

BILL ANALYSIS

Analysis of Bill/Program Effects/Anticipated Impact to the Public, Including Private Sector:

The Bill allows for the continued operation of the Alaska Municipal Bond Bank by increasing the borrowing limit of the Bond Bank from \$1 billion to \$1.5 billion. The Bond Bank has saved an estimated \$67 million in borrowing costs over the last five years through the issuance of \$578 million of bonds. Following the most recent bond issue of the Bond Bank there were bonds outstanding in the amount of \$908 million leaving a remaining capacity of \$92 million. Bond issues currently underway are anticipated to exceed \$80 million and will use most of the remaining cap.

The Bond Bank is a public corporation of the State of Alaska that borrows money primarily by issuing tax exempt bonds and lends it to political subdivisions of the state. The Bond Bank is able to use State of Alaska credit support in the form of a moral obligation pledge backed with an annual appropriation to achieve AA+ credit ratings and leverage those ratings into lower interest rates than municipalities would be able to borrow at independently. In this case the moral obligation has been costless to the State of Alaska as every loan that the Bond Bank has entered into over the past 39 years has been repaid. The State has benefited from the Bond Bank programs as the savings through lower interest rate are passed back to the State through reduced payment requirement in reimbursement programs like the School Debt Reimbursement Program and the Department of Transportation reimbursement program as well as through reduced capital costs reimbursements for medicare eligible facilities.

SECTIONAL ANALYSIS

Detailed Section Analysis:

Section 1 – identifies the financing need of the University of Alaska

Section 2 – identifies assisting the University of Alaska with financing a heating or energy capital project is a policy of the state

Section 3 – Adds the University of Alaska to the allowed list of Bond Bank activity.

Section 4 – Adds reference to the special limitation on University bonds.

Section 5 - increases the borrowing limit of the Bond Bank from \$1 billion to \$1.5 billion. This will allow the Bond Bank to have up to \$500 million of additional bonds outstanding. Without this increase in borrowing limit it is likely that over the next 12-18 months the Bond Bank will have fully utilized the current borrowing limit and municipalities will have to borrow funds at higher rates. The State has chosen to increase the borrowing limit for the bond bank most recently in 2010 from \$750 million to \$1 billion, and prior to that from \$500 million to \$750 million in 2006.

Section 6 – limits the University participation to \$150 million

Section 7 – allows for earnings of the reserve fund to be retained as part of the reserve fund rather than transmitted to the General Fund. The State has appropriated these amounts back to the Bond Bank for the last 7 years, and for the last two years the excess earnings have been zero. The Bond Bank holds both appropriated and non-appropriated funds and the need to track earnings on just a portion of those funds has created administrative burden. The statute change will allow for a streamlining of

tracking assets and earnings as well as simplify annual administration process for relatively small amounts of funding. Whether the statute is changed or not the entire unobligated balance of net position of the Bond Bank may be appropriated for other purpose by the Legislature. The change provides for administrative streamlining and efficiency.

Section 8 adds University of Alaska to the defined issuers of municipal bonds that the Bond Bank can participate in the purchase of.

Language for Transmittal Letter:

The bill would increase the Alaska Municipal Bond Bank Authority's total outstanding bond limit by \$500,000,000, from \$1,000,000,000 to \$1,500,000,000. Because the Alaska Municipal Bond Bank's current outstanding bonds and notes are close to reaching the current statutory cap of \$1,000,000,000, to continue helping Alaska communities borrow with low interest rates, the Alaska Municipal Bond Bank's statutory cap needs to be increased. The estimated cost to the State from the increase in the bond limit is zero, but the benefit to Alaska's municipalities and, in part, the State from lower interest rates is projected in the tens of millions. The bill also would allow the Alaska Municipal Bond Bank to retain in the Alaska municipal bond bank authority reserve fund the investment income earned on funds appropriated to the reserve fund. This will allow for a reduction of annual administrative and accounting effort and correlated increase in operational efficiency with the retention of ultimate financial control at the State level.

