

**ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS
STANDING COMMITTEE**

March 11, 2003
9:05 a.m.

MEMBERS PRESENT

Representative Kelly Wolf, Vice Chair
Representative Tom Anderson
Representative Mike Chenault
Representative Ralph Samuels
Representative Sharon Cissna

MEMBERS ABSENT

Representative Carl Morgan, Chair
Representative Albert Kookesh

COMMITTEE CALENDAR

SENATE BILL NO. 51

"An Act relating to revenue bonds issued by the Alaska Municipal Bond Bank Authority and the total amount of bonds and notes outstanding of that authority; and providing for an effective date."

- MOVED SB 51 OUT OF COMMITTEE

PREVIOUS ACTION

BILL: SB 51

SHORT TITLE: BONDS OF BOND BANK AUTHORITY

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

Jrn-Date	Jrn-Page		Action
01/31/03	0088	(S)	READ THE FIRST TIME - REFERRALS
01/31/03	0088	(S)	CRA, FIN
01/31/03	0088	(S)	FN1: ZERO(REV)
01/31/03	0089	(S)	GOVERNOR'S TRANSMITTAL LETTER
02/12/03		(S)	CRA AT 1:30 PM FAHRENKAMP 203
02/12/03		(S)	Moved Out of Committee
02/12/03		(S)	MINUTE(CRA)
02/14/03	0186	(S)	CRA RPT 3DP
02/14/03	0186	(S)	DP: WAGONER, ELTON, LINCOLN
02/14/03	0186	(S)	FN1: ZERO(REV); FN2:

			ZERO(CED)
02/27/03		(S)	FIN AT 9:00 AM SENATE FINANCE 532
02/27/03		(S)	Moved Out of Committee
02/27/03		(S)	MINUTE(FIN)
02/28/03	0294	(S)	FIN RPT 6DP 1NR
02/28/03	0294	(S)	DP: GREEN, WILKEN, TAYLOR, HOFFMAN,
02/28/03	0294	(S)	BUNDE, STEVENS B; NR: OLSON
02/28/03	0294	(S)	FN1: ZERO(REV); FN2: ZERO(CED)
03/03/03	0320	(S)	RULES TO CALENDAR 3/3/2003
03/03/03	0320	(S)	READ THE SECOND TIME
03/03/03	0320	(S)	ADVANCED TO THIRD READING 3/4 CALENDAR
03/04/03	0334	(S)	READ THE THIRD TIME SB 51
03/04/03	0335	(S)	PASSED Y18 N- E1 A1
03/04/03	0335	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
03/04/03	0344	(S)	TRANSMITTED TO (H)
03/04/03	0344	(S)	VERSION: SB 51
03/05/03	0392	(H)	READ THE FIRST TIME - REFERRALS
03/05/03	0392	(H)	CRA, FIN
03/11/03		(H)	CRA AT 9:00 AM CAPITOL 124

WITNESS REGISTER

DEVEN MITCHELL, Executive Director
 Alaska Municipal Bond Bank Authority (AMBBA)
 Department of Revenue;
 Debt Manager, Treasury Division, Department of Revenue
 Juneau, Alaska
 POSITION STATEMENT: Discussed the need for SB 51.

ACTION NARRATIVE

TAPE 03-8, SIDE A
 Number 0001

VICE CHAIR WOLF called the House Community and Regional Affairs Standing Committee meeting to order at 9:05 a.m. Representatives Wolf, Anderson, Samuels, and Cissna were present at the call to order. Representative Chenault arrived as the meeting was in progress.

SB 51-BONDS OF BOND BANK AUTHORITY

VICE CHAIR WOLF announced that the only order of business would be SENATE BILL NO. 51, "An Act relating to revenue bonds issued by the Alaska Municipal Bond Bank Authority and the total amount of bonds and notes outstanding of that authority; and providing for an effective date."

Number 0125

DEVEN MITCHELL, Executive Director, Alaska Municipal Bond Bank Authority (AMBBA), Department of Revenue; Debt Manager, Treasury Division, Department of Revenue, explained that SB 51 increases the statutory cap on total borrowing of AMBBA from \$300 million to \$500 million. Additionally, the annual limitation on the ability to issue revenue bonds is increased from \$50 million to \$75 million. Both changes were requested in light of the use of AMBBA by municipalities to finance capital projects and receive some of the advantages available through the structure offered by AMBBA.

MR. MITCHELL informed the committee that AMBBA, which is basically a conduit borrower, is a public corporation that was created in 1975. He explained that AMBBA, which has A credit, borrows money on the capital market. Due to AMBBA's credit structure, its reserves, and its ability to provide security to bond holders, AMBBA is able to issue bonds efficiently. The bond insurers provide a means for becoming a triple A credit, then the bonds can be insured such that an insurance firm guarantees the bond holders will be paid triple A rated. A premium is charged to do the aforementioned. He noted that AMBBA receives very competitive bids. Therefore, AMBBA's efficiencies and strong credit rating allow it to obtain capital for projects at a lower cost.

