

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 8, 2021

8:02 a.m.

MEMBERS PRESENT

Representative Sara Hannan, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Josiah Patkotak, Vice Chair
Representative Harriet Drummond
Representative Mike Prax
Representative Ken McCarty
Representative Kevin McCabe

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 127

"An Act relating to the Alaska Municipal Bond Bank Authority."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 127

SHORT TITLE: MUNI BOND BANK: UA, LOAN AND BOND LIMITS

SPONSOR(S): REPRESENTATIVE(S) LEBON

03/05/21	(H)	READ THE FIRST TIME - REFERRALS
03/05/21	(H)	CRA, FIN
04/08/21	(H)	CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

REPRESENTATIVE BART LEBON

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: As prime sponsor, introduced HB 127.

AIMEE BUSHNELL

Staff, Representative Bart LeBon

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Offered a sectional analysis for HB 127 on behalf of Representative LeBon, prime sponsor.

DEVEN MITCHELL, Executive Director
Alaska Municipal Bond Bank Authority
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Explained the necessity for HB 127.

MYRON DOSCH, Chief Finance Officer
University of Alaska
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 127.

ACTION NARRATIVE

[8:02:48 AM](#)

CO-CHAIR CALVIN SCHRAGE called the House Community and Regional Affairs Standing Committee meeting to order at 8:02 a.m. Representatives McCarty, Drummond, Prax, Hannon, and Schrage were present at the call to order. Representatives Patkotak and McCabe arrived as the meeting was in progress.

HB 127-MUNI BOND BANK: UA, LOAN AND BOND LIMITS

[8:03:26 AM](#)

CO-CHAIR SCHRAGE announced that the only order of business would be HOUSE BILL NO. 127, "An Act relating to the Alaska Municipal Bond Bank Authority."

[8:03:54 AM](#)

REPRESENTATIVE BART LEBON, Alaska State Legislature, as prime sponsor, introduced HB 127. He paraphrased the sponsor statement, which read as follows [original punctuation provided]:

This bill expands the authority of the Alaska Municipal Bond Bank Authority regarding bonding capacity to the University of Alaska and regional health organizations.

Regarding the University of Alaska (UA), the bill proposes two changes:

- Removes the project scope limiting Alaska Municipal Bond Bank Authority participation to only heating or energy projects
- Raises the UA project participation cap from \$87,500,000 to \$500,000,000

Previously the University used Municipal Bond Bank participation for funding of the combined heat and power plant at the University of Alaska Fairbanks. This change is intended to provide the University with expanded tools for financing or refinancing, allowing the University to leverage the bond ratings of the Alaska Municipal Bond Bank Authority if advantageous. This additional financing tool is not intended to be a substitute for capital appropriations through the legislature.

Regarding regional health organizations, the bill proposes these changes:

- Removes the 49% Alaska Municipal Bond Bank Authority single-project participation cap
- Raises the cap for all regional health organization projects from \$205,000,000 to \$500,000,000

This change is intended to expand opportunities for regional health organizations to use the Alaska Municipal Bond Bank Authority. In accordance with existing statute AS 44.85.010, the Bond Bank provides capital funds through loans to regional health organizations "when the commissioner of health and human services anticipates a state financial benefit and an increase in regional quality of care." The financial benefit is realized by the state by capturing additional Federal Medicaid reimbursement, assisting the State in reducing Medicaid expenditures.

I would appreciate your support in expanding opportunities for the University of Alaska and Alaska's regional health organizations to utilize the Alaska Municipal Bond Bank Authority.

[8:06:23 AM](#)

AIMEE BUSHNELL, Staff, Representative Bart LeBon, Alaska State Legislature, offered a sectional analysis for HB 127 on behalf of Representative LeBon, prime sponsor. The sectional analysis

read as follows [original punctuation provided, with some formatting changes]:

Sec. 1. AS 44.85.010

Removes the project scope limitation of only heating or energy projects for the University of Alaska Fairbanks

Sec. 2. AS 44.85.090

Removes the 49% project participation on the Alaska Municipal Bond Bank for regional health organization projects Raises the \$102,500,000 project limit for a single regional health organization project to \$250,000,000

Sec. 3. AS 44.85.180

Raises the \$87,500,000 cap for University of Alaska projects to \$500,000,000 Raises the \$205,000,000 cap for regional health organization projects to \$500,000,000

[8:07:49 AM](#)

