

SENATE FINANCE COMMITTEE

April 24, 2015

1:35 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Senator Cathy Giessel; Senator Mia Costello.

SUMMARY

^PRESENTATION: ALASKA PUBLIC DEBT

^PRESENTATION: DEBT MANAGEMENT POLICIES and STATE DEBT CAPACITY

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DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, pointed out that the two documents that would be referenced during the meeting were, "Alaska Public Debt" (copy on file) and "January 2015 State of Alaska State Bond Committee Debt Management Policies And State Debt Capacity" (copy on file) were published annually.

Mr. Mitchell directed the committee's attention to the summary Table 1.1 on page 5 (5 of 55) of the "Alaska Public Debt" publication that listed the types of obligations the state held ranked by "level of commitment." The types of obligations are listed as follows:

- State Debt
- State Supported Debt
- State Guaranteed Debt
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt
- Industrial Development Bonds

Mr. Mitchell reported that state debt represented the highest guaranteed commitment the state made in the form of general obligation bonds (GO). The "full faith and credit" of the State are pledged to the payment of principal and interest on GO debt. As of June 30, 2014, the State had \$803.8 million in outstanding GO bonds. The figure included \$170 million in bond anticipation notes. In addition, \$452 million was authorized from 2012 for transportation projects that were not fully issued and approximately \$20 million in principle was retired. Therefore, approximately \$430 million of additional long-term fixed rate debt was potentially issuable in the coming years for transportation projects.

Co-Chair MacKinnon asked for clarification regarding the total indebtedness. Mr. Mitchell clarified that the total principal outstanding totaled approximately \$1.070 billion. He pointed out that the state was paying off debt at a rapid rate; in FY 2015 the state paid off approximately \$50 million in principle and was expected to pay \$47 million in FY 2016 and \$40 million in FY 2017.

Vice-Chair Micciche reiterated that the current principal balance was \$803.8 million; \$453 million in transportation GO bonds of which \$190 million was encumbered and left \$263 million remained for a total indebtedness of \$1.065.8 billion. He asked for concurrence.

Mr. Mitchell answered in the affirmative except for an additional deduction of \$50 million in principle payment for FY 2015.

Co-Chair MacKinnon asked if Mr. Mitchell could provide a graphic chart to depict debt over the subsequent five years. Mr. Mitchell stated that the information could be provided, and directed the committee's attention to page 49 a historical summary of "Alaska Debt Service on outstanding State Supported Debt as of June 30, 2014." He delineated that the table included GO bonds, university debt, lease purchases and certificates of participation, Capital leases, school debt reimbursement, and capital project reimbursements information. Starting on page 50 the table became prospective through FY 2039. He furthered that the figures for school debt reimbursement were based on actuals that were outstanding as of June 30, 2014 and did not include any type of transaction information for FY 2015.

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Senator Dunleavy asked what the current total school debt reimbursement was. Mr. Mitchell referred to page 5, and noted that the state's portion of the school debt reimbursement as of June 30, 2014 was \$859.6 billion listed on the table as "State Reimbursement of Municipal School Debt Service."

Senator Dunleavy inquired whether any other school related debt existed. Mr. Mitchell pointed to page 6, that listed the total school GO bond debt of \$1.273.3 million, which included the \$859.6 million figure. The remaining amount was the portion to be levied on local communities.

Co-Chair MacKinnon explained that she had a concern related to the financial health of municipalities and how they could meet their bond obligations if the state was unable to pay its part of the debt. She reminded the committee that state statute did not bind future legislatures to pay it portion of municipal school debt. She asked whether the only option for the state to repeal the "\$263 million of outstanding" debt was by vote of the citizens of Alaska to repeal the bonding authority.

Mr. Mitchell replied that to the extent that municipal grants were included in the proposition, a majority of voters was needed to rescind the bonding authority.

Co-Chair MacKinnon asked that out of the \$263 million in outstanding debt, how much was under the state's control to

release the debt and how much was under municipal control. In addition, she wondered "what was the probability of how much of that money would be sold in a market."

