

State of Alaska

Department of Revenue
Administrative Services Division



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Sponsor Statement

HB 338 / SB 269

Recovery Zone Bonds and Alaska Municipal Bond Bank Authority

Recovery Zone Bonds:

The bill provides for Reallocation of volume cap of recovery zone economic development bonds and recovery zone facility bonds. When Congress passed the American Recovery and Reinvestment Act of 2009 (the Act), the bill authorized the issuance of certain tax advantaged bonds for local government projects called Recovery Zone Economic Development Bonds (RZEDBs) and for economic development projects called Recovery Zone Facility Bonds (RZFBs). These allocations are available for projects that are financed in 2009 or 2010. The benefit can be interest rate reduction of up to 2% versus conventional financing. The Alaska allocations are \$90 million of RZEDB and \$135 million of RZFBs.

The legislation provides a formal mechanism to allow the reallocation of the recovery zone economic development bond authorization to local governments by the Alaska Municipal Bond Bank and the recovery zone facility bond authorization to the Alaska Industrial Development and Export Authority. The legislation is written to ensure the allocations made to census areas will be made available first to those governments within the census area, and then more globally for statewide project financings. Further, the allocations to those communities that don't have project financings underway will be available to reallocate to those communities with financings by mid 2010. This reallocation framework is essential to allow the benefits of the RZEDB and RZFB programs to be realized.

Alaska Municipal Bond Bank Authority:

The Alaska Municipal Bond Bank was statutorily created to offer Alaskan communities more efficient and cost effective bonds. By pooling communities together in packaged bond sales, the Bond Bank realizes savings for communities by reducing the cost of issuance and enhancing investor interest. Thirty-seven communities representing every region of the state use the Bond Bank. Over the last three years alone, the Bond Bank has issued over \$282 million in bonds to fund 32 loans to Alaskan communities and saved Alaskans almost \$25 million.

The Bond Bank results in real financial benefits to municipalities and the state by lowering the overhead costs of bond issuances:

(1) Fixed costs are reduced. For example, when three communities combine their bond issuance into one combined Bond Bank issue, fixed costs are paid once as opposed to each community paying them individually;

(2) Investor interest is increased. Bond sales of less than \$5 million tend to receive less interest from institutional investors. The Bond Bank combines communities into larger transactions resulting in more investor interest;

(3) Credit rating is improved. The Bond Bank also maintains a credit rating that is better than almost all the communities in Alaska. A better credit rating means less risk to investors correlating to less interest expense to municipalities; and

(4) Lower Cost to the State. The state benefits from the lower cost of borrowing through savings in reimbursement costs for its share of bonded debt service for authorized school and other infrastructure projects.

The Bond Bank bonding authority has been increased several times in the last thirty years. In 2003 the limit increased from \$300 million to \$500 million, and in 2006 the limit increased from \$500 to \$750 million. As of December 2009 the Bond Bank had \$623,090,878 in outstanding bonds. This leaves \$126,909,122 available for additional loans to communities. Applications to the Bond Bank over the next six months are expected to total approximately \$150 million. This increase is a natural progression for the program, and fits with the historically conservative increases in the borrowing cap. The underlying loan portfolio of the Bond Bank is strong and has fully supported all loans for 35 years. Without passage of legislation it is likely that municipalities will not be able to take advantage of the program.

The Bond Bank is currently restricted from participating in municipal revenue bonds that fund electrical generation projects other than diesel-powered generation. With today's focus on alternative and green power generation this is an outdated exclusion that is unclear in its origins. Bond Bank participation in an existing proposal to increase the hydro electric generation capacity of the City and Borough of Sitka will save millions in interest expense versus existing financing alternatives. There is additional savings potential for all Alaska's municipally owned electrical utilities that are considering investing in non-diesel fueled electricity generation.

The Bond Bank is currently able to fund lease backed transactions to provide for the improvement of a building, but not where the state is a lessee. This has created limitations on several municipal projects where a state agency is interested in partnering with a local community to provide for quality space. It has also restricted the ability to participate in acquisitions or construction of new facilities secured by leases. The change in this statute will result in a more efficient means of municipal building finance.