

SENATE FINANCE COMMITTEE
April 2, 2014
3:21 p.m.

[3:21:28 PM](#)

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 3:21 p.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

Senator Click Bishop

ALSO PRESENT

Representative Mark Neuman; Suzanne Armstrong, Staff, Senator Kevin Meyer; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue, State Debt Manager, Department of Revenue; Judy Dougherty, Executive Director, Knik Arm Bridge and Toll Authority (KABATA); Jeff Ottesen, Director, Division of Program Development, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

SUMMARY

SB 218 AK MUNICIPAL BOND BANK AUTHORITY

SB 218 was HEARD and HELD in committee for further consideration.

2dCSHB 23(RLS)
KNIK ARM CROSSING; AHFC

SCS 2dCSHB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Revenue and a zero fiscal note from the Department of Transportation and Public Facilities.

#hb23

2d CS FOR HOUSE BILL NO. 23(RLS)

"An Act creating the Knik Crossing Development Corporation as a subsidiary corporation of the Alaska Housing Finance Corporation and relating to bonds of the Knik Crossing Development Corporation."

3:22:44 PM

Co-Chair Meyer confirmed that the committee was working with version R of the legislation.

3:23:02 PM

Senator Olson MOVED to ADOPT Amendment 1 (copy on file):

Page 6, following line 22:

"(f) The state may not issue bonds under (a) of this section for financing the Knik Arm Crossing until the Knick Arm Bridge and Toll Authority has been approved for a loan for construction of the Knick Arm Crossing from the Federal Highway Administration, United State Department of Transportation, under 23 U.S.C. 601-609(Transportation Infrastructure Finance and Innovation Act of 1998)."

Co-Chair Meyer OBJECTED for the purpose discussion.

3:23:07 PM

Senator Olson explained that Amendment 1 would add into statute language to specify that unless TIFIA loans were issued from the federal government, the state would not issue any bonds for building the Knik Arm Crossing.

REPRESENTATIVE MARK NEUMAN, commented that he had worked with Senator Olson to draft the amendment.

Co-Chair Meyer WITHDREW his OBJECTION.

[3:24:29 PM](#)

There being NO further OBJECTION, Amendment 1 was ADOPTED.

[3:24:41 PM](#)

Co-Chair Kelly MOVED to ADOPT Amendment 2 (copy on file):

Page, Line 15:

Delete "Notwithstanding any other provision of law"

Insert "Subject to AS 19.75.211(c) [NOT WITHSTANDING ANY OTHER PROVISION OF LAW]"

Page 4, Following line 31:

Insert a new bill section to read:

"* Sec. AS 19/75/211(c) is amended to read:

(c) The authority may not issue bonds under this chapter without prior approval from the legislature. If the [THE] authority receives legislative approval, the authority may issue bonds in an aggregate amount not to exceed \$500,000,000 plus the cost of issuance.

Renumber the following bill sections accordingly.

[3:24:47 PM](#)

Co-Chair Meyer OBJECTED for the purpose of discussion.

[3:24:51 PM](#)

SUZANNE ARMSTRONG, STAFF, SENATOR KEVIN MEYER, spoke to Amendment 2. She related that the amendment proposed to put in place a sideboard on the authority of KABATA to issue bonds. Under current authorizing statues KABATA was authorized to issue bonds at an aggregate amount not to exceed 500 million plus the cost of issuance. She explained that a question had been raised concerning the retention of KABATA's bonding authority, if the state was issuing bonds for the project. The amendment stipulated KABATA had to receive legislative approval prior to the issuance of the bonds.

[3:26:27 PM](#)

Representative Neuman approved Amendment 2 as a "friendly amendment".

[3:27:12 PM](#)

Co-Chair Meyer WITDREW his OBJECTION.

There being NO OBJECTION, Amendment 2 was ADOPTED.