DEVEN MITCHELL, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue, explained the necessity for HB 127. Currently, he said, there is a limitation on financing participation for the Alaska Municipal Bond Bank, on a regional health organization project, of 49 percent of the project. This means a regional health organization considering financing a project would have to use not only the Alaska Municipal Bond Bank, but also have another significant lender, which results in pressure not to use the Alaska Municipal Bond Bank, even if the alternatives are slightly more costly. He said the Alaska Municipal Bond Bank has done a couple projects for regional health organizations: a refinancing of the Tanana Chief Conference's (TCC's) health clinic in Fairbanks and the Yukon-Kuskokwim Health Corporation's (YKHC's) new hospital project in Bethel. He said TCC had borrowed money prior to using the Alaska Municipal Bond Bank to refinance its bonds and was "not able to achieve an investment grade credit rating on those bonds," but the Alaska Municipal Bond Bank helped them to "structure their transaction in a way that the municipal market expects to see" thus getting "an investment credit rating similar ... to the bond bank's rating." He called this "the meat and potatoes of what the bond bank's all about," which is to provide opportunities to people "to access markets so that

they can gain experience and then be able to access markets independent of the bond bank."

MR. MITCHELL said in the 1970s, Alaska was "kind of like a different country almost" compared to the financial markets in New York. The Alaska Municipal Bond Bank could lend credit support to smaller communities, to the extent that the state was able to provide it, and reduce costs for capital projects, thereby helping communities to gain experience so that they could potentially issue bonds without the Alaska Municipal Bond Bank, if it was advantageous for them to do so.

[8:11:21 AM](#)

MR. MITCHELL talked about the proposed increase in the cap for the University of Alaska (UA). He indicated that because of UA's financial stress of the last several years, it had "a fairly draconian negative credit action against them." He said the Alaska Municipal Bond Bank has worked with University of Alaska Fairbanks (UAF) on a specific project on campus. He added, "It made sense to provide greater opportunities or alternatives for the university to use the bond bank for either refinancing other outstanding loans or any new money projects that might come down the road here in the future." Mr. Mitchell offered to answer questions from the committee.

[8:12:55 AM](#)

MYRON DOSCH, Chief Finance Officer, University of Alaska, stated the university's support for HB 127. He said the proposed legislation would provide the opportunity for UA to obtain a loan through the Alaska Municipal Bond Bank at a potentially lower rate than it could obtain on its own. He explained that is because the Alaska Municipal Bond Bank has a higher credit rating than UA does, which means UA can save on financing costs on refinancing or borrowing for new capital projects in the future.

[8:14:07 AM](#)

REPRESENTATIVE HANNAN asked Mr. Mitchell for an overview of what a municipal Alaska Municipal Bond Bank is structured to do.

[8:15:26 AM](#)

MR. MITCHELL responded that the Alaska Municipal Bond Bank program was created as a public corporation of the State of

Alaska in 1975. The purpose of the corporation has been to lend support to credit-worthy municipalities that would otherwise pay higher interest rates. He said the process for considering loans involves a five-member board that considers a credit report from the Alaska Municipal Bond Bank, which issues bonds that carry a moral obligation pledge of the State of Alaska. He explained that moral obligation is a term of art "where the enacting statutes of a program require, upon issuance of bonds, you fund a reserve that's in place to secure the bonds in the event of a payment failure, and that, in addition to funding that reserve, you have an annual reporting requirement to the legislature and governor to notify them of the sufficiency of that reserve." If the reserve were insufficient, then the governing body would appropriate to replenish it. He said that structure "gets you a rating based on, in this case, the State of Alaska." He added, "So, we wind up with a credit rating that's one notch off the State of Alaska." Mr. Mitchell noted that the bonds are all self-paying; there has not been a draw on that reserve, and "there has been no funding to pay for a delinquent borrower in the 45-year history of the bonding program." He said, "This isn't counted against the debt capacity of the State of Alaska." He said it is a standalone program similar to that used by other state agencies, such as the Alaska Housing Finance Corporation.

[8:19:55 AM](#)

MR. MITCHELL discussed the \$87.5 million cap. He advised it was a creative solution to the difficulty in funding a large capital project on the UAF campus: the coal fire power and heat plant. The cost of the plant exceeded what the state could fund on a cash basis and what the university was able to fund through its historical revenue bond program. The Alaska Municipal Bond Bank was introduced as an alternative. He said UA still issued bonds, but they were "privately placed with the bond bank," which in turn issued its bonds in the public market and passed those rates on to the university. The cap was anticipated as the amount needed as the last piece of the funding of that particular project. He said increasing that cap [under HB 127] and "eliminating the restriction on just power and heat projects" will provide an alternative for the university to consider in the future to ensure it gets the lowest rates available.

[8:21:39 AM](#)

REPRESENTATIVE HANNAN asked whether there are other restrictions.

