

HOUSE FINANCE COMMITTEE

April 15, 2014

6:11 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 6:11 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Suzanne Armstrong, Staff, Senator Kevin Meyer; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Brian Rogers, Chancellor, University of Alaska Fairbanks; Laura Pierre, Staff, Senator Anna Fairclough and the Legislative Budget and Audit Committee; Deven Mitchell, Debt Manager, Department of Revenue.

PRESENT VIA TELECONFERENCE

Laura Comer, Self, Fairbanks; Christina-Alexa Liakos, Self, Fairbanks; Carson Chavana, Self, Fairbanks; Kelsi Swenson, Student, University of Alaska Anchorage; Elisabeth Allard, Self, Wasilla; Carly Wier, Self, Anchorage; Elizabeth Shoeffler, Self, Anchorage; Kaitlynd Ward, Student, University of Alaska Anchorage.

SUMMARY

CSSB 191(FIN)

GENERAL OBLIGATION BOND FUND TRANSFER

CSSB 191(FIN) was HEARD and HELD in committee for further consideration.

CSSB 218(FIN)

MUNI BOND BANK; UAF HEAT & PWR PLANT

CSSB 218 (FIN) was HEARD and HELD in committee for further consideration.

#sb218

CS FOR SENATE BILL NO. 218(FIN)

"An Act relating to financing; relating to the Alaska Municipal Bond Bank Authority; authorizing the University of Alaska to issue bonds to finance the design, construction, acquisition, and equipping costs of the University of Alaska Fairbanks heat and power plant; authorizing the University of Alaska to borrow money from the Alaska Municipal Bond Bank Authority to finance the design, construction, acquisition, and equipping costs of the University of Alaska Fairbanks heat and power plant; and providing for an effective date."

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SUZANNE ARMSTRONG, STAFF, SENATOR KEVIN MEYER, provided introductory remarks on the legislation. She explained that the bill accomplished three objectives. First, SB 218 increased the borrowing limit of the Alaska Municipal Bond Bank (AMBB) from \$1 billion to \$1.5 billion. She informed the committee that the AMBB was a public corporation of the state and was established in 1975. The bond bank was created to aide Alaskan communities with financing capital improvement projects. She read excerpts from the sponsor statement:

The AMBB was able to use the state's credit support in the form of a moral obligation pledge backed with an annual appropriation to achieve AA+ credit ratings. The AMBB was able to leverage those ratings into lower

interest rates than municipalities would be able to borrow independently.

Ms. Armstrong announced that every AMBB loan has been repaid. She continued with the sponsor statement.

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.

Ms. Armstrong continued with the second provision of the bill.

CS SB 218 (FIN) further provides that the University of Alaska (UA) may utilize the AMBB for the purpose of issuing debt, in an amount not to exceed \$150 million.

Ms. Armstrong delineated that statute authorized AMBB to loan to municipalities or "municipal joint insurance arrangements" under AS 21.76. The legislation expanded the authority of AMBB to loan to UOA for construction a combined heat and power plant on the Fairbanks campus.

She concluded with the third provision of the legislation.

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.

Co-Chair Stoltze wondered how close \$1.5 billion was to the state's capacity. He noted that the limit had been increased almost annually in a short period of time. The limit was approximately \$300 million 10 years ago. He wondered what the "ceiling" was.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, explained that the bond bank operated as a "true moral obligation program." The bond bank never experienced a loan default by a borrower. Therefore, none of its loans can be included in the states net tax supported debt for purposes of calculating the debt capacity of the state. If a number of AMBB loans ended in default and relied on the state to repay the loan obligations some or all of the bond banks obligations would be counted as net tax supported debt. He observed that determining a limit on the bond banks' lending authority was more of an "art" than a calculation. He believed the credit limit increase requested in SB 218 was a safe amount and would not result in a rating action.

Co-Chair Stoltze wondered whether a proposal of \$500 million in the following year would alert the rating analysts.

Mr. Mitchell replied that it depended on the "nature of the moral obligation" and cautioned that a loan associated with risk would raise alarms.

Co-Chair Austerman pointed to page 6, line 4.

(1) the anticipated annual payment amount is \$7,000,000;

He wondered who would make the annual payment of \$7 million.