[3:27:32 PM](#)

AT EASE

[3:29:00 PM](#)

RECONVENED

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Vice-Chair Fairclough understood that if the state passed the legislation it would have approved up to \$300 million worth of bond as its commitment to the process as it was currently presented. She surmised that Amendment 2 stated that KABATA would have to seek legislative approval for an expansion.

[3:30:53 PM](#)

Representative Neuman replied that the amendment spoke to funding concerns.

[3:32:12 PM](#)

Vice-Chair Fairclough inquired whether Amendment 2 only affected the expansion portion of the project.

Representative Neuman understood that the amendment spoke to future expansion of the Knik Arm Bridge.

Vice-Chair Fairclough surmised that if the bill went to the floor, was passed and concurred by the other body, the \$300 million would be approved.

[3:32:51 PM](#)

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, STATE DEBT MANAGER, DEPARTMENT OF REVENUE, replied that the bill would provide all of the pieced of the financing puzzle for the project.

He said that Amendment 2 would eliminate the ability of KABATA to issue toll revenue bonds, which would be supported by toll revenue growth in the future, for an expansion project or other projects associated with the bridge. He agreed that \$300 million in state toll bonds would be authorized with the passage of the bill. The finance plan included: operation and maintenance would be paid by the project; federal funds would be appropriated to the project; a TIFIA loan, for an additional \$350 million, would be supported by a direct pledge of toll revenue from the bridge. He said that there would be no state pledge associated with the TIFIA loan. He spoke to the concern about the elimination of the ability of KABATA to issue bonds to potentially limit the type of arrangement that could be made with TIFIA for purposes of maintaining the TIFIA loan.

[3:35:28 PM](#)

Vice-Chair Fairclough understood that Amendment 1 would protect the state in not allowing the project to advance without the TIFIA loans; Amendment 2 would protect the state on any other kind of bond issuance for expansion by requiring legislative approval for expansion funding.

Mr. Mitchell replied that she was correct in her understanding.

[3:36:17 PM](#)

Senator Dunleavy queried the estimated total cost of the project was.

Representative Neuman replied that the estimated total was approximately \$894,424. He noted that cost overruns would fall back on the builder.

[3:37:23 PM](#)

Senator Dunleavy clarified that the cost was \$894 million and not thousand.

Representative Neuman said yes.

[3:37:28 PM](#)

Senator Hoffman clarified that the cost was for a two-lane bridge.

Representative Neuman replied in the affirmative.

[3:37:37 PM](#)

Senator Dunleavy asked whether there were estimates for a four-lane expansion.

Representative Neuman did not believe that projections for the cost of a four-lane expansion had been run.

[3:38:25 PM](#)

Senator Dunleavy asked whether \$300 million was the state's bonding amount for the project before the committee.

Representative Neuman said yes.

Senator Dunleavy asked for further explanation on the full funding of the project.

Mr. Mitchell replied that additional funding to the state issued bonds the TIFIA loan was anticipated to be \$341.3 million and the additional federal aid that would be needed was \$226 million. He said that the federal funds would be in addition to \$18.9 million in funding that were currently available, but unobligated. The current fiscal years proposed appropriation of \$55 million.

[3:39:56 PM](#)

Senator Dunleavy continued to probe the cost of the project and the obligation to the state.

[3:40:29 PM](#)

Vice-Chair Fairclough thought spoke to the annual payments for the state's bond liability. She asked in what year the state would begin letting bonds for the project.

Mr. Mitchell responded that the state would need to be obligated before additional federal dollars could be spent. He anticipated that debt service on the operating side would ramp-up within the next few years.

[3:42:03 PM](#)

Vice-Chair Fairclough asked for a specific number of years. Mr. Mitchell responded one to three years.

[3:42:14 PM](#)

Senator Olson asked Mr. Mitchell to speak to Page 5, section 5, line 17.

Mr. Mitchell clarified that the bill would create the authority for the state to issue bonds, either the authority or state bonds would be valid and binding.

