

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 12, 2003

1:30 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Georgianna Lincoln
Senator Kim Elton

MEMBERS ABSENT

Senator Robin Taylor

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

SB 51 - No previous action to record.

WITNESS REGISTER

Deven Mitchell
Alaska Municipal Bond Bank
Department of Revenue
PO Box 110405
Juneau, AK 99811-0405
POSITION STATEMENT: Testified on SB 51

Dave Dengel
Valdez City Manager
P.O. Box 307
Valdez, Alaska 99686
POSITION STATEMENT: Testified on SB 51

ACTION NARRATIVE

TAPE 03-3, SIDE A

CHAIR THOMAS WAGONER called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:30 p.m. Present were Senators Elton, Lincoln and Chair Wagoner.

The business to come before the committee was SB 51.

#SB 51

SB 51-BONDS OF BOND BANK AUTHORITY

DEVEN MITCHELL, Executive Director Alaska Municipal Bond Bank Authority (MBBA), testified via teleconference to explain the bill requests a twofold increase in the statutory lending limit for the bond bank. First is a request to increase the cumulative limit on borrowing from \$300 million to \$500 million. This request is in anticipation of reaching the \$300 million limit this fiscal year and exceeding the limit next fiscal year. The second request is to increase the annual limit from \$50 million to \$75 million.

The MBBA is a public corporation of the State of Alaska created in 1975 whose purpose is to reduce the cost of capital for Alaskan municipalities. This in turn reduces the cost of capital for the state since the state participates in local borrowing through the school debt reimbursement and other reimbursement programs. The requested increase does not have a direct cost to the general fund because the MBBA has sufficient reserves in place to continue the program using the same structure for future borrowers.

The MBBA saves money for communities by issuing MBBA bonds on the open market. They are secured by the underlying credit of the municipality applying for the loan, the ability to intercept certain state revenues that might flow to a community if there were a default, and a moral obligation pledge by the State of Alaska. The combination of credit features results in a strong investment grade rating for the bonds and correlates to a lower cost of capital for projects. Also in the equation is how frequent the bond bank is in the market, name recognition in the market place, and project efficiency.

The request for quick action stems from the fact that current applications exceed the annual limit on revenue bond issuance. To date Juneau revenue bonds have been approved and Ketchikan Public Utilities has issued a revenue bond. The \$19 million revenue bond application from the City of Valdez would put the annual total above the \$50 million cap. If the authorization is not in place in a timely manner, either two series of bonds

would be required or Valdez would have to fund the project in another way. Either option would increase costs to the city.

SENATOR ELTON asked for verification that neither the change to the annual cap nor the change to the ultimate cap affects the bond ratings.

MR. MITCHELL verified there would be no impact to the bond ratings. The way MBBA borrows and secures money would remain the same for future borrowings.

SENATOR LINCOLN asked when the \$50 million cap was last adjusted.

MR. MITCHELL didn't believe it had ever been adjusted. The revenue program of the bond bank came into existence much later than the general obligation program. Revenue bonds were first issued through the bond bank in the early 1980s and that cap was put in place in 1983 as part of the legislation that allowed revenue bond issuance. He opined the caps were put in place because the bond bank issues bonds that are moral obligations of the State of Alaska meaning there is a reserve fund that is pledged to the bonds and if a community fails to pay the debt service then the state would pay whomever bought the bonds. The reserve fund would be used to pay the debt service and MBBA would subsequently ask the legislature to replenish the reserve. That has never happened in the history of the bond bank, but it is worthy of consideration and why limits were placed in statute.

There were no further questions for Mr. Mitchell.

DAVE DENGEL, Valdez City Manager, testified via teleconference in support of SB 51. If the annual limit is not increased, the city will be required to issue a \$14 million bond in March and a \$5 million bond after July 1st. Issuing two bonds rather than one would cost the city an additional \$9 thousand, which is money that could be more productively spent elsewhere.

There was no further testimony.

CHAIR WAGONER called for a motion to move the bill from committee with unanimous consent.

SENATOR LINCOLN made a motion to move SB 51 from committee with individual recommendations.

There being no objection it was so ordered.
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CHAIR WAGONER announced there would be no meeting on Wednesday February 19, 2003 so members could attend the HES meeting.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at 1:50 p.m.