Mr. Mitchell answered that the legislation allowed the bond bank to purchase bond issues with the University for an amount up to \$150 million. Under Section 9 of the bill the university's loan limit would be \$87.5 million. The loan would be secured by a "subordinated revenue pledge" by UA. The amount collected by UA would be obligated minus certain operating costs. He alluded to the fiscal note FN1 (UA) and

explained that the state would assist with the university's obligations, which aligned with the states past practice.

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BRIAN ROGERS, CHANCELLOR, UNIVERSITY OF ALASKA FAIRBANKS, added that the original fiscal note had provided for a state appropriation of \$7 million per year of general funds to repay the AMBB loan and for the university to pay the costs through fuel savings and additional fees for the repayment of the portion of the \$70 million bond issue authorized with university receipts. He revealed that the university was working on a revised fiscal note "to put them in balance." The revision depended on the adoption of an amendment that had not been offered yet.

Co-Chair Austerman wanted clarification regarding bond repayment.

Mr. Rogers responded that there were two bonds; an \$87.5 million bond issue that would be paid by the state and a \$70 million university bond that would be paid by university revenues and savings generated from lowered fuel costs.

Co-Chair Austerman clarified that the state would pay the \$7 million from the general fund.

Mr. Rogers replied in the affirmative.

Representative Gara ascertained that the state would pay \$7 million per year; the university would pay the other \$70 million with savings and university receipts. He wondered who paid the debt service.

Mr. Mitchell replied that the underlying borrowers paid the debt service. He emphasized that the obligation belonged to the university.

Representative Gara asked whether historically the municipalities paid the debt service on the bonds and the state had not paid any debt service costs.

Mr. Mitchell replied in the affirmative.

Representative Costello wondered where the remainder of the \$245 million total costs for the power plant would come from.

Ms. Armstrong replied that SB 119 [Budget: Capital]; the capital budget bill contained a university appropriation for \$37 million and a reappropriation of \$50 million for the balance.

Representative Costello inquired about the \$50 million reappropriation. She wondered what the original source of the funding was.

Ms. Armstrong answered that it originated from the Sustainable Energy Transmission Solutions (SETS) fund established in SB 25 [Aidea: Sustainable Energy/ Interest Rate - Enacted September 2012] in 2012.

Representative Costello asked if the \$37.5 million amount was undesignated general funds (UGF).

Ms. Armstrong replied that the amount derived from designated general funds (DGF).

Co-Chair Stoltze asked whether the SETS fund had been a loan program in the past.

Ms. Armstrong remembered that SETS was formed to be a loan and loan guarantee program under the Alaska Industrial Development and Export Authority (AIDEA).

Co-Chair Austerman understood that the SETS program had been originally designed as a loan program. He asked for verification that the \$50 million was not a loan but a deduction from the fund.

Ms. Armstrong answered in the affirmative. She indicated that the money was a reappropriation of funds from SETS to the power plant project.

Representative Wilson inquired whether UAF students were exclusively being assessed the university's portion of the bond repayment in the form of higher tuitions fees.

Mr. Rogers responded that the additional university receipt revenue would be derived from other receipts and student receipts. The Board of Regents made decisions regarding

tuition increases. He believed the Board of Regents would consider that the plant benefitted the Fairbanks campus.

Representative Wilson thought that the university system was unified and that tuition increases were assessed system wide.

Mr. Rogers replied that board policy conventionally expended the funds on the campus where the tuition was raised.

Representative Wilson wondered whether the Fairbanks campus would still be able to compete with other branches of the university if tuition costs were much higher due to bearing the cost of such an expensive project alone.

Mr. Rogers replied that tuition decisions were made by the Board of Regents and he could not speak to the issue.

Representative Wilson believed the issue was important to determine prior to passing the legislation. A much higher tuition increase for the Fairbanks campus would be alarming. Expenses could be absorbed better if the entire university system was working together. She hoped the board understood the repercussions of such a decision.

Co-Chair Stoltze referred to his college education experience at the UAF campus. He remembered paying student fees on indebtedness. He wondered whether allocating tuition fees to pay a bonded indebtedness was common.

Mr. Rogers reported that the student recreation center on the Fairbanks campus was a student financed facility. The bonded indebtedness was currently being paid by student fees. He was not aware of other student financed facilities with the exception of student housing; a portion of the debt was paid by student housing fees.

