

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 15, 2006

1:35 p.m.

MEMBERS PRESENT

Senator Bert Stedman, Chair

MEMBERS ABSENT

Senator Gary Stevens, Vice Chair

Senator Thomas Wagoner

Senator Johnny Ellis

Senator Albert Kookesh

COMMITTEE CALENDAR

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."

HEARD AND HELD

SENATE BILL NO. 248

"An Act relating to administrative boroughs; relating to municipal school districts; relating to standards for incorporation of boroughs and unified municipalities; eliminating obsolete provisions relating to a third class borough and making technical changes to statutes relating to regional educational attendance areas; and relating to new borough grants for certain newly incorporated boroughs and unified municipalities."

SCHEDULED BUT NOT HEARD

SENATE BILL NO. 193

"An Act relating to an optional deferral of municipal property taxes on certain primary residences owned and occupied by individuals with incomes at or below federal poverty guidelines for the state."

SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 265

SHORT TITLE: BONDS OF BOND BANK AUTHORITY

SPONSOR(S): SENATOR(S) STEDMAN

02/03/06 (S) READ THE FIRST TIME - REFERRALS
02/03/06 (S) CRA, FIN
02/15/06 (S) CRA AT 1:30 PM BELTZ 211

WITNESS REGISTER

Miles Baker, Staff to Senator Stedman
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Introduced SB 265

Deven Mitchell, Executive Director
Municipal Bond Bank
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Discussed the Bond Bank Authority and answered questions related to SB 265

Kathie Wasserman, Deputy Director
Alaska Municipal League
Juneau, AK 99801
POSITION STATEMENT: Testified in support of SB 265

ACTION NARRATIVE

CHAIR BERT STEDMAN called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:35:23 PM. Chair Bert Stedman was present.

SB 265-BONDS OF BOND BANK AUTHORITY

1:36:17 PM

CHAIR BERT STEDMAN announced SB 265 to be up for consideration. He invited Mr. Baker to come forward and introduce the bill.

1:37:09 PM

MILES BAKER, Staff to Senator Stedman, explained the bill seeks to increase the bonding authority of the Alaska Municipal Bond Bank from the current \$500 million statutory cap to \$750

million. This would be the first increase since 2003 when the cap was raised from \$300 million to \$500 million.

The Alaska Municipal Bond Bank was designed to help communities secure financing for public works projects and since its inception in 1975 it has helped with financing for over \$800 million in public works projects. In that time it returned \$26.9 million in excess earnings to the state in the form of dividends.

In FY05 the authority issued \$123.0 million in bonds, which funded \$119 million in 20 loans to 16 communities across the state. Based on the bond issuances in FY06, the bank should return dividends of \$652,000. Recent projects include:

- School construction in Kodiak, Petersburg, Sitka and Ketchikan
- Harbor improvements in Adak
- Hospital in Juneau
- Street Improvements in North Pole
- Ice Rink in Palmer
- Roof repairs for the Anchorage Performing Arts Center
- Outstanding bonds for Fairbanks, Cordova, Unalaska and the Northwest Arctic Borough were refinanced at lower rates

In the event of a default, statute allows the bond bank to take state agency funds that are payable to the defaulting municipality.

As of February, the bond bank has \$449 in outstanding bonds, which leaves \$50 million for additional loans. The pending applications amount to \$80 million.

[1:41:52 PM](#)

DEVIN MITCHELL, Executive Director of the Alaska Municipal Bond Bank Authority and Debt Manager for the Department of Revenue, opened his remarks with the statement that the authority has a shortfall looming, which will result in a loss of ability to finance capital projects at the community level. In the last five years the bond bank has issued close to \$400 million in bonds and as a result of participating in those transactions, it has saved an estimated \$6 million.

MR. MITCHELL described the authority as an extremely efficient program that provides a critical government service. Its budget is based on \$250,000 in ongoing operating expenses to maintain the outstanding portfolio and about \$500,000 for the purpose of issuing bonds. If no bond issues were to occur in a particular year, the operating budget would be reduced by two thirds.

[1:44:58 PM](#)

CHAIR STEDMAN asked that the record reflect that the following communities from across the state have benefited from the bond bank program: Wasilla, Aleutian East Borough, Homer, Cordova, Fairbanks, Lake Pen Port, Nome school, Northwest Arctic Borough, Lake and Peninsula Borough, Seward, Valdez, and Adak.

He asked Mr. Mitchell to discuss refinancing [refunding] in terms of what has occurred in the last several years and what might be expected in the near future.

MR. MITCHELL responded there has been considerable refunding in the last several years due to the low interest rate environment, but they don't impact the debt cap because refunding is simply replacing one outstanding obligation with another at a lower interest rate.

He advised that the bond bank serves not only small communities that have little or a poor credit history it also serves large communities with very good ratings. For example when the Municipality of Anchorage wanted to use a ticket surcharge to pay for replacing the roof on the performing arts center, it found that from a rating agency perspective it was a weak credit and would be viewed negatively. Going through the bond bank provided an efficient means of undertaking the project without having to provide either a property tax or general obligation back.

CHAIR STEDMAN asked for verification that the state's borrowing or credit rating would not be impacted if the cap were increased from \$500 million to \$750 million.

MR. MITCHELL said that's correct. It's a moral obligation of the State of Alaska, which means that by statute a reserve fund is created to secure the bonds. The reserve is about equal to the debt service for one year. In the event of a default the reserve would be drawn upon to pay the debt service in the short term and according to statute the Legislature would be asked to replenish the reserve. That's what creates the moral obligation.

Certainly there is the potential for credit implications, but the bond bank has the communities committing to pay the projects so the funding source is actually separate and distinct from the State of Alaska. Because of the provisions in the program there hasn't been any correlation from this program to the State of Alaska, which isn't the case with all moral obligation debt.

CHAIR STEDMAN asked if the statutory reserve account as of June 30, 2005 amounted to \$11 million.

MR. MITCHELL replied yes and further clarified that \$9.7 million is the reserve that's in the general obligation program and \$1.5 is specific to one revenue bond issue.

The 1976 General Obligation Bond Resolution requires that two thirds of the reserve must be comprised of bond bank cash so instead of just \$9.7 million there's actually about \$30 million in the reserve. That creates strength from a credit perspective, he said. For instance, if you're a \$5 million borrower, you have \$30 million pledged toward your obligation on a parity basis with all the other obligations so the reserve could pay off that \$5 million.

CHAIR STEDMAN observed that general obligation bonds amount to just over \$300 million and the revenue bond total is about \$95 million.

MR. MITCHELL replied that was correct when it was written, but there have been additional issues since the report was prepared.

CHAIR STEDMAN opened public testimony.

[1:52:25 PM](#)

KATHIE WASSERMAN, Deputy Director, Alaska Municipal League (AML) announced that AML would like to go on record as being totally in support of SB 265. She described the bill as a win-win situation for the state and communities.

CHAIR STEDMAN closed public testimony and announced he would hold SB 265 in committee.

CHAIR STEDMAN called a brief at ease at [1:53:49 PM](#).

CHAIR STEDMAN announced that a committee substitute (CS) for SB 193 had been prepared, but he didn't have a quorum to adopt it for discussion.

There being no further business to come before the committee, Chair Stedman adjourned the meeting at [1:54:57 PM](#).