Senator Olson asked whether Mr. Mitchell supported the language.

Mr. Mitchell said that he had no reservations concerning the language. He added that if the legislature was going to consider that the state issue bonds it should be clear that the pledge would be binding and valid.

Senator Olson inquired whether the payments on the TIFIA loans were backed by the moral obligation of the state.

Mr. Mitchell replied no.

[3:44:04 PM](#)

Senator Dunleavy understood that the top end of exposure to the state for bonding would be \$450 million.

Mr. Mitchell said yes.

Senator Dunleavy surmised that TIFIA funds were not incorporated into that figure; the state did not have a moral obligation for TIFIA.

Mr. Mitchell relayed that operation and maintenance would be paid first and that TIFIA would be paid second. If the revenues were insufficient, TIFIA would need to negotiate with KABATA to develop a plan to rectify the matter. He added that many of the issues would be negotiated in the beginning of financing and that none of the options would include the state appropriating money to pay the TIFIA debt.

Senator Dunleavy thought that if the toll scenario serviced the TIFIA loan what was left over would be servicing the bonds for the state.

Mr. Mitchell responded in the affirmative.

[3:45:26 PM](#)

Senator Olson understood that the state was last in line to be paid back for the project.

Mr. Mitchell responded that the state was third in line; if there was not excess toll collection for the toll revenue bonds then the state would be obligated to consider appropriating money to pay the debt service. In the event that there was excess toll revenue the state would be relieved of the obligations.

[3:46:33 PM](#)

Senator Olson expressed concern that in the event that the TIFIA money needed to be paid back a direct appropriation from the legislature would be needed.

Mr. Mitchell responded that the state was not going to be responsible for the TIFIA portion of the loan. He said that the appropriation that should be considered would be the one associated with the toll revenue bonds of the state.

[3:47:35 PM](#)

Senator Olson understood that the state was not responsible to the TIFIA loan if the tolls came up short.

Mr. Mitchell said that was correct.

[3:47:44 PM](#)

Co-Chair Meyer believed that the TIFIA loan would not be given if the project did not seem viable.

Mr. Mitchell understood that the TIFIA program was designed to be available for projects that were relatively large and otherwise difficult to finance on a long-term basis.

[3:48:36 PM](#)

Representative Neuman spoke to the checks and balances that had been written into the current bill version.

[3:49:10 PM](#)

Co-Chair Meyer inquired what would happen if the state was denied the TIFIA loans.

Representative Neuman said that if the TIFIA loans were not approved then KABATA would need to develop a new financing plan.

Co-Chair Meyer added that the legislature then would be asked for money to fund the project.

Representative Neuman agreed.

Senator Olson asked what KABATA would consider if this were the case.

Representative Neuman said that if the TIFIA loans were not approved KABATA would develop another financing plan to move forward.

Senator Dunleavy wondered about the anticipated plan for the Glenn Highway build-out over the years.

[3:50:24 PM](#)

Senator Olson asked about the approximately \$900 million to build the bridge. He wondered if the costs for the improvements on the northwest side of the bridge had been considered.

Representative Neuman replied that in 2014 the stretch of the Parks Highway between Wasilla and Big Lake would begin construction for a four-lane divided highway. In 2016 a four-year divided highway on Kink/Goose Bay Road would begin. He said that the cost would be approximately \$100 million and was included in the current state infrastructure plan. He added that the Mat-Su Borough, in anticipation of future projects, had created an 800 foot utility corridor from mile 73 to the Knick Arm Bridge area. He anticipated that the best future expansion would be to build a road straight north that would send highway traffic straight north and would reduce the cost of future expansion projects.

[3:54:37 PM](#)

Senator Olson asked what the cost would be for improvements on the Government Hill side of the bridge. Representative Neuman replied that Phase 2 was estimated at \$1.2 billion.

Senator Dunleavy queried the anticipated traffic volume on the bridge.