Mr. Mitchell was unable to recall the exact figures from the 2012 Transportation Act. He remembered that approximately one quarter to one third of the amount were municipal grant projects with the balance comprised of bonds for Department of Transportation and Public Facilities (DOT) projects.

Co-Chair MacKinnon asked Mr. Mitchell to provide the information to the committee.

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Co-Chair MacKinnon reiterated her questions prior to the at ease. Mr. Mitchell explained that when a GO bond authorization was approved by the voters, the bond bank authority compiled a memorandum of understanding (MOA) between all of the state agencies involved. The transportation bonds involved the Department of Commerce, Community and Economic Development (DCCED) and DOT; the two agencies were dispersing the funds. The DCCED allocation was in the form of municipal grants. The bond bank requested quarterly cash flow estimates as part of the MOA. The bank issued debt based on the cash flow estimates to ensure the projects were funded "in time but not in advance." He related that when tax exempt municipal debt was sold the expectation was that the money would be expended within three years. The first time the state had issued "new" money bonds since 1987 was in 2003. At the time, it was anticipated that interest rates would rise, which created pressure to sell all of the transportation bond authorizations to a certain market. The bond bank sold the entire authorization based on an executive directive but did not begin to expend the funds until 2006. He noted that the state did not comply with its' stated intent in regard to expenditure of the funds within three years. The lack of compliance subjected the state to a "negative penalty." Subsequently, the bond bank strove to pay for its actual expenditures within a two year cycle. Most of the projects had cash flows but he was uncertain whether the

projects could be completed with the funding available. Further investigation was warranted to determine the amount necessary to bring the projects to completion.

Co-Chair MacKinnon asked what the total annual payment amount was under the State Debt category (GO bonds). Mr. Mitchell specified that the general obligation portion of debt payment was \$88 million for FY 2015. In addition, the state paid annually for "State Supported Debt." He restated the items included as "State Supported Debt" according to the table on page 49. State supported debt were obligations of another public issuer, such as municipalities or other political subdivisions that the state agreed to reimburse on a subject to appropriation basis. However, default on lease purchase financings and capital leases would be considered a default of state credit obligations. He elaborated that not included in lease purchase financing on page 49 was the Alaska Native Tribal Health Consortium (ANTHC) bond issue for residential housing issued in September, 2014 with a debt service of \$2.9 million annually out of a \$30 million obligation. Capital leases included the Atwood Office Building and Parking Garage with AHFC and the Goose Creek Correctional Center [financed with the Matanuska Susitna Borough]. The Anchorage jail will be paid off in FY 2016. The total debt service for capital leases was \$26.4 million in FY 16; Goose Creek debt service amounted to approximately \$17.8 million, the Anchorage Jail was \$1.9 million, with the remainder for the Atwood Building parking facility.

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Co-Chair MacKinnon asked whether the state had done any calculations regarding paying off the Goose Creek facility. Mr. Mitchell confirmed that the state had discussed the issue. He specified that \$164 million in par [principle] had a call date of 2019; the bonds were issued in December, 2008. He conveyed that a call date of 10 years was typical with municipal bonds. The bond bank refinanced the 2026 through 2039 maturing bonds, which currently have a call date of 2025. The 2019 through 2025 maturities had a call date of 2019.

Co-Chair MacKinnon asked whether the decisions regarding paying off a loan in order to save interest were brought to the legislature or administration.

Mr. Mitchell replied that the decisions were an executive decision made by the State Bond Committee, described in the "Debt Management Policies" document. He added that the minimum threshold was 3 percent and present value savings was a percentage of the refunded bonds. Refinancing the Goose Creek facility saved 8.7 percent in present value savings or \$8.7 million in savings, or over \$10 million on a nominal basis.

Co-Chair MacKinnon clarified that the discussion pertained to state supported debt and asked whether any more information was outstanding regarding municipal school debt.

