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Member

House Finance Committee

Representative Mike Kelly

House District 7

Sponsor Statement – HB 184

HB184 adjusts the current bond debt cap for the University of Alaska to reflect today's construction prices. Current Alaska Statute allows the University of Alaska to borrow money, issue debt or enter into long-term obligations for the purchase of facilities, goods or services without having to provide notice to the legislature as long as the annual debt service payment doesn't exceed \$1.0 million. HB184 bumps up the threshold to \$2.5 million.

The current bond debt cap limit of \$1.0 million was originally issued in 1990. At that time, \$1.0 million in annual debt service was the cost of financing a \$15.0 million capital project. Taking into account construction inflation in Alaska, a \$15.0 million capital project built in 1990 would cost about \$40.0 million today. Annual debt service on \$40.0 million is \$2.5 million assuming a 4.5% interest rate and a 25-year straight line amortization.

The University has operated a viable debt program over the last 18 years. It has issued 14 general revenue bonds plus other financing arrangements that have been critical in securing funding for capital projects. The University has never suffered a rating downgrade. In fact, in December 2007, Moody's Investor Service upgraded the University credit rating to Aa3. The University continues to monitor its debt capacity and compliance with tax exempt bond covenants. Currently, the amount of debt service outstanding is \$11.2 million. This is less than half the Board of Regents' policy limit of 5% of unrestricted revenues which is \$26.2 million for FY08. This equates to \$127 million in outstanding debt with the ability to issue a total of \$317 million in debt.

By increasing the bond debt cap approval level, the administrative burden of compliance with the statute for smaller bond issues would be reduced for both the legislature and the University. At the same time, legislative oversight would be retained for larger financings.

I would appreciate your support for HB184.