Co-Chair Stoltze clarified that since he attended college it was uncommon for students to pay for the university's bonded indebtedness.

Mr. Rogers affirmed and replied that it had only occurred at the Fairbanks campus.

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Representative Holmes referred to the \$37.5 million in designated general funds. She inquired about the source of the funds. Ms. Armstrong responded that the funds were set aside for the Alaska Capital Income Fund.

Representative Holmes understood that typically the municipalities repaid its debt back to the bond back. She wondered whether SB 218 was the first instance where the state would be paying the bonded indebtedness.

Mr. Mitchell answered that there were other municipal joint insurance agreement allowances in statute but was never acted upon. He restated that "from the AMBB perspective" the university was repaying the loan not the state. The bond banks commitments were directly from the university and the state's role was "through the back door."

Representative Holmes wanted to understand the university's and the state's role in repaying the bonds. She wondered what the state's actual or moral obligation was.

Mr. Rogers answered that the \$70 million was referred to in the legislation. He explained that the legislature authorized the university to issue \$70 million with a notice of debt payment in SB 218.

Mr. Mitchell replied that the moral obligation applied to any bonds issued by AMBB. He was uncertain whether bond analysts would want the university bonds counted as net tax supported debt. He said the same argument could be made for all of the university's outstanding debt because of the existing financial relationship with the state. Through AMBB's potential authorization the university had a conduit to access the capital market at the highest ratings (AA+) that it would not normally be able to attain through its own senior lien debt. The state would benefit through the use of the bond bank which allowed the university much better leverage.

Representative Holmes wondered what the payments on the \$87 million were.

Mr. Mitchell answered that the interest rate and term were the primary factors in determining repayment. The actual amount depended on the final structuring of the debt. The payments were referred to in the university's fiscal note FN1 (UA).

Representative Holmes clarified that the fiscal note appropriated approximately \$7 million per year for payment.

Mr. Mitchell answered in the affirmative and recalled that the payment was based on a 20 year amortization and relatively high interest rate compared to rates that were currently available.

Representative Holmes surmised that the payment was based on a conservative estimate.

Mr. Mitchell answered in the affirmative.

Co-Chair Stoltze asked if the money for the SETS fund was classified as DGF.

Ms. Armstrong expressed uncertainty and would follow up on the question.

Co-Chair Stoltze believed that there was a "much broader vision for the SETS fund." He recounted that when the SETS fund was established only two years ago it was capitalized with unrestricted general funds through the capital budget. The SETS funding was a major component for the Fairbanks gas trucking bill [SB 23 AIDEA: LNG Project; Dividends; Financing - Enacted June 2013] for the Interior last year. He thought the funds were being "swept out" and that the SETS fund should have lasted longer than two years.

Representative Guttenberg asked for an explanation of the total power plant financing package.

Mr. Rogers replied that the total project cost was \$245 million. He detailed that the board's initial request was for \$195 million from the state and \$50 million self-financed through the fuel cost savings by the university. The \$50 million had grown to \$70 million factoring the use of new fees and other income leaving the remainder the obligation of the state. The current UAF heat and power plant provided heat and electricity to the entire university campus; it was built in 1962 and was anticipated to have a useful life of 50 years. The current project upgrade replaced two old coal boilers, substantially reduced emissions, and increased efficiency which resulted in fuel cost savings. He summarized that the financing package used state operating and capital funds, university receipts, and fuel savings.

Representative Guttenberg communicated that the plant was a heating plant that provided power but was not a "power plant."

Co-Chair Austerman thought that statewide tuition would be used to repay the bond debt.

Mr. Rogers answered that the Board of Regents had not decided on any repayment portion being paid by tuition. He thought that an opportunity to use other funds was possible. The decision would be made in 2017 when the first bond payment was due. He reiterated the board policy that tuition generated at a particular campus was used at the campus.

Co-Chair Austerman commented that the fiscal note, FN1 (UA) described a 20-year payoff at 5 percent interest totaling \$140 million over time. He wondered whether there had been discussion about paying the entire \$87.5 million.

Ms. Armstrong replied that there had been multiple conversations about how to fund the project. The discussions with members of the Senate Finance Committee and university lead to the current financing package.

Mr. Mitchell interjected that the current bond bank 20 year rate was 3.45 percent.

Representative Munoz asked for further clarification about the amount of the AMBB loan.