MR. MITCHELL answered there are more restrictions on the regional health organization program than any other category of lending the Alaska Municipal Bond Bank has. He said there are caps for every one of the Alaska Municipal Bond Bank's categories for lending: \$1.5 billion for municipalities, joint action agencies, and joint insurance associations; \$205 million for regional health organizations; and \$87.5 million for the university. The current total lending capacity, he said, is \$1.792 billion. He reported that as of September 2020, the Alaska Municipal Bond Bank had outstanding loans of \$987 million to municipalities, joint action agencies, and the university and just over \$100 million to regional health organizations. In response to a follow-up question, he said the \$1.792 billion is "the summation of the other authorizations," and that amount would increase if other authorizations were increased. He said that during his tenure, the amount for municipalities, joint action agencies, and joint insurance associations has increased five times. He said when he first started working with the Alaska Municipal Bond Bank, the authority was \$125 million; there has been significant growth within the program in the last 20 years, resulting in an increase to the cap. He said it is not unusual to come before the legislature to request a cap increase. He explained one reason the Alaska Municipal Bond Bank has not asked for a larger increase is that these are moral obligation bonds of the State of Alaska, and it wants to be fiscally prudent. He said, "It provides comfort to me to have more contact with the legislature as a program grows, rather than have growth that's less restrictive and has more of an opportunity to deviate from what the leadership might think that it should be." He said if there are large growth projects that come through the Alaska Municipal Bond Bank, if HB 127 were passed, then he is comfortable in coming back to the legislature to provide more information and letting its members know how the program might be developing.

[8:26:21 AM](#)

REPRESENTATIVE PRAX asked for confirmation that from the perspective of the entities, they get a better credit rating because of the state's backing of a project.

MR. MITCHELL confirmed that is correct.

REPRESENTATIVE PRAX asked whether citizens are depending on the expertise and integrity of board members and Mr. Mitchell, in terms of managing risk.

MR. MITCHELL answered that is true, but noted that the projects also go through a local process, as well as annual reporting, auditing, and public credit ratings.

REPRESENTATIVE PRAX asked if there are established industry fiduciary guidelines for the Alaska Municipal Bond Bank.

MR. MITCHELL answered that there are, in the sense that the Alaska Municipal Bond Bank is issuing public debt with a credit rating attached. That process has a wide array of fiduciary standards associated with it. He said he doesn't know what benefit would come from deviating from the standards.

REPRESENTATIVE PRAX noted that school bonds had been promoted on the assumption that "the state legislature was going to pay a good part of the debt version." He indicated that [the public] did not read the fine print that specified the funds would be subject to appropriation. Now municipalities are concerned that "they are asked to make good on their obligation." He questioned whether this program could run into a similar situation.

MR. MITCHELL responded that "the loans that are made to these entities are structured to either conform to a general obligation bond structure or a revenue bond structure or, in some very limited instances, a lease revenue bond structure, and so there are ... commitments that are made at the borrower level that provide a pathway for ensuring that any corrective action that's needed is taken in the event of stress that might come down the road." He continued:

... At the local level, it would be the same if they issued these bonds independent of the bond bank. Because in ... almost all instances - there are some limited instances where it would be difficult to find alternative financing - they could do the same thing that they're doing through the bond bank - they would just pay more.

MR. MITCHELL said when the Alaska Municipal Bond Bank issues new money bonds for communities, it asks its financial advisor to calculate the savings as a result of using the Alaska Municipal Bond Bank relative to what the community might have paid in

interest expenses if it had gone outside the Alaska Municipal Bond Bank. He said over the last five years, savings approached \$100 million. Mr. Mitchell shared that the Alaska Municipal Bond Bank spends only full budget authorization if it is very busy issuing a lot of bonds and spends less when issuing fewer bonds; in that way it is an efficient program that uses only what it needs. He indicated that savings goes directly into Alaskans' pockets, either from decreased taxes or decreased user fees.

[8:34:30 AM](#)

REPRESENTATIVE PRAX expressed concern that "this situation creates an incentive for the borrower to borrow more than they otherwise would have borrowed, because it gives the impression that somebody else is securing the loan."

MR. MITCHELL responded that he understands the concern. He reminded Representative Prax that the Alaska Municipal Bond Bank is not and could not pay anyone's debt service. He said [bonds] are an alternative means of funding a project at less cost and burden. He said he understands the angst caused by the unfunded school bond program; however, he speculated that when asked, people experiencing that issue would not say the Alaska Municipal Bond Bank falls into that same category.