Mr. Mitchell noted there had been questions about trends in debt, and referred to historical information on school debt reimbursement on page 49. He noted that through the mid-1980's through the early 1990's the school debt reimbursement program was at or above the levels seen today on a dollar basis. Mr. Mitchell referred to the recent presentation by David Teal, [Director, Legislative Finance Division], which discussed the state's history of revenue generation and expenditure since the 1980's. He mentioned that the same sort of trends on the columns [state supported debt] on page 49 existed on outstanding debt, which decreased, with the exception of lease purchasing. The state was focused on paying off its obligations and new borrowing was rare. In the early 2000's, the state trended to "funneling the states credit through another entity like the Alaska Housing Finance Corporation (AHFC) or municipalities." He opined that the state should have recognizes its obligations more directly through the lease purchasing category rather than acting like the debt was not a direct commitment of the state. The state appropriated undesignated general funds to directly repay the AHFC or municipal funneled debt service. He shared that investors disliked financing the Goose Creek Correctional Facility as municipal debt with the Matanuska Susitna Borough. The investors thought that the facility was privately operated and were less interested in investing. The state had to convince the investors that the prison was a lease commitment of the State of Alaska. The state ran the risk of bonding at higher interest rates and losing investors when a bond issue like Goose Creek was not described as a direct State of Alaska, Certificate of Participation lease commitment of the state.

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Co-Chair MacKinnon referred to Alaska's credit-worthiness, and wondered whether creditors considered the total value of state assets versus the amount the state was able to borrow or did creditors consider revenue versus credit. She maintained that if the answer was both she wondered how things differed currently than in the 1980's and 1990's when the state was better able to carry the debt load. She referenced suggestions that the state should borrow its way through the current fiscal crisis, which she did not support.

Mr. Mitchell answered that creditors looked at both revenue generation and assets to formulate a full picture to decide credit decisions. He referred to page 51, and discussed the "Total Debt Service to Revenues" column, remarking that debt service to revenue was what was considered to determine the state's debt capacity for decades. He noted that in the 1987 when revenues decreased the debt service as a percentage of unrestricted revenue increased to 15.8 percent, which resulted in "an impairment of the state issuing additional debt." He pointed to the projected FY 2015 (based on the fall forecast) total debt service to revenues at 8.5 percent. The stated targeted debt service at 8 percent and targeted 5 percent for total state debt service which was projected at 4.3 percent. The FY 2016 projected debt service to revenue ratio was 9.1 percent.

Co-Chair MacKinnon asked whether the reason the projected debt to revenue percentage was increasing was due to decreased revenue coming into the state.

Mr. Mitchell affirmed. He remarked that last year's projections were satisfactory and that the increased ratio was a function of revenue volatility. The volatility created a challenging situation for the state from a credit perspective. He commented that the state reserves acted as "shock absorbers" during periods of volatility and reminded the credit rating analysts of Alaska's reserve positions. He cited the ratings history table (Table 5.3) on page 54, and pointed out that in 1980 that state's credit rating was a low double A.

Co-Chair MacKinnon asked about 1987 when the state's debt service to revenue ratio was 15.8 percent. She wondered whether the state's credit rating dropped. Mr. Mitchell

responded in the negative and noted that the credit rating at the time was double A negative or flat.

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Senator Dunleavy announced that there was a philosophy regarding issuing new bonds to pay off debt, and wondered when Mr. Mitchell considered it to be a good practice.

Mr. Mitchell extrapolated that under the scenario where the state was paying high interest rates for debt, the state could refinance with a different form of debt. He furthered that years ago the state considered pension obligation bonds. He defined the concept as theoretical debt that was amortized at 8.25 percent repaid with lower interest debt and theoretically keep the difference and consider it savings.

Senator Dunleavy asked whether the advantage to the state in maintaining a high bond rating was to take on debt at a lower interest rate. Mr. Mitchell answered in the affirmative.

Vice-Chair Micciche asked where the state's total debt service to revenue ratio limit of 8 percent was derived from. Mr. Mitchell confirmed that 8 percent was "an Alaskan metric based on past analytics." The limit was similar to what might be considered in other states. He referred to Table 2, page 7 of the "Debt Management Policies and State Debt Capacity" document and pointed out that several other states maintained an 8 percent limit.