[3:55:37 PM](#)

Senator Dunleavy inquired about the payment schedule for the TIFIA loans.

Mr. Mitchell said it would depend on final financing. He added that there would be semi-annual payments; \$20-\$25 million, per year, over a 20 year timeframe.

Representative Neuman added that currently there were 19 thousand vehicles per day at the front end of Knik/Goose Bay Road and that DOT had testified that 10 thousand vehicles per day would cover the cost of the bridge.

[3:57:10 PM](#)

Vice-Chair Fairclough wondered if a freight mobility study was included in the backup.

Representative Neuman deferred the question to DOT or KABATA.

[3:58:19 PM](#)

Senator Dunleavy inquired what the estimated minimum and maximum average traffic counts were for the bridge.

JUDY DOUGHERTY, EXECUTIVE DIRECTOR, KNIK ARM BRIDGE AND TOLL AUTHORITY (KABATA), responded that the maximum estimation was 21 thousand vehicles per day. She said that the project only needed to carry two lanes in order to carry the TIFIA debt service. She asserted that the project did not depend on ever expanding to four lanes.

Senator Dunleavy queried the minimum traffic counts.

Ms. Dougherty said that KABATA anticipated that the project would reach 21 thousand vehicles. Immediately following to completion traffic was expected at approximately 6,000 vehicles per day.

[4:01:20 PM](#)

Senator Hoffman requested the maximum number of vehicles that the two-lane bridge would carry.

Ms. Dougherty replied that the anticipation was that the bridge would carry 21 thousand maximum vehicles per day.

Senator Hoffman wondered how long a vehicle could be delayed at the tollbooth.

Ms. Dougherty replied that the tolling would be electronic; cars would have a transponder and there would be no delay in passing through the tolling mechanism, tourists included.

Senator Hoffman asked how tourists would be charged.

Ms. Dougherty responded that tourists did not generally travel in their personally owned vehicles. She stated that KABATA would have payment arrangements with all vehicle rental companies.

Co-Chair Meyer understood that the system had worked in other states.

[4:03:12 PM](#)

Senator Hoffman recalled that it had been previously stated that expanding the two-lane bridge into a four-lane bridge would cost an additional \$300 million, which he believed was a low estimate. He said that Page 19 of the audit noted an approximate cost of \$1.6 billion. He requested that the department weigh in on the possible cost of an expansion.

JEFF OTTESEN, DIRECTOR, DIVISION OF PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, replied that the estimate seemed low because the bridge supports would already be built, the embankment leading to the bridge will have already been built giving KABATA the right-of-way. He stressed that a lot of the work will have

already been done in Phase 1, which was why the cost for the first phase was high.

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Senator Hoffman asked if Mr. Ottesen stood by the \$300 million figure for Phase 2, and if so how did the department rectify the \$1.2 billion to \$1.6 billion proposed by KABATA as the cost for project.

Senator Hoffman insisted that the department answer the question and not KABATA, because KABATA had no experience building bridges or constructing roads.

Mr. Ottesen replied that the numbers for the two projects were hard to reconcile; they started with different assumptions and were working under a "3P" model. He relayed that the 3P approach involved profit on top of everything. The project had a 3P constructor, financier and designer, operating with higher rates of interest on the project and a profit motive on top. He reiterated that the model was different. He said that the state would pay interest of approximately one-third of the cost to construct and not on three-thirds. He said that the state was paying a lower rate of interest on that same borrowing. He added that the state would not pay profit on 100 percent of the cost of the project. He said that the state was assuming more risk with the assumption that it was getting a better deal.

[4:07:51 PM](#)

Senator Hoffman inquired if the administration stood by the estimate of \$300 million for Phase 2 to build an additional two lanes.

Mr. Ottesen replied in the affirmative.

