

SENATE FINANCE COMMITTEE
March 30, 2017
9:00 a.m.

[9:00:51 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Peter Micciche

ALSO PRESENT

Laura Cramer, Staff, Senator Anna MacKinnon; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Senator Shelley Hughes, Sponsor.

SUMMARY

SB 32 PRESCRIPTIONS FOR BIOLOGICAL PRODUCTS

SB 32 was REPORTED out of committee with no recommendation and with a previously published fiscal note: FN1 (CED).

SB 97 PENSION OBLIGATION BONDS

SB 97 was HEARD and HELD in committee for further consideration.

CSHB 57(FIN) am(brf sup maj fld)(efd fld)
 APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 57(FIN) am(brf sup maj fld)(efd fld) was SCHEDULED but not HEARD.

#sb97

SENATE BILL NO. 97

"An Act relating to pension obligation bonds."

[9:01:42 AM](#)

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, introduced the legislation. She stated that the bill would reduce the state's authority to issue pension obligation bonds from \$5 billion, to \$2.5 billion. The bill also required that the Department of Revenue (DOR) would submit a proposal to the Legislative budget and Audit Committee (LB&A) on the plan for issuing the bonds, the purpose of which as to bring the item before the legislature for consideration, therefore involving the legislature in the process.

[9:02:22 AM](#)

Ms. Cramer highlighted the Sectional Analysis (copy on file):

***Section 1:** Requires a subsidiary created under the Alaska Housing Finance Corporation to submit a proposal to the Legislative Budget and Audit (LB&A) Committee prior to borrowing money and issuing bonds for the purpose of financing or facilitating financing of a governmental employer's share of unfunded accrued actuarial liability of retirement systems

***Section 2:** Creates a new subsection outlining the process for submitting a proposal to the LB&A Committee

***Section 3:** Requires the State Bond Committee to submit a proposal to the LB&A Committee prior to issuance and sales of bonds for the purpose of financing or facilitating financing of a governmental employer's share of unfunded accrued actuarial liability of retirement systems, including the costs of issuance and administration

***Section 4:** Creates a new subsection outlining the process for submitting a proposal to the LB&A Committee

***Section 5:** Amends the pension obligation bond limit from \$5,000,000,000 to \$2,500,000,000

***Section 6:** Requires the Pension Obligation Bond Corporation to submit a proposal to the LB&A Committee prior to issuance and sales of bonds for the purpose of financing or facilitating financing of a governmental employer's share of unfunded accrued actuarial liability of retirement systems, including the costs of issuance and administration

***Section 7:** Creates a new subsection outlining the process for submitting a proposal to the LB&A Committee

***Section 8:** Requires the Alaska Municipal Bond Bank Authority to submit a proposal to the LB&A Committee prior to issuance of bonds, notes, commercial paper, or other obligations for the purpose of assisting employers to prepay all or a portion of their share of unfunded accrued actuarial liabilities of retirement systems in an effort to reduce their costs

***Section 9:** Requires a subsidiary created under the Alaska Municipal Bond Bank Authority to submit a proposal to the LB&A Committee prior to borrowing money and issuing bonds for the purpose of financing or facilitating financing of a governmental employer's share of unfunded accrued actuarial liability of retirement systems

***Section 10:** Creates a new subsection outlining the process for submitting a proposal to the LB&A Committee

***Section 11:** Conforming language for the powers of a subsidiary corporation created under the Alaska Municipal Bond Bank Authority

***Section 13:** Conforming language for the issuance of bonds and notes by the Alaska Municipal Bond Bank Authority

[9:05:05 AM](#)

Co-Chair MacKinnon was open to the bill being sponsored by the Senate Finance Committee. She recalled a past conversation regarding the riskiness of pension obligation bonds. She recognized that some legislative members would prefer the number of bonds be zero, and she was not endorsing the issuance of pension obligation bonds but believed that the bill struck a balance with the governor's office.

[9:07:03 AM](#)

Co-Chair Hoffman thought that the legislation reflected the currently fiscal climate of the state and believed that committee support would be a strong statement to the public.

Co-Chair MacKinnon said that she would clean up any technical details caused by changing the sponsorship.

Vice-Chair Bishop and Senator von Imhof supported the change in sponsorship.

[9:07:53 AM](#)

Senator Olson expressed grave reservations about the future repercussions of the legislation.

[9:08:20 AM](#)

Vice-Chair Bishop opined the possible consequences of issuing pension obligation bonds.

[9:09:08 AM](#)

Senator von Imhof thought that the bill was a good and reasonable compromise.

[9:09:42 AM](#)

Senator Dunleavy appreciated the conversation. He wondered how the bill would be perceived by Legislative Budget and Audit (LB&A).