Vice-Chair Micciche asked about the bond bank's evaluative process regarding bond refinancing. Mr. Mitchell reiterated that typically a bond was issued with a "10 year par call", which meant the bond cannot be refinanced before the 10 year call date. However, a one-time opportunity called an "advance refunding" was available. He defined that an advance refunding refinanced the bonds prior to the ten year call date, by borrowing money and placing it into an escrow account with a third party. The money was sized to pay the interest expense on the bonds the state wanted to call in the future. Therefore, the money in escrow provided the cash flow that payed off the old high interest debt and the state also paid current advance refunding debt service.

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Vice-Chair Micciche asked whether the bonding agency set the margin between the "old rate and the refinanced rate." Mr. Mitchell specified that the market rate of the day set rates. Opportunities to refinance were available when interest rates dropped or through the passage of time. He detailed that the interest rate on the bonds were priced for each year. In a standard rising interest rate environment the shorter the term the lower the interest rate.

Vice-Chair Micciche asked whether presently, Alaska had any outstanding 4 percent to 6 percent interest rate bonds. Mr. Mitchell stated that the Department of Revenue (DOR) recently refinanced a 2009 GO bond issue worth \$100 million which generated a \$7.5 million savings in present savings. Currently, no opportunities for refinancing existed.

Senator Bishop referred to refinancing through an escrow account [advance refunding debt], and wondered what the advantage was. Mr. Mitchell clarified that the scenario was an opportunity to "lock in" savings that were afforded by a certain interest rate environment when uncertainty existed about the interest rate at the call date of the bond.

Senator Hoffman asked what the initial interest rate for the Goose Creek facility financing was and what the interest rate was currently. Mr. Mitchell stated that initially in 2008, the interest rate was approximately 6 percent. The current interest rate on the refunded bonds was approximately 3.5 percent.

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Co-Chair MacKinnon asked about GARVEE bonds. Mr. Mitchell related that the state had GARVEE eligible bonds in 2003 that were issued for 10 years and were paid off in 2013.

Co-Chair MacKinnon asked whether GARVEE bonds were available for the state transportation bond projects for deferred maintenance.

Mr. Mitchell responded in the affirmative, and reported that the GARVEE bonds were still "viable." The amortization period was shortened. GARVEE bonds required that the federal receipts were dedicated to the bond issue. The state was not able to dedicate revenue which limited the state's use of GARVEE bonds. The state lacked alternative

bonding options, therefore the transportation bonds were sold as a GO bonds.

Senator Bishop inquired whether the state was "pre-spending" federal dollars with GARVEE bonds. Mr. Mitchell answered in the affirmative.

Co-Chair MacKinnon asked whether Senator Bishop's definition of GARVEE bonds was complete. Mr. Mitchell explained that the intent of GARVEE bonds were to meet the needs of priority projects regarding life and safety or other crucial needs that could not wait for the time it took for a state to accumulate enough funds to build the project. The GARVEE bonds were an exception to the tax code rule regarding pledging federal revenue to a tax exempt bond issue.

Senator Hoffman referred to the credit rating history on page 54, and wondered what the administration thought would happen to Alaska's high AAA bond rating in the next five years and whether additional costs would be incurred as a result of a rating downgrade.

Mr. Mitchell offered that the state had been "notified" by all three rating agencies in December, 2014 subsequent to publishing the fall revenue forecast regarding bond ratings. The rating agencies general concern was how the state would manage its resources in the midst of declining revenues. The state achieved the AAA bond ratings partly due to its "extraordinary reserve position." The agencies concern was prompted by the state's anticipated need to draw on its reserves to cover revenue shortfalls. He notified the committee that Moody's Investor's Service, in December, 2014 placed the state on "negative outlook;" a 30 percent expectation of downgrade in the next 18 months.

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Co-Chair MacKinnon announced that she obtained a report from Fitch Rating Agency. She shared that at least 15 states had an AAA bond rating. She asked for concurrence. Mr. Mitchell did not have the information available to answer the question.