Ms. Armstrong answered that the bond bank issuance would be \$87.5 million. She referred to an amendment the sponsor hoped to offer that would clarify the issue.

Representative Munoz understood that the university also incurred a bonded indebtedness of \$70 million.

Ms. Armstrong answered in the affirmative.

Representative Munoz asked how the university intended to repay the debt.

Mr. Rogers responded that the \$70 million would be paid by fuel cost savings and new revenues. The university spent approximately \$10 million per year and the upgrade would decrease the cost to under \$6 million per year. Currently

the university used coal, diesel, and purchased electricity for heat. The new plant would generate the entire campus' heating needs.

Representative Munoz asked for verification that the \$87.5 million would be paid back by the general fund.

Ms. Armstrong replied that the debt service would be an item in the university's operating budget. She referred to the discussions regarding financing the project and shared that student fees other than tuition such as, a facility fuel surcharge may be assessed to students and others using the building as well. A tuition increase was not specified in the discussions and the board had the discretion to examine all options that may be available to repay the debt service.

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Representative Munoz asked for verification that the bond indebtedness would be repaid through a combination of university receipts and general fund supports.

Ms. Armstrong answered in the affirmative.

Representative Munoz clarified that the \$70 million would be repaid through fuel cost savings and a possible tuition increase.

Ms. Armstrong answered in the affirmative and stressed that "other fees" could be assessed in lieu or addition to tuition.

Representative Munoz asked whether the [other] \$87.5 million from SETS and the Alaska Capital Income Fund were grants.

Ms. Armstrong replied that the funds were a direct state appropriation.

Representative Costello referred to the university's aging heat and power plant. She wondered what the university's emergency backup plan was.

Mr. Rogers answered that in addition to two coal boilers there were two oil boilers that had the capacity to heat the campus. If employed, the fuel bill would rise from \$10

million up to \$30 million annually. He did not want to be in a situation to employ the oil boilers when the coal boilers broke down.

Representative Edgmon wondered whether the university completed the design work.

Mr. Rogers answered that the conceptual design was completed sufficient to obtain a permit. The next step would be to purchase the main boilers and turbines through competitive bid. Once the vendors were chosen the plant would be designed around the fixed equipment.

Representative Edgmon asked whether a partial funding package could move the project forward.

Mr. Rogers responded that the university could not issue the university bonds until the entire project was secured since there would be no fuel savings for repayment. Uninterrupted construction of the plant was the most efficient way to carry out the project.

Co-Chair Stoltze gave the university credit for convincing people in a university environment that solar and wind would not be the answer.

Mr. Rogers agreed. He informed the committee that there had been no adverse public comment during the permitting process with the acknowledgement of the project's increased fuel efficiency.

Representative Holmes asked about the timing of the project. Mr. Rogers answered that the university would begin site preparation in the current year. The construction would begin in 2015 and would conclude in 2018.

Representative Holmes wondered how the phase in of the new plant would work.

Mr. Rogers answered that the upgrade would not disrupt operations of the current plant.

Vice-Chair Neuman wondered whether the bond bank would issue bonds if the borrower was unable to repay them.

Mr. Mitchell answered that AMBB had a rigid process for analyzing loans. The bank utilized an independent third party financial advisor that reviewed applications in addition to the AMBB board. Due to the rigorous approval process all of the loans had been repaid. The bank had a 100 percent expectation of repayment.

Co-Chair Austerman OPENED public testimony.

LAURA COMER, SELF, FAIRBANKS (via teleconference), spoke in opposition to the bill. She was astonished that the Board of Regents had not determined the student's contribution towards payment for the power plant. She felt that many questions that arose during the hearing remained unanswered and that the student body was burdened by increased financial costs. Residents of Fairbanks were already leaving the community because of health concerns due to poor air quality. She believed that requiring students to shoulder the burden of a coal plant and tying the campus to "outdated" technology for 50 years was "absurd." She advocated for spending on alternative energy solutions. She thought that most banks would not finance coal plants and believed that the plant would not pay for itself. She questioned the financial and environmental repercussion of constructing the power plant and reiterated that many questions were not answered. She urged the committee not to support the project, deeming it an "incomplete idea."

