

HOUSE FINANCE COMMITTEE
May 1, 2006
8:44 a.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:44:25 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

None

ALSO PRESENT

Kimberly Carnot, Staff, Senator Steadman; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Victor Winters, State Harbors Engineer; John Stone, Alaska Association of Harbor Masters; Kathie Wasserman, Alaska Municipal League; John Walsh, Bristol Bay Borough; Peter Ecklund, Staff, Representative Kevin Meyer; Joe Dubler, Director of Finance, Alaska Housing Finance Corporation

PRESENT VIA TELECONFERENCE

There were no teleconference participants.

SUMMARY

SB 265 An Act increasing the total amount of bonds and notes that the Alaska Municipal Bond Bank Authority may have outstanding; and providing for an effective date.

SB 265 was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note by the Department of Revenue: #1.

CS SB 291(CRA)

An Act relating to the municipal harbor facility grant program; and providing for an effective date.

CS SB 291 (CRA) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note by the Department of Transportation and Public Facilities: #1.

HB 381

"An Act relating to the financing of construction, major maintenance, and renovation of facilities for the University of Alaska; relating to the financing of construction of a correctional facility; authorizing the commissioner of revenue to sell the right to receive a portion of the anticipated revenue from a tobacco litigation settlement to the Northern Tobacco Securitization Corporation, with the proceeds of that sale to finance construction, major maintenance, and renovation of facilities for the University of Alaska and to finance the construction of a correctional facility; providing for the establishment of funds for deposit of those proceeds; authorizing the issuance of bonds by the Northern Tobacco Securitization Corporation for the purpose of acquiring the right to receive a portion of anticipated revenue from a tobacco litigation settlement; and providing for an effective date."

HB 381 was heard and HELD in Committee.

#sb265

SENATE BILL NO. 265

An Act increasing the total amount of bonds and notes that the Alaska Municipal Bond Bank Authority may have outstanding; and providing for an effective date.

KIMBERLY CARNOT, STAFF, SENATOR STEADMAN (SPONSOR), provided testimony on SB 265. She observed that SB 265 seeks to increase the bond authority of the Municipal Bond Bank from \$500,000,000 to \$750,000,000. In 2003, the limit was increased from \$300 million to \$500 million. The Alaska Municipal Bond Bank helps municipalities by lowering the borrowing cost for participants through bond issuances, creating economies of scale, and leveraging the borrowing power and credit worthiness of the state of Alaska. Since 1975, the Bank has helped Alaskan communities secure over \$800 million in financing for public work projects. At the same time the Municipal Bond Bank has returned \$26.9 million in excess earnings to the state. This year the Bank will return a \$652 thousand dividend to the citizens of Alaska. Last year, \$23 million in bonds were issued to Alaskan

communities, which saved those communities \$16.7 million in issuance and interest costs. She gave examples of municipal bond projects. The Bank has approximately \$80 million in pending applications and only \$50 million in borrowing capacity.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, testified regarding the bill. The Department supports the increased cap. He pointed out that increased demand reflects greater capital infrastructure development at the local level, to replace historical expenditures by the state of Alaska.

Representative Weyhrauch asked regarding the state's credit rating. Mr. Mitchell explained that the Bond Bank has an A1 rating from Moody's, and an A rating from Standard and Poor's. The state is lobbying Standard and Poor's to considered an A+ rating. The ratings are a combination of various methods. The Bond Bank has an AAA rating, due to the diversity of entities that borrow in their pool; the state of Alaska has an AA rating, and has a more limited and less diverse pool of borrowers. The credit rating is based on that pool and the moral obligations of the State. The value of the pool analysis is diminished by the largest borrower in the program: Northwest Artic Borough, which has the ability to deplete the reserve. There is a pool of \$30 million for the main Bond Bank program. The Bank would not have the ability to pay off a default by the Northwest Artic Borough, which has \$70 million outstanding; this creates a negative consideration.

In response to a question by Representative Weyhrauch, Mr. Mitchell explained that the bill would allow the Bond Bank to facilitate transactions issued through a subsidiary of the Bond Bank, whether or not they would be backed by the moral obligation of the State. There are no negative rating actions for the main Bond Bank programs or issuances.

Representative Weyhrauch observed that the authority had been increased in 1984 and 2003; and that the increase curve of \$250 million was quite steep. He wondered whether the bond requests could be financed with \$750 million, given the current state financial climate. He questioned if the limit would have to be raised further to reflect pension obligations.

Mr. Mitchell noted that there would not be an impact from [pension] obligations. He acknowledged that there might be a need to raise the cap at another date, but felt that it would be appropriate to return to the legislature for a further increase. He thought \$750 million would be sufficient.