[8:36:29 AM](#)

REPRESENTATIVE MCCARTY said he shares concerns similar to that of Representative Prax. He mentioned the fiduciary responsibility and credit rating of the Alaska Municipal Bond Bank and necessity to ensure the entity asking for the bond to be issued is credit worthy.

MR. MITCHELL confirmed that the ability to issue bonds doesn't guarantee that a loan will be made; fiduciary responsibility of the seeker of the loan must be determined. Bonds are loans paid 100 percent of the time and on time.

[8:39:22 AM](#)

CO-CHAIR HOPKINS asked if it was [an accurate assessment] to say that Mr. Mitchell is there to facilitate lending but has a responsibility to protect the state by ensuring those applying for bonds have the ability to pay.

MR. MITCHELL answered yes.

CO-CHAIR HOPKINS asked the bill sponsor if there is a difference in HB 127 and the legislation that had been before the previous legislature.

[8:39:47 AM](#)

REPRESENTATIVE LEBON answered no. He added that the bonding and banking worlds are similar. In his past banking career, he shared, he participated on loans through the Alaska Industrial Development and Export Authority (AIDEA), where the bank could finance from 10 percent to 50 percent, and AIDEA had the ability to go to the Alaska Municipal Bond Bank to raise its share of the funding. He said banks look for "safety and soundness" when making loans and often seek partners to share the risk. He said there are different entities that could participate in loans; the Alaska Municipal Bond Bank is "just another tool in the toolbox" for both UA and regional health organizations.

[8:41:44 AM](#)

REPRESENTATIVE DRUMMOND asked Mr. Mitchell to speak more about the ceiling on the bond capacity.

[8:42:06 AM](#)

MR. MITCHELL responded that current statutes allow a ceiling for authorizing bonds without a third-party authorization. He reiterated the various ceilings that exist.

REPRESENTATIVE DRUMMOND asked if the Alaska Municipal Bond Bank was close to its ceiling or was issuing "as many bonds as possible" in order to achieve its authority.

MR. MITCHELL reemphasized that the Alaska Municipal Bond Bank does not seek to issue bonds; it tries "to fund good projects as they come along."

[8:43:56 AM](#)

REPRESENTATIVE PATKOTAK asked about the UA process in public engagement in approving a bond package.

MR. MITCHELL deferred to Mr. Dosch, but said UA has higher standards and must obtain legislative approval for larger issuances.

[8:44:54 AM](#)

MR. DOSCH added that UA goes through a due diligence process and assesses new projects based on mission and need and capacity. Although UA does not have the same public obligation, under statute, it must seek legislative approval for any bond that exceeds \$2.5 million. He said the Board of Regents would approve, under UA's policy, any new debt issuances and refinancing debt; there is debt ratio that is monitored.

REPRESENTATIVE PATKOTAK asked Mr. Mitchell about the history of debt paid.

MR. MITCHELL replied that the regional health organization authorization of the Alaska Municipal Bond Bank is relatively new. He said these organizations are defined under statute, are typically nonprofits, and are associated with tribal entities. They cover 3,000 square miles of a region, providing health care. There are 12-13 of these regional health organizations in Alaska. They receive funding through compact agreements, which have been challenged historically. The organizations sued for the payments they were eligible to receive, and those lawsuits went all the way to the [U.S.] Supreme Court. The regional health organizations prevailed, and their funding is automatic at this point, Mr. Mitchell said; therefore, it is not something that has any risk factors attached to it. The type of funding is significant and in excess of a billion dollars a year. He said, "In some ways, they increased that funding by entering into further agreements for funding of facilities as they're required." He offered an example. He said there is significant credit strength through the regional health organization sector of the Alaska Municipal Bond Bank program, but it has existed only since legislation was passed in 2015 authorizing the Alaska Municipal Bond Bank to lend to regional health organizations. He said, "I believe the newness of it is, in part, why there are some of the restrictions that we're asking the legislature to remove at this point." He said the Alaska Municipal Bond Bank has made two loans to the regional health organization program, one to YKHC and one to TCC; the former paid on time and the latter paid off its loan early. He noted that TCC could not get an investment grade rating prior to the Alaska Municipal Bond Bank working with TCC to get them to restructure how funds flow through the organization. He explained that there are different requirements in the municipal market than in other areas, because "we're not looking for a title interest on a piece of property, we're looking at a commitment of a revenue stream, which ... takes a different thought process." He said UA has

just the one project, with a parity revenue bond, and there have been no issues.

[8:51:21 AM](#)

REPRESENTATIVE PATKOTAK asked the amount of TCC's debt paid in full, as well as an understanding of current caps.