CHRISTINA-ALEXA LIAKOS, SELF, FAIRBANKS (via teleconference), opposed the legislation. She believed questions remained about the plants financing and wanted answers. She was concerned that the Board of Regents had not yet met to discuss solutions or the students expected financial participation. She thought the burden of repayment might drive up tuition costs and increase the dropout rate. She wondered whether other options were explored. She understood that there was geothermal potential in the Fairbanks area. She believed there were more sustainable options. She wondered whether the Usebelli coal company financially influenced the decision.

Co-Chair Stoltze remarked that the donations of the Usebelli family were appreciated by the university.

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CARSON CHAVANA, SELF, FAIRBANKS (via teleconference), spoke to her overwhelming student debt as a recent graduate due to growing tuition costs. She sympathized with students that may not support the project. She wished alternative solutions were explored. She believed that there may be a substantial funding gap even with tuition or fee increases. She urged the committee to retrofit the existing plant while looking into "viable" renewable energy options.

KELSI SWENSON, STUDENT, UNIVERSITY OF ALASKA ANCHORAGE (via teleconference), spoke against the bill. She referred to the phrase "moral obligations." She felt that it was a moral obligation for the university to provide for the welfare of students. She spoke in strong opposition to the project. She believed the coal plant was a "despicable" option in the face of climate change and the poor air quality in Fairbanks. She wanted the university to "pave the way" for clean renewable energy options. She was upset the hearing had been scheduled with short notice during finals week. She thought that the student body was being burdened with environmental and financial costs of the project. She implored the university to place more value on its student body

ELISABETH ALLARD, SELF, WASILLA (via teleconference), spoke against the project. She commented that Fairbanks had poor air quality. She felt that the university's decision was to choose a coal fired plant instead of healthier energy options was unacceptable. She reported that she experienced nine air quality advisory days in Fairbanks in the last six months. She believed that the Usebelli coal plant contributed to poor air quality in Fairbanks and was lobbying the university to construct the plant. She discussed that the university was an intellectual "hub" and should be at the forefront of alternative solutions. She believed it was shameful that the university was seeking to build a coal powered plant when other campuses around the country were divesting from coal. She considered the project "egregious", "fiscally irresponsible" and not worthy of the increased financial burden on the student body. She stressed that increased tuition equated to increased student debt. She vehemently opposed the project and suggested the university retrofit the current plant, reduce energy consumption, and utilize alternative energy to offset coal use.

CARLY WIER, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. She was deeply concerned about the state's financial future. She was concerned that using coal as an energy solution was a "resounding step backward" in finding clean energy solutions for the Interior. She referred to prior public testimony on the capital budget concerning alternative energy solutions. She felt the budget items were a strong and wise investments that would support healthy communities. She felt compelled to testify about the \$245 million coal plant because the costs were too high. She asked how the funds would be paid back. She believed the students should have a right to weigh in on how the funds, derived from increased tuition or student fees, would be spent. She understood that the plant would be constructed to burn coal and biomass and how that would affect air quality. She believed many of her friends in Fairbanks were considering moving due to the city's poor air quality. She wondered if the plant should be built to accommodate natural gas. She believed it was "shocking and irresponsible" to rush into an exorbitant project with unanswered questions.

ELIZABETH SHOEFFLER, SELF, ANCHORAGE (via teleconference), opposed the legislation. She spoke against using funding for renewable energy options to help finance the coal plant. She believed the coal plant was unhealthy for the students and did not want to help fund the plant through increased tuition or fees. She asked the university to consider alternative energy sources.

KAITLYND WARD, STUDENT, UNIVERSITY OF ALASKA ANCHORAGE (via teleconference), spoke in opposition of the project. She was concerned about potential increases in tuition. She felt unanswered questions remained about repaying the project and the impact on student fees and tuition. She wondered how the project could move forward without the Board of Regents meeting. She spoke to the importance of clean and renewable energy.

Co-Chair Stoltze CLOSED public testimony.

Representative Wilson noted that there was a reason the university had opted against using natural gas. She asked for a reiteration about what the plant would do to current emissions.

Mr. Rogers answered that during the planning process the university examined twelve different options that included a wide range of technologies and fuels for the project. The coal option had been selected based on the environmental benefits, the economics, and the ability to permit the project.

