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Monica Thomas

Alaska state loan programs

Scott Sterling, interviewer

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Scott Sterling asked Monica Thomas how many state loan programs there are. Thomas said there are approximately forty. Approximately three quarters of them are funded. She said there are 25 to 30 active loan programs in the state. Sterling asked if loans are concentrated in any one area. Thomas said loan programs are concentrated in the area of housing through FY83 funding. Approximately one half of all total dollar value loan funds are in housing. The estimate is approximately 1.5 billion dollars.

Sterling asked about other loan programs. Thomas said approximately one fourth goes to economic projects such as mining loans, fishing loans, agriculture loans, and small business loans. Another one fourth goes to social programs such as student loan programs. Sterling asked about the purpose of so many state loans. Thomas said many of the programs are political. She talked about the student loan programs growing with the increase of petroleum revenues. She asked if the state loan programs are because of real economic need or because of the petroleum revenues in the state. She said there is a lack of capital in the state. There is a lack of private funding. Alaska's banks are not capable of making the kinds of loans necessary for large scale economic development in the state and are not capable of funding all of the students in the state. Alaska with a population of 400,000 is not expected to have that kind of capital.

Sterling asked about larger financial institutions moving into the state and replacing some of the state loan programs. Thomas said if petroleum revenues decline then she does not see institutions from outside of the state wanting to come into the state of Alaska. She said if another petroleum resource is found or the price of petroleum rises then institutions might see it as a good move. She knows of only one bank merger with an out of state bank. The Alaska banks merging into the larger banks hasn't happened. There is a recession in the Pacific Northwest so banks aren't looking for expansion.

Sterling asked if it is a case of creating a need that didn't exist before. Thomas said one of the things they have to ask is what you are going to do with your petroleum revenues. She said the permanent fund dividend program was tried this year. She said depending upon your income level between 21 to 38 percent of your dividend went to Uncle Sam in income tax and that is a drain on the petroleum revenues. The state has consistently struggled with how they are going to get the benefits of petroleum revenues to the people of the state without draining those revenues out of the state in the form of income tax. If you give the people subsidized loans the federal government does not view it as taxable income at this date. A loan program has kept money inside the state and has passed on the benefits of petroleum revenues to the people. From that standpoint it may be a very good thing.

Sterling asked about the cost of loan programs. He wondered what portion of the state budget is devoted to loan programs. Thomas said it depends on the year. Some years have had large appropriations to the state loan programs. This fiscal year 216 million dollars has been appropriated to the state loan program. Of that amount approximately 150 million goes to the Alaska Housing Finance Corporation for low interest loans. The rest of the amount goes to economic development and a large block goes to the Alaska Student Loan Program. Sterling said housing remains the number one priority. Thomas said yes and asked how much money the state of Alaska has lost. She wondered since interest rates are very high and the state program's interest rates are low how much the state lost.

Sterling asked how the state borrows money for the housing program. Thomas said the money comes from petroleum revenues. Approximately 90 percent of the state revenues come from the Prudhoe Bay oil field. The money is appropriated through the state legislature. She said it is presumed people will pay the money back and it was presumed the money for loans would go on forever. There was a high rate of forfeiture with the student loan program in the early years. The state did not go after the people who never paid. There is a problem when people leave the state with the money.

Sterling asked about housing loans outside of general appropriations. Thomas said generally they set up corporations or agencies within departments in state government departments such as farming loans for operations. She talked about a fishing loan program to allow Alaska fishermen to buy limited entry permits and thus reducing out of state people from getting the permits. These are agency programs which should go on and on when the loan is repaid and it goes out to someone else who needs the money.

Sterling asked how the legislature keeps track of the loan program. Thomas said the legislature requires that each program must let the legislature know how much money went out and how much came in and other information. They discussed the market rate of interest and subsidized state loans. It prevented Alaska from suffering the recession like in the other parts of the country. It artificially stimulated the economy which would not have occurred otherwise.

Sterling wondered if the state would ever be lending money at the same rate as bank loans. Thomas said there is no reason that the state could drop their subsidized rate of interest. There has been talk of raising the student loan interest rate. They discussed the student loan program.

Sterling asked if there could be a time when there were a lot of defaults for housing loans. Thomas said that could happen if the economy busts and everybody leaves. She said there is a thought to be looking long range at the economy. She wondered about maintaining the level of expectation.

Sterling wondered if Alaska will have a strong private economy to overcome declining revenues. Thomas said the government sector of the Alaska economy is about two and a half times bigger than the government sector of the nation as a whole. We are more dependent on government employment in Alaska. It is really the source of employment. Petroleum revenues are required to pay all the salaries of the government people. The service and trade industries are also dependent on government employment. Local government has grown rapidly since the state has funneled money to local governments. She wonders if we will be able to maintain that level. She said right now we have no other industry to replace petroleum. There are very few taxes on other sectors of the economy. After personal income taxes were eliminated it only dropped 200 million dollars from the program. It will not supplant petroleum revenues. She thinks it would be wonderful to have an agricultural business in the state and it

would be healthy for the state. She said it is important to have other industries in the state but it would not supplant revenues from the petroleum industry. She said a lot of the industries are tied up in political turmoil and we limp along from crisis to crisis.

Sterling wondered about the future of the state economically. Thomas didn't think we would return to the economic shape of the 1960s. She knows there will be decline from the Prudhoe Bay oil fields. Sterling said as the revenues decline there will be cuts by the legislature and he wondered if loan programs will be cut. Thomas said one must presume the loan programs have been created by legislative actions and statutes are on the books. If it is presumed these loan programs can be maintained forever then there is not much you can do to those programs that are already on the books unless you want to call in all the loans.