Co-Chair MacKinnon discussed refinancing, and asked whether the state considered the amortization period in regards to

debt. She suggested the option of refinancing shorter loans for longer periods thereby creating lower payments.

Mr. Mitchell stated that the state previously amortized its debt over a ten year debt service structure. Over time the state moved away from that approach and currently amortized bonds over a longer periods of time on a case by case analysis. Most of the states GO bonds were amortized over 20 years some even longer predicated on tax credit advantages. He detailed that some of the 2010 bond authorizations were sold under the "Build America" bond structure and "Qualified School Construction" bonds. He noted that the Qualified School Construction bond offered a tax credit eligible for state allocation of approximately \$35 million reimbursed by the federal government for 99.9 percent of the state's interest expense. Currently, the reimbursement rate was approximately 93 percent for the state's interest expense. He remarked that the state took full advantage of the "advantageous structure" of the Build America bonds for as long as possible. He mentioned that the Alaska Native Tribal Health Consortium bond issue was amortized for 15 years based on the legislation. He expounded that in general, extending outstanding debt service was viewed as a "credit negative." He exemplified the state of Illinois, which borrowed significant amounts of money of long-term debt to pay current year pension system obligations that placed negative pressure on its bond rating. He qualified that any decisions around financing debt should be understood in terms of the action's consequences.

Vice-Chair Micciche conveyed that he disapproved of the idea of the state extending debt.

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Co-Chair MacKinnon agreed and related that the public's suggestions in emails and correspondence in response to the state's revenue crisis was being considered in an effort to examine all of the options in seeking a solution.

Co-Chair MacKinnon referred to state-guaranteed debt and other types of public debt, and asked Mr. Mitchell to elaborate on the cost of the debt, interest rates, and amortization periods in his discussion.

Mr. Mitchell reported that interest rates varied from market to market but a correlation existed between the level of pledge and relative interest rate; the state's full faith and credit [State Debt] representing the highest level corresponding to the lowest interest rate. He noted that currently interest rates were very low; GO bond debt interest rates were approximately 3 percent amortized over 20 years. He discussed State Guaranteed Debt. He summarized that in 1982, voters approved an amendment [Article IX, Section 8] to the Alaska Constitution] that permitted the state to guarantee unconditionally as a full faith general obligation of the State, the payment of principal and interest on revenue bonds issued by AHFC for the purpose of purchasing mortgage loans made for residences of qualifying veterans (Veterans Mortgage Program.) The bonds were rated AAA based on their own collateralized mortgages and the states full faith pledge. The loans were diminishing; in 2003 the loans totaled \$320.4 million and currently totaled \$73.5 million. He continued with the next type of debt, State Moral Obligation Debt. He defined that the debt consisted of bonds issued by state agencies which were secured, in part, by a reserve fund. In the event of a default on a draw on the reserve fund, a report must be submitted to the legislature; required by statute, which created a "moral obligation" by the state to act on the notification and replenish the reserve fund.

Mr. Mitchell cited the growth in moral obligation debt; in 2003 the debt total \$256 million in contrast to the FY 2014 balance of \$923 million.

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Co-Chair MacKinnon asked whether it was worth maintaining the state's AAA bond rating for the sake of municipalities and other entities that employed state moral obligation debt if the state got out of the business of borrowing directly.

Mr. Mitchell stated that even if the state was not currently interested in borrowing, the state's position might change in the future, therefore the interest difference between AAA and AA bond rating might not be as significant in a low interest environment but would be at higher interest rates. He spoke to the difficulty of raising a credit rating as opposed to the ease of lowering it, and maintained that if the state were to fall to an AA

credit rating, it would be very difficult to regain the AAA rating. He referred to municipal debt issued by the Bond Bank as an example of the state providing credit support. He detailed that as the Bond Bank issued education and capitol project funding to communities, an estimated 50 percent of the debt was eligible for the school debt reimbursement program and the state by extension, was paying for the debt service. He thought that the example was a powerful use of the state's credit rating.

In response to a question by Co-Chair MacKinnon, Mr. Mitchell clarified that half of the state's municipal bonds were issued to municipalities that were building school facilities and out of that amount some portion was reimbursable by the state of Alaska through the School Debt Reimbursement program depending on the specifications of the project.