[8:55:33 AM](#)

Representative Hawker expressed full support of the bill. He observed that the Governor's office had previously stated it would be inappropriate to expand the authority and asked what had changed in the past ninety days. Mr. Mitchell could not respond to the question.

Representative Foster MOVED to REPORT SB 265 out of Committee with the previously published fiscal note and individual recommendations. There being NO OBJECTION, it was so ordered.

SB 265 was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note by the Department of Revenue: #1.

CS FOR SENATE BILL NO. 291(CRA)

An Act relating to the municipal harbor facility grant program; and providing for an effective date.

KIMBERLY CARNOT, STAFF, SENATOR STEADMAN testified, on behalf of the sponsor, in support of the bill. She observed that SB 291 creates a Municipal Harbor Facility Grant program to address statewide deferred maintenance and capital upgrades to harbor facilities; it creates a 50/50 matching program. The Water Craft Fuel Tax and Fisheries Business tax would be used for the state share. She maintained that the fund sources are appropriate because coastal communities, which benefit, would also generate the grant funds. Municipalities must show their ability to take full financial ownership of the harbors in order to qualify. It would be a one-time infusion of funds to bring deferred maintenance up to date. Municipalities are eligible for only one grant [for each harbor], per year. Each grant is capped at \$5 million in a fiscal year. Individual harbors are only eligible for one grant under the program.

[8:59:47 AM](#)

In response to a question by Representative Weyhrauch, Ms. Carnot reiterated that individual harbors are eligible for one grant under the program; municipalities may have more than one harbor and could qualify for up to \$5 million for each harbor. She clarified that funding from one grant could not be transferred to another harbor grant.

Representative Weyhrauch asked who would be the granting agency. Ms. Carnot observed grants are matching. The state portion would not require the obligation to be repaid.

[9:02:46 AM](#)

Ms. Carnot observed that the program is discretionary with an unspecified beginning and ending date.

[9:03:20 AM](#)

Representative Hawker referred to a similar bill about which he held reservations. He expressed support for the current bill, but stated his belief that the State would be better off with a statewide transportation bond.

[9:04:21 AM](#)

Representative Weyhrauch asked if the sponsor intended to exclude areas not known as harbors, but as boat launchings or docks. Ms. Carnot noted that the initial intent was to deal with harbors transferred from the State to local communities. Although these harbors would not be excluded, they would have to meet the requirements of the program to qualify.

[9:05:36 AM](#)

Ms. Carnot explained that a municipality that owns a harbor facility may submit an application. The grant may be used for construction, maintenance or repair.

Representative Weyhrauch observed that in some areas what would normally be called a boat launch may serve as a harbor and questioned if it were the intent to exclude such projects. Ms. Carnot confirmed that there was no intent to exclude boat launches, although it was not part of the initial impetus of the bill. Ms. Carnot confirmed that interaction between the municipality and Department of Transportation and Public Facilities would determine what would qualify.

[9:09:08 AM](#)

VICTOR WINTERS, STATE HARBORS ENGINEER, testified. He noted that several boat launches had been transferred from the state to local communities and that these would be eligible. Representative Weyhrauch summarized that the legislation would provide money for facilities transferred from the State to municipalities. Mr. Winters responded that harbors would have the first priority; other programs could be considered subsequently. Representative Weyhrauch questioned if facilities would have to have been transferred by the State. Mr. Winters affirmed that other projects could be considered as a lower priority.

[9:11:15 AM](#)

JOHN STONE, ALASKA ASSOCIATION OF HARBOR MASTERS, commented on the bill. He noted that all 27 communities in the

Association are supportive of the bill, as an effort to restore the harbor infrastructure. He stated that small businesses are impacted by the harbor system.

Responding to a reference to Representative Weyhrauch's question, Mr. Stone commented that all the boat launches would be eligible, with the first priority going to supporting the transferred infrastructure, and then to any new construction. He referred to qualifications, for example providing 50 percent of the funding, as well as adequate property loss insurance and a preventive maintenance plan.

[9:13:47 AM](#)

KATHIE WASSERMAN, ALASKA MUNICIPAL LEAGUE, spoke in support of the legislation and noted that the harbors are the lifeblood of any community. She commented that safe and improved harbors encouraged sport, tourism and commercial boats to enter communities. She expressed their support of the bill, and commended the idea of the fifty percent match requirement.

[9:15:00 AM](#)

Representative Kelly referred to the earlier question, and asserted that the bill pertained to facilities transferred to the municipality from the State. Ms. Wasserman thought that the Title must be transferred.

[9:15:39 AM](#)

Representative Weyhrauch questioned the need for title.