[9:10:27 AM](#)

Co-Chair MacKinnon replied that the Pension Obligation Bond Corporation would take the administration's proposal, which they would have already approved by resolution, and submit it to LB&A 45 days prior to the bond issuance. She spoke of previous attempts by the administration to address the issue of pension obligation bonds. She noted that the administration would not be obligated to advance the legislation, and could still issue pension obligation bonds, but that a formalized notification would be given to the legislature.

Senator Dunleavy understood that regardless of the legislation the administration could issue bonds.

Co-Chair MacKinnon replied in the affirmative, up to \$5 billion. The legislation would limit the authorization to \$2.5 billion. She specified that the bill would simply reduce the borrowing capacity. She directed committee attention to Page 5, which reflected the \$5 billion, she believed that the bill would allow the administration to act in the best interest of the state while providing a checkpoint, so the legislature could call a special session if necessary. She expounded on the state's unfunded liability and how the bill would limit the financial risk to the state by issuing pension obligation bonds. She relayed that she had met with the governor on the matter. She hoped that the legislation struck a balance between the many different schools of thought surrounding the issue.

[9:16:43 AM](#)

Senator Dunleavy supported the full committee sponsorship of the legislation.

[9:17:44 AM](#)

Co-Chair MacKinnon explained that the legislation would provide the opportunity for the legislature to call a special session in order to formally oppose pension obligation bonds proposed by the governor. She asserted that the governor had been receptive in previous talks with the legislature concerning the issue.

[9:18:18 AM](#)

Co-Chair MacKinnon relayed that a new version of the legislation would be drafted to reflect the full committee sponsorship.

Co-Chair MacKinnon CLOSED public testimony.

[9:20:02 AM](#)

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, stated that the administration supported the proposed legislation. He believed that collaboration between the administration and the legislature on issuing bonds would be beneficial to the state. He felt that the \$2.5 billion issuance was in the "sweet spot" and added that the state did not want to become overfunded in the retirement trust or there could be the negative impact of extra benefits being paid to retirees that people believed already had sufficient benefits. He said that there were nuances within the current structure of the state's participation in funding the retirement system through the payment on behalf of allowance that was currently established. He expounded on the size of future payments on the bonds, which could reach up to \$11 billion over 5 years.

[9:23:52 AM](#)

Senator von Imhof understood that under the bill the administration would have the authority to issue bonds up to \$2.5 billion against the wishes of LB&A.

Ms. Cramer replied that he would need legal clarification to answer the question. He thought that there was a requirement to provide additional information to LB&A, which would result in an additional 45 days. He said that if LB&A did not approve, and the legislature failed to convene a special session, there would be potential for the administration to move forward despite the objections of LB&A.

Ms. Cramer added that the legislature could not delegate its authority entirely to one committee, which meant that the LB&A committee could not act on behalf of the entire legislature. She said that after a 45-day period, if the legislature did not act, the administration could move forward with a pension obligation issuance.

[9:25:55 AM](#)

Senator von Imhof queried what would happen if the legislature convened to vote against a proposal.

Ms. Cramer believed that the legislature would introduce a resolution taking official action against the issuance of the bond, which would result in the administration no being able to issue the bonds.

[9:26:39 AM](#)

Senator von Imhof understood that the legislature crafting a resolution that stated they did not support the bonds would be enough to block the bond sale.

[9:26:57 AM](#)

Co-Chair MacKinnon interjected that the bond sale would be blocked if the legislature raised any flag that they were non-supportive. She said that the market would then raise the interest rate on the bond if there was a chance that the legislature would not back the payments.

[9:28:17 AM](#)

Senator von Imhof thought that it could be worth pursuing whether there was a final legal backstop for the legislature if the markets did not respond quickly enough during the 45 to 90-day window.

[9:29:01 AM](#)

Co-Chair MacKinnon suggested that an amendment to the bill could be offered that spoke to Senator von Imhof's concerns. She hoped to have the bill on the governor's desk at the end of this session.

[9:30:21 AM](#)

Mr. Mitchell imagined that the legislature convening in special session in objection to the proposed issuance would have a significant impact on the issuance of the bonds. He said that the law could be changed during special session to eliminate the authority to issue bonds altogether.

[9:30:35 AM](#)

Co-Chair MacKinnon said that the bill was an attempted to strike a balance between the legislature and the administration.

[9:31:46 AM](#)

Senator Olson wondered whether the finance committee could stop the legislation by denying an appropriation for the bonds that are issued.

Ms. Cramer replied that the committee would not be able to legally stop the appropriation for the bonds. She reiterated that the entire legislature would have to vote against the appropriation.