Mr. Rogers spoke to the environmental benefits; the plant would reduce pm 2.5 (particulate matter 2.5 microns or less) emissions by 45 percent, oxidized nitrogen by 64 percent, and oxidized sulfur by 60 percent. Every regulated emission would be lower than it was at present. Carbon dioxide would also be lower. The capital costs of the natural gas plant were significantly lower, but the lifespan was also significantly lower. A natural gas boiler would actually increase pm 2.5 through the exhaust stream by secondary products of combustion. Extra costs to mitigate pm 2.5 would be incurred by using natural gas. The fuel costs would be \$10 million higher annually if a gas plant was constructed due to the projected costs of trucked in natural gas. The new coal plant could be retrofitted to use natural gas at a cost of \$3 million to \$5 million for natural gas provided the university could obtain the permit and mitigate the particulate matter emissions.

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Representative Wilson asked about retrofitting the current boiler.

Mr. Rogers answered that the university could not retrofit the current boilers to use natural gas. The university did retrofit an oil boiler to use both oil and natural gas.

Representative Wilson wondered if the two old boilers could be removed and the new ones installed in the existing facility as a cost savings.

Mr. Rogers replied in the negative. He detailed that the current boilers were necessary year around and could not be shut down.

Representative Wilson recalled that the \$25 million appropriated from the SETS fund for natural gas trucking in the interior was a loan and not a grant. She asked if the university explored extending the loan repayment period to lower costs.

Mr. Rogers answered that the university had looked at the municipal bond bank extending out the payment schedule which reduced the current fiscal note.

Co-Chair Austerman spoke to prior testimony by Patrick Gamble, President of the University of Alaska, who had spoken about a deferred maintenance fund. He pointed to deferred maintenance funding in the governor's capital budget totaling \$37.5 million. The Senate Finance Capital Budget had removed the funds. He wondered about the connection.

Mr. Rogers noted that the Senate Finance Committee budget had reduced only the UAF capital budget deferred maintenance funds.

Co-Chair Austerman asked for clarification; the reduction appeared to apply to all of the districts and not just the Fairbanks campus.

Ms. Armstrong replied that the \$37.5 million only impacted districts 1 through 5 which only included the Fairbanks campus.

CSSB 218(FIN) was HEARD and HELD in committee for further consideration.

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AT EASE

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RECONVENED

#sb191

CS FOR SENATE BILL NO. 191(FIN)

"An Act relating to the authority of the Legislative Budget and Audit Committee to approve the temporary transfer of money from the general fund to construction funds or accounts; and providing for an effective date."

SUZANNE ARMSTRONG, STAFF, SENATOR KEVIN MEYER, discussed the legislation. She announced that SB 191 provided an administrative fix, established parameters for transferring general funds to General Obligation Bonds (GO) construction funds, and enabled better flexible management of GO bond

construction funds and accounts by the State Bond Committee. She delineated that when the GO bond construction fund was temporarily exhausted the commissioner of the Department of Administration (DOA) on recommendation by the bond committee and Legislative Budget and Audit Committee (LBA) approval may temporarily transfer funds from the general fund into the bond fund. Under SB 191, if the transfer did not exceed 25 percent of the amount of the GO bond, the Commissioner did not need LBA approval. In addition, SB 191 authorized a 15-month loan period when advanced funds were transferred from the General Fund to a GO Bond construction fund. The change aligned with Internal Revenue Service (IRS) requirements that "advance fund bond issuance loans were repaid by bond proceeds within 18 months." She noted the proposed shorter timeframe than required by the IRS. She added that the legislation enabled more certainty in project schedules and cash flow and greater capability for the State Bond Committee to "respond to unforeseen increases in project expenditures." In addition, SB 191 facilitated greater flexibility in implementing bond sales. The statute change "eliminated the negative carry costs of borrowed funds sitting in construction funds for extended periods of time."

Representative Holmes asked for clarification about how a transfer from the general fund could occur without any legislative oversight.

LAURA PIERRE, STAFF, SENATOR ANNA FAIRCLOUGH AND THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE, replied that SB 191 eliminated the LBA authorization requirement if the amount of the transfer did not exceed 25 percent of the authorized bond amount however, notification was still required.

Representative Holmes wondered what amount of money 25 percent of the authorized bond amount typically was.