[9:16:55 AM](#)

Representative Kelly referred to language on page 3, line 5:

(b) The Department of Transportation and Public Facilities shall award a grant for every proposed project eligible under AS 29.60.810 that is for repair and major maintenance of a harbor facility that was transferred by the state to a municipality before grants may be made for other proposed harbor facility projects during a fiscal year. [Underline emphasized by Representative Kelly]

[9:18:48 AM](#)

Ms. Carnot clarified that the sentence referred to by Representative Kelly, went on to state "before grants can be made for other proposed harbor facility projects". She confirmed that the Department of Transportation and Public Facilities would prioritize the projects yearly.

[9:19:52 AM](#)

JOHN WALSH, BRISTOL BAY BOROUGH, testified regarding the bill. There are two tiers established under the bill, addressing the needs of the harbors that have been transferred and require more funds to bring them to code. The Bristol Bay Borough funded their dock. He noted that the facility needed to be rebuilt, but that it was uncertain whether they would apply for this fund. He stressed that the program may assist communities in their development. He acknowledged that a tier system exists in the bill, but stressed that future development is a need and priority. He pointed out that the program includes a local match. He emphasized that the program represents a hope for these communities.

[9:22:25 AM](#)

Representative Stoltze observed that there was a zero fiscal note from the Department of Transportation and Public Facilities.

Representative Foster asked how the fiscal note could be zero. Ms. Carnot explained that the grant was subject to appropriation; no funds were included for the legislation.

Representative Foster MOVED to report SB 291 out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 291 (CRA) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note by the Department of Transportation and Public Facilities: #1.

[9:25:31 AM](#)

HOUSE BILL NO. 381

"An Act relating to the financing of construction, major maintenance, and renovation of facilities for the University of Alaska; relating to the financing of construction of a correctional facility; authorizing the commissioner of revenue to sell the right to receive a portion of the anticipated revenue from a tobacco litigation settlement to the Northern Tobacco Securitization Corporation, with the proceeds of that sale to finance construction, major maintenance, and renovation of facilities for the University of Alaska and to finance the construction of a correctional facility; providing for the establishment of funds for deposit of those proceeds; authorizing the issuance of bonds by the Northern Tobacco Securitization Corporation for the purpose of acquiring the right to

receive a portion of anticipated revenue from a tobacco litigation settlement; and providing for an effective date."

PETER ECKLUND, STAFF, REPRESENTATIVE KEVIN MEYER, noted that a proposed committee substitute would be available in the afternoon.

JOE DUBLER, DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, testified regarding the bill. He noted their affiliation with Northern Tobacco Securitization Corporation (NTSC), which is the issuer of the tobacco bonds. The original bill only allowed sale of residual interests of the tobacco receipts that the state of Alaska receives under the settlement agreement. The residual interest starts in 2015 or 2016. This would require NTSC to sell capital appreciation or zero coupon bonds, which are commonly referred to as CAB. He noted problems in the "CAB" market recently, which have caused problems in a Fresno transaction. He stated that they became uncomfortable with CAB as the vehicle for bond sales since the market is drying up quickly. The anticipated committee substitute would allow for a full restructure of the existing debt and a securitization of the residual interest that would revert to the State once the bonds pay off. It would include refunding to maximize bond proceeds that the state has pledged. He explained that the initial two transactions limited the amount to assure [a return of]: \$93 million and \$113 on the transactions. To receive these proceeds the debt service was shortened.

[9:28:44 AM](#)

In response to a question by Representative Weyhrauch, Mr. Dubler provided more information on the Fresno transaction, which pertained to the Oppenhemier Fund. The Fund became too aggressive and they tried to lower their over collateralization, which caused an investor to cash in.

[9:30:20 AM](#)

Representative Weyhrauch referred to earlier testimony and discussion about transactions timing to maximize benefit. Mr. Dubler proposed that the timing was not as beneficial at this time as it was in October 2005, due to rates and the behavior of CAB vehicles. He noted that as far as interest spreads, the situation was the same. Responding to a follow up question, Mr. Dubler commented that rising interest rates would cost the transaction somewhat.

[9:32:06 AM](#)

Representative Weyhrauch asked when the State would proceed. Mr. Dubler observed that NTSC would begin moving immediately

once it is effective and would generally take 90 days to complete the transactions.

[9:32:37 AM](#)

Representative Foster asked whether there was a companion Senate Bill. Mr. Ecklund believed that the intent was to move HB 381, but acknowledged that SB 243 was a companion. He clarified that Board approval was not needed.

[9:33:11 AM](#)

Representative Stoltze HELD the bill in Committee for further public discussion.

HB 381 was heard and HELD in Committee.

#hb381

ADJOURNMENT

The meeting was adjourned at 9:34 AM