Co-Chair MacKinnon asked whether communities were accessing more than one program for school debt. Mr. Mitchell pointed to page 6 and cited the total School GO debt service of \$1.273.3 billion under the municipal debt umbrella, \$859.6 million of state reimbursable debt was a portion of the GO bond debt and the \$460 million from the Alaska Municipal Bond Bank would be included in the GO bond total. He offered that "it was a web of participation and reporting.

Co-Chair MacKinnon asked why the Alaska Municipal Bond Bank carried an obligation dating back to 1976. Mr. Mitchell explained that "there was a master indenture crafted in 1976 under which bonds were sold until 2005. In 2005, a new master indenture was created called the "2005 program." Under the program created in 1976 the final bonds issued will mature in February of 2016 and the entire 1976 program will mature.

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Co-Chair MacKinnon articulated that "some of the problems she had with debt" was paying for repair while still not having paid off the cost of construction. She wondered how the legislature "could take care of bonding for things that had life cycles inside of the debt structure."

Mr. Mitchell believed that required revisiting how the school debt reimbursement program actually worked. He delineated that the program was administered by the

Department of Education and Early Development (DEED) and the issuance of the bonds were done by municipalities or the municipalities through the Alaska Municipal Bond Bank. He guessed that even if a facility had existing debt outstanding it did not limit the municipality from issuing additional debt and qualifying for the program.

Senator Dunleavy commented that the life expectancy of recently constructed buildings was approximately 30 years, which he considered a "consumable" or operating expense that required continuous minor and major maintenance as opposed to being a capital investment.

Senator Bishop asked what the model design and build requirements should be going forward. He wondered whether the state was going to design and finance 30 year buildings or construct buildings that would last 50 or 100 years.

Mr. Mitchell discussed the Alaska Energy Authority (AEA) bonds under Moral Obligation Debt. He reported that the bonds were outstanding and financed under the Alaska Energy Program. The balances were diminishing each year with no new activity since 2003. He mentioned the Alaska Student Loan Corporation with \$243 million of moral obligation debt that was diminishing since 2003. He noted that the total moral obligation debt service was \$1.245 billion compared to \$940 million in 2003, which reflected the growth in the Alaska Municipal Bond Bank.

Co-Chair MacKinnon noted that she introduced legislation that asked the citizens to consider a constitutional amendment regarding the huge debt that college students were carrying across the country. The interest rate on college debt was much higher than other types of loans. She inquired whether the Alaska Student Loan Corporation debt was increasing or decreasing.

Mr. Mitchell asserted that he was not an expert on the Student Loan Corporation but thought that its debt was decreasing because other lower interest loan alternatives were available.

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Co-Chair MacKinnon asked if Mr. Mitchell could furnish her office with information about whether fewer students were accessing the program because it was so costly and wondered

whether the administrative costs were rolled into the program and driving the debt higher. She stated that a constitutional amendment would enable a one percent savings. Mr. Mitchell agreed to supply the information.

Mr. Mitchell moved to State Revenue Debt. He explained that Sportfish Revenue Bonds were sold in 2005 for a portion of the cost of sportfish hatcheries in Anchorage and Fairbanks partially supported by a surcharge on license sales, which had \$35.3 million of outstanding debt. The surcharge revenue was used for the debt service. The loans were amortized through 2025 but were expected to be retired in 2020 depending on sport fishing license sales.

Senator Bishop deduced that there was not a penalty to pay off the bond before the call date. Mr. Mitchell answered in the affirmative and noted that the bonds were structured with optional redemption allowances that allowed a 3 or 7 year call on the original issue.

Co-Chair MacKinnon commented that the sportfish license revenue stream was dedicated.

Mr. Mitchell noted that a revenue stream can be dedicated if it existed prior to statehood. The sportfish bonds were dedicated under federal law.

Co-Chair MacKinnon asked whether the federal government "allowed or mandated dedicated funding streams." Mr. Mitchell responded that the federal government mandated dedicated funding streams.

