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SENATE FINANCE COMMITTEE

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CS SB 218 (FIN)
Alaska Municipal Bond Bank Authority

Sponsor Statement

Senate Bill 218 (FIN) allows for the continued operation of the Alaska Municipal Bond Bank (AMBB) by increasing the borrowing limit of the AMBB from \$1 billion to \$1.5 billion.

The AMMB is a public corporation of the State of Alaska that borrows money primarily by issuing tax exempt bonds and lends it to the political subdivisions of the state. The AMBB 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. The AMBB is able to 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 AMBB has entered into over the last 39 years has been paid.

The AMBB 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, 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.

Without the proposed increase in the borrowing limit, it is likely that over the next 12-18 months the AMBB will have fully utilized the current borrowing limit and municipalities may be subjected to borrowing funds at higher rates. The borrowing limit for the AMBB was raised most recently in 2010 from \$750 million to \$1 billion. In 2006, the borrowing limit was raised from \$500 million to \$750 million.

CS SB 218 (FIN) further provides that the University of Alaska may utilize the AMBB for the purpose of issuing debt, in an amount not to exceed \$150 million. CS SB 218(FIN) identifies the financing needs of the University of Alaska and that assisting the University of Alaska with the financing of a combined heat and power plant will assist in minimizing costs and the effects on the debt capacity of the University of Alaska.

CS SB 218 (FIN) also provides the legislative approval, required under AS 14.40.253, for the issuance of University of Alaska revenue bonds and for the University of Alaska to borrow money and enter into a loan agreement with the AMBB for the purpose of design, construction, acquisition, and equipping a new heat and power plant at the University of Alaska Fairbanks.