DEVEN MITCHELL, DEBT MANAGER, DEPARTMENT OF REVENUE, replied that the authorization required was technical in nature. The legislature currently granted the administration the authorization to borrow up to the full amount of the bond for the same purpose without terms of repayment. The flexibility currently existed but must be reauthorized each year in the operating budget. He offered that a situation could occur where the debt was not sold over a certain time period and was not included in the operating budget. He continued that the only outstanding

bond debt authorization happened with the Transportation Act of 2012 which amounted to approximately \$450 million. Twenty five percent of approximately \$110 million could have been authorized for cash flow purposes for up to 15 months.

Mr. Mitchell discussed instances when the flexibility to transfer funds without approval would have been advantageous. He detailed that the state did not issue GO bonds for a long period of time but had the authorization in 1984 and 2003. The federal and IRS requirements and restrictions currently were much more stringent on tax exempt debt than they had been in 1984. The bill allowed the state to meet the restrictions; one such restriction required the state to spend the proceeds from the sale of tax exempt bonds within three years which, had proven problematic. In 2003 the state sold approximately \$450 million in transportation bonds and did not expend all of the funds until 2012. The three year limit was unattainable. In 2008 the Transportation Act was approved, but a portion of the funds had been replaced with general funds. The state was only able to sell approximately half of the bond authorization of \$165 million in April 2009 to fund 18 months of cash flow. The American Recovery and Reinvestment Act (ARRA) had been approved and the funds were not expended until 2013. The \$165 million was borrowed at a 4 percent interest rate amortized for 20 years. The state could not reinvest the proceeds over the long term therefore; the department was very conservative about the reinvestment of proceeds. The negative carry associated amounted to millions of dollars. The department learned that it needed to approach the bond issues differently and to the extent possible sell "just in time" rather than upfront in anticipation of a project.

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Representative Holmes ascertained that due to the three year limit, which the state was not able to consistently meet, from the time that the state sells the bonds to the time the state must expend the funds, the state would rather borrow it from the general fund and pay it back with bond funds. She asked for verification.

Mr. Mitchell concurred. He elaborated that there was a potential for certain cash flow issues to arise when funding projects "just in time." A project can speed up and

the state cannot execute a bond issue in one month; more time was needed to structure the loan. The legislation provided the flexibility to meet the need on time.

Representative Holmes wondered if it had been a problem obtaining Legislative Budget and Audit approval in the past. She wondered why LBA should be "taken out of the picture."

Mr. Mitchell replied that the timing element was a factor.

Co-Chair Stoltze asked about the discussion regarding the issue in LBA committee.

Ms. Pierre answered that prior to the drafting of the bill Senator Fairclough had met with the Department of Revenue and Mr. Mitchell to discuss the legislation in particular. She relayed that Senator Fairclough "had no problem" with the legislation. She cited page 2, line 8, of the legislation and related that Senator Fairclough requested that LBA be notified when such transfers occurred. The allowance was in line with other funds such as the Disaster Relief Fund and the DEC Spill Response Fund.

Co-Chair Stoltze asked if the Legislative Budget and Audit Committee had taken formal action to support the bill. Ms. Pierre replied in the negative.

Vice-Chair Neuman asked whether the flexibility would allow the department to save the state money by watching interest rates and borrowing money later or earlier depending on the interest rate.

Mr. Mitchell replied that there could be an opportunity to save money by not borrowing money as quickly and obligate the negative carry in the construction fund. He exemplified that if the state lost 3 percent of \$100 million the state would pay \$3 million in interest expense just to have the money sit in the bank. He pointed to another example. He reported that market disturbances like the crash in 2008 potentially caused losses. At the time of the market crash he was working on a transaction with the Matanuska Susitna Borough on a correctional facility. He attempted to "price the deal" on December 7, 2008. At the time, the statutory limit on the debt service was \$17.8 million annually. The interest rates were too high at the time to meet the limit. The design and build contractor was ready to begin and

could terminate the contract on December 31st. The state ultimately sold the bonds on December 31, 2008 for fewer than 6 percent and three months later it would have been 5 percent. He believed that the situation led to the state paying a higher interest rate, and exemplified the need for granting the department the increased flexibility.

Vice-Chair Neuman surmised that the flexibility to maneuver had the potential for considerable savings.

Mr. Mitchell answered that that would be a goal of the legislation. He voiced that the "easily defined" goal was meeting the IRS code limit for the tax exempt bond issues.