Ms. Dougherty clarified that the estimate for Phase 2 was actually \$550 million and not \$300 million. She said that the cost included the widening of the bridge. She shared that there were project extensions that were part of Phase 2 that included 9.5 miles of two-lane roadway along Point MacKenzie Road. She asserted that the bridge itself could cost \$300 million, but the project extensions and connections were part of Phase 2 and were options to add once traffic was at a point where the extension would be necessary.

Vice-Chair Fairclough queried Ms. Dougherty's work experience was before she went to work for KABATA.

Ms. Dougherty responded that she worked for 22 years at the Department of Transportation and Public Facilities. She noted that a large part of her career was spent on the Seward Highway. She felt that she brought extensive experience to the project.

[4:10:50 PM](#)

Senator Dunleavy understood that the TIFIA loans and state bonds could potentially be paid if the average carload was 13,500 per day at \$10 per toll.

[4:12:34 PM](#)

Senator Dunleavy inquired if there was a plan to expand the Glenn Highway.

Mr. Ottesen replied that there was a series of projects that had been laid out in a long-range plan by the Anchorage Metropolitan Transportation Authority. He said that most of the projects had not been funded and no design or environmental work was being done. He said that there was a plan but that no actual work was being done.

[4:14:35 PM](#)

Senator Hoffman asked what toll figure the department had used for calculating the payback of the loans and bonds.

Ms. Dougherty responded that KABATA anticipated that the toll would start at \$5 per passenger car and approximately \$18 per truck in the opening year. She thought tolls would grow with inflation.

[4:15:38 PM](#)

Mr. Ottesen commented that there was no other highway project in the state that was proposing to pay all of management and operations and much of its capital costs. He said that if the state did not build this project, and had to build capacity between Anchorage and Mat-Su, it would have to build along the Glenn Highway Corridor. He said that project would need federal aid or state funds and that none of it would be paid for by the user base.

Co-Chair Meyer understood that building along the corridor would cost \$600 million.

Mr., Ottesen replied that yes. He added that once you got into the Mat-Su and began moving traffic through the Wasilla Corridor the cost would grow considerably. He said that the traffic was being created by the growth of the two corridors.

Mr. Ottesen clarified that the \$600 million was the current estimate for widening the Glenn Highway out to the Mat-Su Borough area.

[4:17:23 PM](#)

Senator Dunleavy understood that other planned expansions would occur regardless of whether KABATA moved forward with the project.

Mr. Ottesen said yes.

Senator Olson noted that the state was facing financial struggles. He expressed concern that the project would cost the state more than expected and that the state's bond rating could be negatively affected.

Mr. Ottesen responded that he could not speak to the solvency of the state's finances. He said that he had been in the state since 1977 and had worked in transportation since 1987. He shared that he was here for the crash in 1987. He asserted that Alaska bounced back because it was a resource state. He believed that growth would continue. He said that the 2008 recession only dropped traffic in Alaska by 4 percent.

[4:21:26 PM](#)

Senator Olson noted that the 2008 recession had little effect on Alaska. He clarified that he was referencing the recession that occurred in the mid 1908's. He reiterated his concern that the project would prove too expensive and could prohibit the state from entering into other projects.

Mr. Otteson responded that there were cases where it did not make sense for the state to invest in projects directly when industry could finance improvements. He thought that

the KABATA project was a good example of building transportation in the way that would cost the state less overall. He asserted that the state was going to get the chance to build the bridge with someone else footing a large portion of the expenses.

[4:23:18 PM](#)

Senator Olson thought that the original plan for KABATA evolved into the state taking on the majority of the financial responsibility.

Mr. Ottesen replied that the original plan was to pay for the project with earmarks. Then earmarks became a tainted issue and were protected by the late Senator Stevens through relabeling, which resulted in the loss of half of the earmarked funding. He felt that the funding plan, as it was currently set up, was sound.

[4:24:47 PM](#)

Senator Olson worried about future financial issues. He believed that that money would be taken from other projects in order to fund the bridge. He wondered what the plan was for projects that were yet to be completed.

