #10, Side 2, 604-end)
(Tape SFC-81, #11, Side 1, 000-672)

CALL TO ORDER

Co-chairman Bennett convened the meeting at approximately 9:05 a.m.

PRESENT

All committee members were present. Also present for portions of the meeting were Senator Mulcahy; Eric Yould, Executive Director of the Alaska Power Authority; Dave Hutchens of the Alaska Rural Electric Cooperative Association; Fiscal Analyst, Elmer Lindstrom; and administrative assistants to the finance committee Kathy Martinson and Judy Johnston.

BILL ASSIGNMENT

Co-chairman Bennett made the following bill assignments:

SB 208 - Eliason
SB 209 - Bennett

SENATE BILL NO. 148

Co-chairman Bennett moved that SB 148 (AN ACT RELATING TO HOUSING LOANS) be brought on for discussion.

Senator Ferguson advised that last year the legislature passed the non-conforming housing act, establishing within the Department of Community and Regional Affairs a Division of Housing Assistance. The proposed Finance committee substitute proposes that:

1. The Division of Housing Assistance be permitted to originate construction loans for new housing.
2. The Division set up a loss revenue account to finance needed renovation, resale, and legal costs resulting from foreclosure.
3. The Division be permitted to make building material loans not to exceed \$45,000 and 15 years in term.
4. Division field offices have final authority on loan approval.

5. Wording concerning the contracting of appraisal and engineering services by the Director be changed from "shall" to "may."

6. The Director be allowed to execute agreements with private lending institutions to service loans in instances where the Division finds it beneficial to contract these services.

Senator Sturgulewski raised questions concerning the type of housing to be constructed under the non-conforming loan program, advising that she hoped the state would be financing "well-built housing which will last." Senator Ferguson stated that the homes to be financed will be similar to those constructed in Anchorage but restricted somewhat in size because of the high cost of rural construction.

When asked by Senator Sturgulewski if the housing would have to meet a standard, Senator Ferguson replied that it would have to meet regulations for non-conforming housing loans.

Senator Mulcahy, the prime sponsor of the legislation, next appeared before committee. Referring to the section of the bill dealing with the granting of authority for final loan approval to division field offices, Senator Stimson asked that Senator Mulcahy describe and explain the manner in which the field offices will function. Senator Mulcahy responded that the field offices would fill gaps in areas of rural Alaska which commercial banks don't reach. The final approval granted by a field office would be the same as that of a local branch manager within a banking structure. Loan guidelines will be "well spelled out." If the loan meets the requirements, it will be approved.

Senator Stimson advised of his feeling that the bill runs contrary to the intent of last year's SB 1. He further advised of his belief that the state should not be getting into the loan business but instead should be creating a secondary market. The subject bill would "get the state directly involved."

Senator Mulcahy stated that he "worked on SB 1, and came away with the understanding that the Division had the necessary authority to make non-conforming loans. Only later, when regulations were being adopted, did he discover the Division did not have authority to make non-conforming loans in areas which commercial banks do not serve. He further spoke to the fact that much rural housing cannot meet rigid standards set for urban areas in terms of foundation, sewage disposal, etc, yet the housing is constructed in accordance with acceptable construction methods practiced for generations in rural Alaska.

Senator Stimson stated his support for a non-conforming loan program, but voiced his belief that the program should function more like AHFC and purchase loans after the loans are made by banks. Senator Mulcahy advised that SB 148 would permit purchase of loans from banks, but it would also "reach out and benefit areas not served by banks."

Responding to questions from Senator Sturgulewski concerning the reserve loss account and delinquency and default percentages, Senator Mulcahy stated that percentages will follow the requirements of existing loan programs. He added that funding for repossession was neglected in the "original bill" and provisions for such funding were included in the subject legislation at the request of the program director. Further responding to a question from Senator Sturgulewski concerning funding of the program from interest derived from fund investment, Senator Mulcahy stated that the foregoing procedure was requested by the program director. Senator Ferguson advised that the department made the suggested changes included in the Finance committee substitute. He further added that the fiscal impact of the legislation will be \$170,000 (\$100,000 for operating loss revenue account, and \$70 for employee costs). The non-conforming loan program is specifically for rural areas while AHFC is for urban areas.

Senator Stimson inquired concerning the current status of the program given the \$10 million in funding "last year." Senator Ferguson advised that up to the present time none of the funding has been spent since field offices in Dillingham, Bethel, Nome, Kotzebue, and Fairbanks are only now beginning to open.

Senator Sackett moved that the Finance committee substitute for SB 148 pass from committee with individual recommendations. No objection having been voiced, the Finance committee substitute for SB 148 passed from committee--all members present signing do pass.