[9:32:26 AM](#)

Mr. Mitchell furthered that the only thing being pledged with the bonds would be the state's word that it would pay. He said that if the Senate or House Finance committee, in isolation, were to put forward a resolution that they were not going to support payment on the bonds, the state would lose investors.

[9:33:51 AM](#)

Co-Chair MacKinnon queried the ramifications inside the credit market that if a finance committee failed to pay the debt.

Mr. Mitchell replied that the ramifications would be very negative. He said that the state would expect to receive a significant downgrade of its credit rating and would be locked out of the capital markets for an extended period of time.

[9:34:41 AM](#)

Senator Dunleavy thought that if LB&A said no to the bond they should forward a letter to the finance committee stating their position. he understood that the only way the system worked was for the governor to get agreement through LB&A.

Mr. Mitchell thought that the bill would further establish the partnership that existed between the legislative branch and the executive branch.

[9:36:22 AM](#)

Vice-Chair Bishop appreciated the discussion.

[9:37:06 AM](#)

Co-Chair MacKinnon said that if the state had issued pension obligation bonds in 2007, the arbitrage would have worked to the benefit of the state. She stated that if the state had issued the 2016 bonds Alaska would have seen a positive return. She underscored that there were risks associated with arbitrage.

[9:39:24 AM](#)

AT EASE

[9:45:51 AM](#)

RECONVENED

[9:46:24 AM](#)

Senator Olson noted that Mr. Mitchell had been in his position through several administrations. He lamented that the tension between the administration and the legislature could be intense. He spoke of the trouble that the State of Kansas was currently experiencing due to pension obligation bonds.

Mr. Mitchell said that he could not speak directly to the situation in Kansas but knew that pension obligation could be structured and used in a variety of ways. He said that in some circumstances a short-term expense could become a long-term liability. He countered that in other instances a deposit could be put into a trust, obligating the trust to pay the debt service. He noted that the cost of capital was one thing that could be controlled, and that he had focused on getting the lowest cost possible when looking at pension obligation bonds. He relayed that the state was pursuing a more conservative structure and the benefits of the issuance that had been contemplated in Fall 2106 would have been the most significant in the final year of the transaction; 23 years from now the actuarially assumed payment would have been cut in half. He thought that there could be additional restrictions on the allowed cost of capital. He warned against being overfunded within the trust.

[9:51:23 AM](#)

Senator Olson understood that the measures that had been put in place in 2016 had been adequate to keep the state out of financial trouble.

Mr. Mitchell in the affirmative. He explained that the state had a cost of capital below 4 percent, as well as a structure that assured that savings accrued interest.

[9:51:46 AM](#)

Senator Olson wondered whether the state had made a mistake of not issuing bonds when the stock market was stronger.

Mr. Mitchell replied that time would tell. He said that debt could be controlled.

[9:53:27 AM](#)

Senator Olson wondered whether having too many people scrutinizing the matter could be detrimental to the process.

Mr. Mitchell responded that nimbleness was a virtue in the financial market and that being able to act quickly was a strength, he warned that there had to be a balance in government. He believed that proper checks and balances should be practiced.

[9:55:40 AM](#)

Senator von Imhof spoke of global trade agreements and their effects on the global markets. She lamented that economic trends could be unpredictable.

SB 97 was HEARD and HELD in committee for further consideration.

#sb32

SENATE BILL NO. 32

"An Act relating to biological products; relating to the practice of pharmacy; relating to the Board of Pharmacy; and providing for an effective date."

[9:59:40 AM](#)

SENATOR SHELLEY HUGHES, SPONSOR, stated that she was available for questions.

[9:59:59 AM](#)

Senator Olson queried the response from rural healthcare providers.

Senator Hughes replied that she had received no opposition from rural healthcare providers.

[10:00:59 AM](#)

Vice-Chair Bishop MOVED to REPORT SB 32 out of committee with individual recommendations and attached fiscal note. There being NO OBJECTION, it was so ordered.

SB 32 was REPORTED out of committee with no recommendation and with a previously published fiscal note: FN1 (CED).

[10:01:26 AM](#)

AT EASE

[10:04:25 AM](#)

RECONVENED

Co-Chair MacKinnon discussed housekeeping.

#hb57

CS FOR HOUSE BILL NO. 57(FIN) am(brf sup maj fld)(efd fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; repealing appropriations; and making supplemental appropriations and reappropriations."

CSHB 57(FIN) am(brf sup maj fld)(efd fld) was SCHEDULED but not HEARD.

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ADJOURNMENT

[10:05:15 AM](#)

The meeting was adjourned at 10:05 a.m.