Mr. Ottesen responded that the department would be delaying projects but that projects would not be cancelled, technically. He asserted that the majority of the project would be built with a 1 to 2 year delay and many would not be delayed at all.

Co-Chair Kelly commented that bridges and dams were built in the country during the Great Depression. He pontificated on the merits of the project.

[4:28:26 PM](#)

Senator Hoffman stated that he had just come from a groundbreaking for a new bridge in Western Alaska at Aleknagik, and understood what the dream of a new bridge could bring to people of the state. He said that he had worked with the department on the Aleknagik Bridge for over 20 years to build the bridge and wondered if the KABATA project would take as long to complete.

[4:29:43 PM](#)

Representative Neuman stated that there had been a lot of talk regarding traffic revenues and the different advantages of the project. He noted that one thing that had not been discussed in relation to the project was what would happen to the state's communities if these types of infrastructure projects were not pursued. He worried that the growth of Medicaid was a measurement of the health of Alaskans. He opined the possibility the state would not have infrastructure projects to attract capital money from other entities that wanted to invest in the state. He said that without projects like KABATA the state would fall apart.

[4:33:51 PM](#)

SUZANNE ARMSTRONG, STAFF, SENATOR KEVIN MEYER, spoke to the fiscal notes attached to the bill.

[4:36:05 PM](#)

Vice-Chair Fairclough commented for the record that she drove on the Glenn Highway every day and sometimes had to wait between 30 minutes and 2 hours to get home. She said that the highway was heavily used. She stated that passing KABATA had been a dream for the Anchorage area since 1960 and the project had only increased in cost. She felt that the project would lower the cost of goods and services, decrease carbon emissions, lower drive time and improve public safety. She said that nearly all of the available land was located in the Eagle River/Chugiak area. She relayed that development had caused flooding problems in her community and had resulted in major clean-up projects.

[4:41:47 PM](#)

Vice-Chair Fairclough believed that the project was a greater public service issue for the people that lived in the Anchorage and Mat-Su area. She supported the financing structure in the current bill version. She stated that safeguards in the legislation required a phased approach and that the TIFIA loans would be repaid based on the numbers given to the federal government.

[4:43:58 PM](#)

Senator Olson believed in the development of residential areas. He warned that the state was headed into a recession and that people would be leaving the state. He thought that if the state had plenty of reserves and a revenue surplus the project would be better timed. He strongly believed that the state would not be able to support the project financially.

[4:46:07 PM](#)

Vice-Chair Fairclough MOVED to REPORT SCS 2dCSHB 23(FIN) as amended out of committee with individual recommendations and the accompanying fiscal notes.

Senator Olson OBJECTED for the purpose of discussion. He reiterated his concern that the state could not afford to go forward with the project. He believed that the timing was wrong.

Senator Olson MAINTAINED his OBJECTION.

[4:49:12 PM](#)

Senator Dunleavy said that he had been skeptical on the original funding for the project. He believed that the funding plan in the current version had renewed the viability of the project.

[4:53:51 PM](#)

Co-Chair Meyer requested a roll call vote.

[4:54:33 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Fairclough, Hoffman, Dunleavy, Kelly, Meyer
OPPOSED: Olson

[4:53:57 PM](#)

SCS 2dCSHB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Revenue and a zero fiscal note from the Department of Transportation and Public Facilities.

[4:54:39 PM](#)

AT EASE

[5:02:29 PM](#)

RECONVENED

#sb218

SENATE BILL NO. 218

"An Act relating to the Alaska Municipal Bond Bank Authority; and providing for an effective date."

[5:02:58 PM](#)

Ms. Armstrong presented an analysis of the legislation. The bill would allow for continued operation of the Alaska Municipal Bond Bank by increasing the borrowing limit of the Bond Bank from \$1 billion to \$1.5 billion. The legislation would provide an opportunity for the Bond Bank to assist the University of Alaska with financing a heating or energy capital project and would expand the list of Bond Bank activity to include the university for an amount not to exceed \$150 million.