Co-Chair MacKinnon asked whether the bond payment excess from the sportfish license revenue could be used in other areas of the state that wanted sportfish hatcheries to "create increased harvest opportunities."

Mr. Mitchell responded that the scenario was possible but required an extension of the surcharge which necessitated legislation.

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Co-Chair MacKinnon asked whether the surcharge was based on a specific year, or expired when the bond was paid off. Mr. Mitchell clarified that the surcharge expired when the obligation was paid off.

Co-Chair MacKinnon surmised that the surcharge was specific to the hatchery bonds and the surcharge would decrease when the obligation was paid off. Mr. Mitchell responded in the affirmative.

Mr. Mitchell referred to International Airport revenue bonds and reported that the bond issues were for the airport in Fairbanks and the majority were for the terminal redevelopment in Anchorage. The bond peaked in 2006 and payments subsequently declined. He added that the bonds were fully self-supported. He spoke to the University of Alaska debt, noting it incurred revenue bonds and lease obligations as part of an installment contract. The university's debt remained relatively "constant" since 2003.

Co-Chair MacKinnon referred to a prior request by University of Alaska President Patrick Gamble who requested bonding for deferred maintenance as a way to reduce overall expenses. She wondered whether the university had embarked on that scenario or were building new facilities.

Mr. Mitchell stated he was unsure of the purpose of the university's bond issues. He recalled that the university's bond issues had been relatively modest for capital projects.

Co-Chair MacKinnon wondered whether, out of the \$140 million shown on the table in university revenue bonds, the university was meeting its payment obligations. Mr. Mitchell answered that the university met its bond obligations from its revenues.

Mr. Mitchell discussed "State Agency Debt." He voiced that state agency debt was not a general obligation of the State and did not provide any security for the debt. He identified the AHFC Commercial Paper program debt currently at \$65 million that decreased from \$150 million in 2003. He moved to the Alaska Municipal Bond Bank Coastal Loan Program, which was a direct National Oceanic and Atmospheric Administration (NOAA) obligation to the communities of St. Paul and Nome. The balance was \$11 million in 2003 and was currently \$10.6 million. He pointed to the outstanding bonds in the amount of \$142.4 million, which increased from \$20 million in 2003. He noted that the Northern Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds were part of a legal

settlement the state participated in and subsequently sold 40 percent of the settlement twice; in 2000 and 2001 in exchange for a one-time payment. The state securitized the cash flow through the sale of the portion of the settlement.

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Co-Chair MacKinnon expressed confusion regarding the settlement. Mr. Mitchell clarified that the remaining 20 percent of the settlement was dedicated for tobacco cessation efforts. He detailed that at the time, the settlement was being securitized by other states and municipal entities and Alaska followed their lead. The settlement cash flow was "projectable and predictable into the future" therefore, the state leveraged the securitization. He summarized that, "the settlement sales were a means of bringing future value forward to provide for capital projects through the use of an asset sale and subsequent securitization through the corporation."

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AT EASE

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Co-Chair MacKinnon explained that the committee would receive additional information on the Northern Tobacco Securitization Corporation. She shared concern about municipal debt and the challenge the state's revenue crisis might pose for municipalities and the state in meeting its bonding obligations.

Mr. Mitchell spoke to "State Agency Collateralized or Insured Debt," noting that it was primarily the Alaska Housing Finance Corporation's obligations comprised of either collateralized mortgages or bond issues for state capital projects. He cited the amount of the combined debt of \$2.2 billion as of June 30, 2014 and in 2003 the amount was \$2.7 billion. He furthered that Alaska Industrial Development and Export Authority (AIDEA) bonds; Revolving Fund and Refunding Revolving Fund Bonds in the amount of \$73.2 million and the Power Revenue Bonds, First Series (Snettisham Hydro-electric Project) in the amount of \$72.1 million were also included in the category.

Co-Chair MacKinnon noted that there had been conversation about using AIDEA to finance the Interior Energy Project (IEP). She wondered whether the project would result in increased bond indebtedness for the state. Mr. Mitchell stated he was not aware of how AIDEA would finance the project.