Number 0361

MR. MITCHELL related that this year the revenue program has done a loan to the following entities for the amount specified: Ketchikan Public Utility for \$6 million, City & Borough of Juneau for a port project and a hospital expansion, and a hospital in Valdez. The combination of these revenue projects exceed the \$50 million cap. Therefore, the request for the increase from \$50 million to \$75 million. He highlighted that the savings the City & Borough of Juneau will experience with the hospital expansion is calculated to be \$7 million. Mr. Mitchell explained, "So, it's not taking money from the general fund and giving it to them [rather] it's taking money out of the

pocket of investors that would otherwise they would charge a higher premium or higher interest rate on their money because of perceived risk." The AMBBA is able to lower that perceived risk and pass on savings to the local communities. Mr. Mitchell noted that AMBBA also has general obligation loan applications from the Lake and Peninsula Borough, the Kenai Peninsula Borough, and the Ketchikan Gateway Borough. He noted his expectation that there will be other loan applications coming.

MR. MITCHELL turned to the need for the increase in the \$300 million cap. He explained that at the beginning of the fiscal year AMBBA has about \$220 million in outstanding bonds. If all of AMBBA's bonds were issued immediately, AMBBA would exceed the \$50 million cap as well as the \$300 million cap. He highlighted that the bonds are project driven and have no cost to the general fund because it's a pledge of resources that already exist at AMBBA. Mr. Mitchell said this is worth the review of the committee because these are moral obligation bonds of the state and thus in the event of a default, there would be a draw from the reserve fund and the state would be asked to replenish that reserve fund.

Number 0640

REPRESENTATIVE CISSNA asked whether now is a good time to do this.

MR. MITCHELL answered that the bond market is especially attractive due to the interest rates. He related that in review of the last 40 years, 98 percent of the time interest rates were higher than currently.

REPRESENTATIVE SAMUELS asked if this legislation would impact the state's bond rating.

MR. MITCHELL clarified that the state's bond rating impacts the bond rating of the public corporations of the state, whether it's AMBBA, the Alaska Industrial Development and Export Authority (AIDEA), or the Alaska Housing Finance Corporation (AHFC). He related his belief that AMBBA couldn't as easily influence the state's rating.

MR. MITCHELL returned to his earlier mention that AMBBA will save money for municipalities as well as the state. He explained that many of the loans are for municipalities participating in the school debt reimbursement program. When that [reimbursement] happens, 60-70 percent of the funding under

the current authorization can be paid by the state through reimbursement. For example, the Northwest Arctic Borough has the ability to issue \$100 million in general obligation bonds for school construction while only \$48 million have been issued. He pointed out that as far as an outsider's credit perspective, the Northwest Arctic Borough is the Red Dog Mine, the community's only source of revenue. Therefore, the community's economy isn't diversified and is based on mining, which analysts tend to not like, and furthermore it's very remote. Therefore, going from a noninvestment grade credit to an A credit is significant on \$48 million. Mr. Mitchell estimated that savings to the state has been \$5-\$6 million over the life of those bonds.

Number 1016

REPRESENTATIVE ANDERSON inquired as to which municipalities would benefit the most from this [legislation]. He also inquired as to the consequences were SB 51 not to pass.

MR. MITCHELL noted that Valdez is very concerned about [the passage of this legislation] for the short-term because Valdez has a revenue bond project that it would like to move forward. If AMBBA doesn't have the ability to issue more than \$50 million in revenue bonds this fiscal year, Valdez would be looking at two series of bonds which would result in an increased cost to AMBBA and Valdez. Mr. Mitchell said he didn't know which community would benefit from the overall cap increase. However, those communities that would benefit the most are those in the weakest credit position. He pointed out that AMBBA works with communities as strong as the Kenai Peninsula Borough when there is a transaction of a size that doesn't necessarily warrant the process of issuing bonds independently.

MR. MITCHELL turned to the question of the consequences if SB 51 didn't pass and stated that AMBBA wouldn't be able to issue bonds after reaching the cap. He noted that the cap is rolling and much of the debt is only 10-year debt and thus AMBBA's debt declines fairly quickly. However, [recently] there have been high growth years. For example, in 1990 AMBBA had about \$180 million in outstanding bonds which has risen to \$220 million, and this year there will be about seven deals.

Number 1243

VICE CHAIR WOLF asked if a default on one of these bonds would place the state's assets, such as the permanent fund dividend, at risk.

MR. MITCHELL replied no because with a public corporation there is no broad-reaching authority; the pledges given are limited to that public corporation other than the state guaranteed AHFC bonds for which there vote [is required].

VICE CHAIR WOLF asked if municipalities can partner with private enterprise in order to use bonds to fund projects.

MR. MITCHELL responded yes, but noted that there are limitations; it depends upon whether tax exempt or taxable bonds are used, he said. If there is a situation in which a private entity benefits from a project, then there are limitations on their ability to use tax exempt bonding. He noted that a private activity cap allocation can be used for certain things such as ports and harbors that are exempted. Therefore, such bonds could be used without [applying] to the cap. Furthermore, AIDEA and AHFC can do things along that line as well. He mentioned that the City & Borough of Juneau's hospital expansion involves private management firms, although it's not going to be privately owned. As long as it's a public project for the general public to use, [the loan] is basically in the tax exempt arena. Mr. Mitchell noted that there has been discussion of tax increment financing transactions in Anchorage. He likened the tax increment financing to a limited improvement district (LID).

Number 1503

REPRESENTATIVE SAMUELS moved to report SB 51 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, SB 51 was reported from the House Community and Regional Affairs Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:25 p.m.