Co-Chair Stoltze wondered why LBA had not taken committee action on the matter. He believed it would have been "cleaner."

Representative Gara asked what provision in the state constitution permitted money withdrawals from the general fund without legislative authorization.

Mr. Mitchell answered that GO bond debt did not require an appropriation for repayment. He was not certain whether an appropriation was required for using general funds as liquidity for an anticipated general bond issue.

Representative Gara wanted the state to have the flexibility to borrow as inexpensively as possible but he thought a constitutional prohibition against general fund withdrawal without legislative approval existed.

Mr. Mitchell responded that other instances were cited earlier where authority to use general funds existed. He reiterated that the AMBB had the authority to borrow from the general fund. The bond transfer would borrow funds from the general fund for the purposes of liquidity and the general fund would be replenished.

Representative Gara restated that general constitutional rule stated that money could not be withdrawn from the general fund without legislative approval. He wondered how the provision was legal. He wondered if the bill would help reduce the student loan interest rate.

Ms. Pierre answered that the bill he was referring to was SJR 23.

7:49:39 PM

Representative Munoz asked if there were examples when the LBA committee had slowed down the process.

Mr. Mitchell replied in the negative. He offered that there was an instance when timing with the LBA meetings was an issue in resolving a cash flow matter.

Co-Chair Stoltze OPENED public testimony.

Co-Chair Stoltze CLOSED public testimony.

Co-Chair Stoltze pointed to the zero fiscal note, FN1 (REV) from the Department of Revenue.

Representative Gara wanted someone to point to the location in the constitution that authorized the provision.

Co-Chair Austerman cited Article 9 [Finance and Taxation] Section 13 of the Alaska Constitution and referred to the words "appropriated by law." He surmised that SB 191 was a law allowing the appropriation.

Representative Edgmon referred to the previous bill [SB 218 Muni Bond Bank; UAF Heat & Pwr Plant] and asked whether passage of SB 191 affected SB 218.

Mr. Mitchell replied in the negative.

Co-Chair Stoltze wondered whether the 25 percent was an absolute maximum or was the 25 percent limit allowed for each transfer of funds.

Mr. Mitchell replied that it was the intent of the administration that the limit was up to 25 percent of the total bond authorization. He exemplified that a \$100 million bond allowed borrowing of up to \$25 million at any point in time for to 15 months for the purposes of liquidity.

Co-Chair Stoltze cited page 1 line 11:

If the amount of the transfer exceeds 25 percent of the amount ...

Co-Chair Stoltze inserted the word "cumulative" in front of transfer and wondered if that would more clearly indicate the intent of the 25 percent limit and not "harm" the legislation.

AT EASE

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Mr. Mitchell pointed out that once employed for a particular authorization the language would eliminate the ability to use the provision for future potential bond issue use. He suggested using language that indicated that the 25 percent was "rolling."

Representative Holmes wondered whether it was possible to hold the bill until the proper language could be identified.

Representative Costello asked if adding the word, "initially authorized" after amount to read, " If the amount of the transfer exceeds 25 percent of the amount initially authorized."

Co-Chair Stoltze wanted to ensure clarity in the language and thought the issue was a "very important policy" matter.

Representative Holmes believed that the committee needed more time to find the proper language.

Ms. Armstrong stated her willing to work with the committee to ensure that the language was correct and that the impact would affect the intent of the provision.

Co-Chair Stoltze wanted to prevent future abuses of the provision via clarification and to ensure that the intent of the sponsor was met.

Co-Chair Austerman asked about the full paragraph on page 1 beginning on line 6. He read:

"When a construction fund or account established to receive the proceeds of state general obligation bonds..."

Co-Chair Austerman wondered whether the words "a construction fund or account" met the intent of the legislation. He thought that the language was not specific enough.

Mr. Mitchell answered that when general obligation bonds were authorized a fund was simultaneously created to deposit the proceeds. The language referred to that particular fund. He suggested the amendment language "at any time" after the word transfer to read:

"If the amount of the transfer at any time exceeds 25 percent of the amount authorized"

Mr. Mitchell explained that the 25 percent limit could not be exceeded without approval from LBA.

Co-Chair Stoltze asked whether the suggestion matched the intent of the sponsor.

Ms. Pierre replied in the affirmative.

ADJOURNMENT

8:04:04 PM

The meeting was adjourned at 8:04 p.m.