Senator Bishop asked what the "First Series" designation under the Power Revenue Bonds for the Snettisham Hydro Project meant. Mr. Mitchell explained that the obligation had been refinanced and historical documentation about the bond was not easily available.

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Mr. Mitchell looked at Municipal Debt on page 6, and reiterated the GO bond debt totals. He referenced "other GO Debt" for municipalities of \$1.144.4 billion and additional "Revenue Debt" of \$887.6 million. He elaborated that the other GO debt was "static" since 2003. School GO debt had increased from approximately \$831.9 million in 2003 to the current balance of \$1.273.3 billion. Revenue bonds had also increased from approximately \$550 million in 2003.

Senator Bishop cited the total Alaska public debt listed on page 6, at \$8.138.4 billion and asked for verification. Mr. Mitchell answered in the affirmative. Senator Bishop asked what the annual payments were on the total debt. Mr. Mitchell cited page 50, and highlighted that in FY 2015 the total debt service was \$218 million either on a GO or subject to appropriation basis.

Vice-Chair Micciche observed that the potential existed for the state to incur a higher level of debt service in the future.

Mr. Mitchell stated that was correct, and pointed to the potential increases in the school debt reimbursement program and the State GO category.

Co-Chair MacKinnon directed the member's attention to page 11, Table 2.5, to view "General Obligation Debt - Issued by Purpose." She read the following breakdown of percentages of the total debt: Transportation, 42.8 percent; Education, 39.2 percent; Water and Sewer, 5.2 percent; Fish and Game and Recreation, 3.6 percent; Public Safety, 3.3 percent;

Flood Control and Harbor Development, 2.9 percent; Health and Housing 2.9 percent.

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Co-Chair MacKinnon directed the committee to page 33, Table 3.7, "Alaska Municipal Bond Bank Outstanding Loans to Municipalities." She wondered if there were particular cities or municipalities that had overextended themselves.

Mr. Mitchell voiced that the priorities and guidance of the Bond Bank was established by statute that required the bank only make loans that it expects to be repaid. He commented that however, approximately half of the entities on the list received bonds from the school debt reimbursement program. Smaller municipalities that were receiving 70 percent reimbursement from the state, would be hard pressed to pay the debt service on the bond issues. He thought that all of the communities could adapt to a loss of state reimbursement but would require significant increases in the local tax base.

Vice-Chair Micciche asked if Mr. Mitchell saw any value in limiting outstanding loans to municipalities on its percentage of state population.

Mr. Mitchell offered that if the legislature decided to change the parameters of the program, the change should be enacted "prospectively rather than retroactively."

Co-Chair MacKinnon reiterated her concern that local communities continued to misunderstand the fiscal situation of the state and believed that "local property tax payers would be impacted." She asked if there was a way to break down the municipal loan figures on page 33 further, to illustrate where the cities have revenue generation versus local property payments that covered the debt. Mr. Mitchell agreed to provide the information.

[3:24:30 PM](#)

Co-Chair MacKinnon specified that some cities had a revenue generation mechanism in place to repay the bonds. However, the school debt reimbursement bonds were a cause of continued concern and the information would be helpful for investing in the future.

Senator Bishop referred to page 11, and the amount authorized for transportation. He referenced the \$453 million outstanding in transportation bonds that had not been issued. He asked for clarification. Mr. Mitchell responded that the amount was actually \$263 million.

Co-Chair MacKinnon stated that the committee wanted to ensure good management of the state's resources, and debt was part of that management structure.

Mr. Mitchell closed to say it had been his and his predecessors rule to maintain a conservative and viable approach to debt practices. He believed that the state's judicious use of debt was reflected in the outstanding debt portfolio.

Co-Chair MacKinnon appreciated Mr. Mitchell's service to the state and his outstanding informative presentation provided to the committee on short notice. She related that the state was doing it's very best to make the wisest decisions for Alaska as a state and the communities that benefited from the state's investment decisions.

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ADJOURNMENT

3:31:05 PM

The meeting was adjourned at 3:31 p.m.