SENATE BILLS 25 AND 26

Co-chairman Dankworth moved that SB 25 (ACT ESTABLISHING A POWER PROJECT REVOLVING LOAN FUND IN THE ALASKA POWER AUTHORITY, AMENDING THE ALASKA POWER AUTHORITY ACT, AND REQUIRING THE DEPARTMENT OF REVENUE TO INVEST THE SURPLUS POWER PROJECT REVOLVING LOAN FUND BALANCES) and SB 26 (ACT MAKING SPECIAL APPROPRIATIONS TO THE POWER PROJECT REVOLVING LOAN FUND OF THE ALASKA POWER AUTHORITY) be brought on for discussion. He advised that Section 1 of SB 25 represents a reorganization of the Power Authority due to the fact that funding under SB 25 and 26 will eventually amount to \$5 billion. Given this amount of funding, more administrative control is needed.

The legislation establishes the power project development fund and constitutes a new approach to funding dams and power projects through direct grants. Senator Dankworth spoke to the fact that the state will have "a large amount of future revenue coming in." He advised of a need to make a "philosophical" decision concerning use of that money. If a dam or highway is built using state funding will the money have to be paid back? Senator Dankworth stated that if tax dollars are used for such construction, funding should be repayed. He advised of his belief that when funding for such projects derives from the

liquidation of a state resource, the people should not have to pay for using a resource they already own.

SB 26 will fund nine viable energy projects and place revenue in a revolving fund to construct the Anchorage/Fairbanks intertie. This will insure that 90,000 Alaskans can look forward to "somewhere between 90 to 100 years of reduced energy costs."

Senator Dankworth advised that "it is important for all of us to realize that we are talking about grants, not loans."

The legislation further provides that if the \$5 billion is not appropriated by 1986, funding will have to generate a return rate of 7%. Senator Dankworth advised that since feasibility studies have not been completed for Susitna, Susitna is not included in SB 26.

ERIC YOULD, ALASKA POWER AUTHORITY

Eric Yould, Executive Director of the Alaska Power Authority, next appeared before committee. He advised that the Power Authority had previously testified on the subject bills. He further stated that the Board of Directors of the Alaska Power Authority has taken no position on the bills or other legislation as long as such legislation attempts to stimulate energy development. He added that it would thus be inappropriate for him to comment concerning "radical changes in public policy."

Mr. Yould conducted the following overview of the Finance committee substitute for SB 25.

Section 1 adds the commissioners of natural resources, revenue, DOT, and the Director of Budget & Management as voting members, plus the commissioner of community and regional affairs as a non-voting member of the board of directors of the Power Authority. Mr. Yould praised the work of current Power Commission commissioners, labeling the group a "blue chip" commission. He advised that the above additions would make the Authority "more of an administrative authority than . . . at the present time."

Section 4 provides that the Power Authority may issue bonds in the event state funding of a project is insufficient to complete construction.

Subparagraphs (A), (B), and (C) set up criteria to be used by the Authority in screening projects.

Article 8 establishes the fund within the Power Authority and states that the funds shall be appropriated by the legislature and include interest earned on the funds through investment by the Department of Revenue. The article further sets forth the manner in which funds may be used including costs of studies, acquiring licenses, engineering design, and construction.

Page 4, subsections (A) and (B) set forth the type of projects eligible for funding under the program which is basically directed toward development of renewable resources. Mr. Yould suggested including language which would allow for development of oil-generated energy if no other resources are available. Not all communities have the necessary resources for development and these communities will have to rely on diesel oil.

The Allotment to Projects portion of the bill states that the Power Authority shall maintain records of projects, and interest earned on funds by the treasury shall be allocated and pro rated back to the project fund. This provision insures against inflation "eating up" construction funds.

Under the Reallocation of Fund Balance provision, funds allocated to a geographic region may remain in the region even if the original project is not constructed. These funds may be used to construct an alternative project if that project is determined to be feasible.

Excess or "not-needed" funds lapse back into the general fund.

The Alaska Power Authority shall ensure that sufficient revenue is generated from the project to handle debt service.

Projects shall be operated by a qualified entity. In the event no entity is available locally, the Power Authority shall operate the project.

Referring to what she described as a "hook on the bill," Senator Sturgulewski asked Mr. Yould if the 7% rate of return a project is required to provide per annum is sufficient. Mr. Yould responded that if the committee would like a higher rate, 10% "would still be lower than the bond market." He added that Section 12 of the bill stipulates that projects will pay the 7% rate of return if \$5 billion is not appropriated by July 1, 1986.

Senator Dankworth moved that the Finance committee substitute pass from committee with individual recommendation. Senator Sturgulewski objected, advising that she had further questions for Mr. Yould.

Senator Sturgulewski asked Mr. Yould how the legislature could ensure against "gold plating." Mr. Yould explained that the requirement that the project be "economically feasible" will ensure that only projects providing the greatest return to the state will be developed. As an example he advised that one could not "go out and build a Rampart, because it would not be economically feasible since there would not be a market for the power produced."

Senator Sturgulewski advised of her feeling that the legislature is deviating from what it attempted to do in AHFC and ARRC.