[5:04:04 PM](#)

Co-Chair Meyer understood that the program had popular and had been in place for a while, which had prompted the request that the ceiling be raised.

Mr. Mitchell said that the Bond Bank currently had bonds outstanding of approximately \$905 million. He shared that the Bond Bank was a program that provided lower cost funds to Alaskan municipalities and certain other entities within the state. The program would result in Alaskan's paying less interest expense to third party lenders. He explained that the Bond Bank was an AA plus rated bank for bonds primarily in the tax exempt markets. He relayed that the Bond Bank had approximately \$95 million left of capacity and \$80 million of applications for the program; without additional authority from the legislature the Bond Bank would not be able to continue work in cost reduction for municipalities. He noted that the state was not paying the debt service on the bonds directly and that the core of the repayment of the funds came from the municipalities. He highlighted that in the 40 year history of the program there had not been a single case of payment default. He continued to expound on the merits of the program.

5:08:16 PM

Co-Chair Meyer asked whether there was concern that municipalities might not be able to pay back a loan.

Mr. Mitchell responded that the Bond Bank program had a financial advisor and a board of directors. He said that the advisor would independently analyze a loan application submitted by a community to study trends in the community, changes in revenue generation, change in population, economic activity and assessed value. The advisor would also consider the essentiality of the project. The board of directors would review the advisors recommendation and deliver a decision on the loan application. He said that in an effort to direct communities to success strong applications that were likely to be approved were typically brought to the board.

5:11:07 PM

Co-Chair Meyer understood that the university had the option of using a different program to acquire funding for the power plant. He believed that the university would receive a lower interest rate through the program rather than bonding themselves.

Mr. Mitchell said yes. He added that there were other allowances in statute for the Bond Bank to participate in loans. He noted that it provided a financial option but was not a requirement.

Vice-Chair Fairclough asked how much was paid off in loans each year.

Mr. Mitchell responded that the state paid off approximately \$35 million each year. He added that the state had a mature portfolio; each year the state had declining debt service and not level debt service because the bonds were all staggered into the past.

Vice-Chair Fairclough queried the expectation of the additional \$350 million in bonding authority.

Mr. Mitchell said that the program was going to be within the next 12 to 18 months, in a position where the statutory limit to borrow would be reached. He added that the distribution of the \$350 million would depend on future

projects being developed at the local level that made fiscal sense and could be repaid.

[5:14:43 PM](#)

Vice-Chair Fairclough wondered how the Bond Bank's credit rating interacted with the state's credit rating.

Mr. Mitchell replied that both were closely aligned. The Bond Bank had a moral obligation structure established in statute; additionally, the bank had an annual appropriation in the operating budget that automatically replenished the reserve fund in the event of borrower default.

[5:16:35 PM](#)

Vice-Chair Fairclough queried the division of loans in urban and rural communities.

Mr. Mitchell responded that there were policies, regulations and statutory reference to prioritization of the type of projects that would be funded, but that there was no regional differentiation. He said that smaller municipalities were more difficult to lend to because they tended to have a limited ability to repay the state.

[5:18:29 PM](#)

Vice-Chair Fairclough asked if the bank considered the state's credit rating when issuing bonds.

Mr. Mitchell said that the concept of moral obligation debt was part of the conversation around debt capacity and credit ratings. The program's history as a credit enhancement did not play a large role in the debt capacity analysis. He discussed the bond program and how it could relate to Public Employees' Retirement System (PERS) liability.

[5:21:31 PM](#)

AT EASE

[5:22:08 PM](#)

RECONVENED

Co-Chair Meyer discussed housekeeping.

5:23:03 PM

Co-Chair Meyer CLOSED public testimony.
SB 218 was HEARD and HELD in committee for further
consideration.

#

ADJOURNMENT

5:23:45 PM

The meeting was adjourned at 5:23 p.m.