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Senate Bill 191 General Obligation Bond Fund Transfer

Sponsor Statement

Senate Bill 191 proposes amending AS 37.10.087 to provide targeted flexibility in the management of the issuance of General Obligation (GO) Bonds by the State Bond Committee. The changes proposed in SB 191 will allow for better management of GO bond-funded construction funds or accounts, and ensure compliance with Internal Revenue Service code.

SB 191 authorizes a 15-month loan from the General Fund to a GO Bond construction fund, when the fund has been temporarily exhausted. This change in statute will allow for increased certainty in project schedule and cash flow, provide greater ability for the State Bond Committee to respond to unforeseen increases in project expenditures from the construction fund, and allow the State Bond Committee greater flexibility in executing bond sales.

The changes proposed in SB 191 will allow for better management of the bond-funded construction accounts, which has become a more serious challenge with changes that have occurred in the IRS code, since these statutes were enacted. The IRS code mandates that states expend all bond proceeds progressively within a three-year window following the bond sale. A failure to meet this requirement will not automatically result in a negative action against an issuer, but the increasing frequency of this practice increases the potential for enforcement by the IRS.

Recently, the State has earned less on the investment of the bond proceeds than the State has paid in interest on the bonds, which has totaled millions of dollars to the State. The investment proceeds of the bond's investment earnings must be tracked to final expenditure and extended construction fund life creates an administrative burden. The IRS code requires that money used to advance-fund bond issuance be repaid by bond proceeds within 18 months. Implementing a firm limit of 15 months on the length of transfer between the General Fund and the bond construction fund ensures compliance with the IRS requirement.

Under SB 191, if the transfer of funds between the General Fund and the general obligation bond construction fund exceeds 25 percent of the total amount authorized, the transfer must be approved by the Legislative Budget & Audit Committee. In instances where the transfer does not exceed 25 percent, the Commissioner of the Department of Administration will notify the Legislative Budget & Audit Committee, in writing, of the transfer.