MR. MITCHELL recollected that TCC had borrowed approximately \$50 million to refinance the existing loan. Prior to that, TCC had been paying almost 8 percent on the loan, and that rate dropped to 3.5 percent, which he said equated to "\$40 million, in today's dollars, in savings." He said the current total outstanding for the regional health organizations is \$1.7 million, so there is "capacity of around \$104 million or \$103 million." He said YKHC got a USDA loan for \$170 million, but USDA wanted the project done before it would lend the money; therefore, the Alaska Municipal Bond Bank "coming in with \$102 million of bond proceeds" allowed YKHC to stage the project in two components "and still get the USDA money at a below-market rate."

MR. MITCHELL said the restriction related to regional health organizations to fund only 49 percent of the project creates an inefficiency, because it requires financing from the Alaska Municipal Bond Bank and a third party. He explained this creates a reluctance to use the Alaska Municipal Bond Bank even though it might be more advantageous to do so. He characterized the regional health organization facilities in Bethel and Utqiagvik as "world-class," and he said that is one reason why the Alaska Municipal Bond Bank is asking for the increase in the cap, the individual loan, and the project participation percentage. He noted that the commissioner of the Department of Health and Social Services has to determine that the project will increase the quality of health care in the region, as well as save the State of Alaska revenue; this is an additional factor required before the Alaska Municipal Bond Bank can participate in a regional health organization loan.

[8:57:22 AM](#)

REPRESENTATIVE PATKOTAK asked Mr. Mitchell to elaborate on UA's revenue stream guarantee that ties into loans pursued.

MR. MITCHELL replied that the Alaska Municipal Bond Bank wants a "revenue pledge" wherein the organization legally binds itself to "having revenue flow through their organization in a certain

way so that it can be pledged to the bond issue." He described a "waterfall of revenue" first paying for operation and maintenance, then debt service. He said, "Typically we'll require a rate covenant on a revenue pledge," which means there must be net revenues that exceed the debt service due by a certain amount. This ensures revenues available in the instance of a "negative event." Mr. Mitchell said there are reserve funds put in place to secure bonds, typically one year's-worth of debt service set aside in an account irrevocably pledged to the bonds. He offered further details. Furthermore, there is an additional bonds test to ensure the underlying entity has sufficient coverage.

MR. MITCHELL said the Alaska Municipal Bond Bank has a parity pledge with UA, which includes all of the legal commitments the university has with all other outstanding bonds. He said, "It's viewed as a credit strength, because you share your common interest in ensuring that the university does what it's supposed to do with an array of bond holders."

[9:02:54 AM](#)

REPRESENTATIVE PATKOTAK mentioned the fiscal note and asked Mr. Mitchell to talk about management costs related to bond packages.

MR. MITCHELL said there are costs associated with bonds being issued, including credit ratings, bond councils, a law firm that ensures the bonds are legally binding, and a financial advisor. The cost is rolled into the transaction and is paid by the borrower.

[9:05:40 AM](#)

CO-CHAIR HANNAN asked about the origin of the 49 percent and total cost restrictions.

MR. MITCHELL answered that the original bill did not have the 49 percent limit. He said he thinks the \$102.5 [million] limit per project was a fairness issue. He offered his understanding that there had been concern by the Senate Finance Committee regarding the evolution of the Alaska Municipal Bond Bank to lend money to a regional health organization, and he said there was a learning curve regarding how regional health organizations would perform in obtaining and committing money. The bill was modified [to address these concerns], which he related was acceptable to everyone at the time. He said TCC and YKHC were able to make

things work out within those restrictions. He proffered that with experience comes the ability to improve structures, which is where things stand now with the proposed legislation.

[9:09:39 AM](#)

REPRESENTATIVE PATKOTAK asked for UA's existing debt to cap ratio.

MR. MITCHELL responded that he did not think he had the answer, but he said UA did not use the entire \$87.5 million. He estimated that "it would be in the \$60-\$70 million range that would outstanding under that cap," but "it's been rolled into the total rather than separately identified."

[9:10:46 AM](#)

REPRESENTATIVE LEBON recommended asking Mr. Dosch for that amount.

[9:10:55 AM](#)

MR. DOSCH responded that he did not have that number but estimated it to be in the \$70 million range. He said UA has paid down principle over the last five years.

[9:11:20 AM](#)

REPRESENTATIVE PATKOTAK asked about the history of UA's debt program.

MR. MITCHELL said he could not recall but noted that Senator Meyer had been on the Senate Finance Committee.

[9:12:36 AM](#)

CO-CHAIR SCHRAGE opened public testimony on HB 127. After ascertaining that there was no one who wished to testify, he closed public testimony.

[HB 127 was held over.]

[9:13:15 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:13 a.m.