

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

March 28, 2024

1:03 p.m.

**MEMBERS PRESENT**

Representative Kevin McCabe, Chair  
Representative Tom McKay  
Representative Genevieve Mina

**MEMBERS ABSENT**

Representative Sarah Vance, Vice Chair  
Representative Craig Johnson  
Representative Jesse Sumner  
Representative Louise Stutes

**COMMITTEE CALENDAR**

PRESENTATION(S): STATE OF ALASKA~ GENERAL OBLIGATION BONDS~ AND  
STATE AGENCY DEBT

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

FADIL LIMANI, Deputy Commissioner  
Alaska Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Co-offered the State of Alaska General  
Obligation Bonds & State Agency Debt presentation.

RYAN WILLIAMS, Debt Manager  
Treasury Division  
Alaska Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Co-offered the State of Alaska General  
Obligation Bonds & State Agency Debt presentation.

**ACTION NARRATIVE**

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**CHAIR KEVIN MCCABE** called the House Transportation Standing Committee meeting to order at 1:03 p.m. Representatives McKay, Mina, and McCabe were present at the call to order.

**PRESENTATION(S): State of Alaska, General Obligation Bonds, and State Agency Debt**

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CHAIR MCCABE announced that the only order of business would be the presentation, titled "State of Alaska, General Obligation Bonds, and State Agency Debt."

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FADIL LIMANI, Deputy Commissioner, Alaska Department of Revenue, began a PowerPoint presentation, titled "State of Alaska General Obligation Bonds & State Agency Debt" [hard copy included in the committee packet]. He related that some of the topics he anticipated covering would be related to the state's outstanding debt and prior debt authorizations as it pertains to general obligation (GO) bonds. He moved through slides 4 and 5, titled "Alaska Public Types of Debt." Slide 4 read as follows [original punctuation provided]:

- State Debt
- State Guaranteed Debt
- State Supported Debt  Unfunded Actuarial Accrued Liability (UAAL)
- State Supported Municipal Debt - Eligible for State Reimbursement
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt

MR. LIMANI continued on slide 5, which focused on the State Moral Obligation. Slide 5 read as follows [original punctuation provided]:

State moral obligation debt consists of bonds issued by certain State agencies or authorities that are secured, in part, by a debt service reserve fund benefited by a discretionary replenishment provision

that permits, but does not legally obligate, the Legislature to appropriate to the particular State agency or authority the amount necessary to replenish the debt service reserve fund up to its funding requirement (generally the maximum amount of debt service required in any year). State moral obligation debt is payable in the first instance by revenues generated from loan repayments or by the respective projects financed from bond proceeds.

o Among those State agencies that have the ability to issue State moral obligation debt are:

- Alaska Aerospace Development Corporation (AADC) which has not issued any debt
  - Alaska Energy Authority (AEA)
  - Alaska Housing Finance Corporation (AHFC)
- Alaska Industrial Development and Export Authority (AIDEA)
  - Alaska Municipal Bond Bank Authority (AMBBA)
  - and Alaska Student Loan Corporation (ASLC)

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REPRESENTATIVE MCCABE asked why the Alaska Railroad Corporation (ARRC) wasn't on the slide, as it is a corporation that the state owns and "in the same boat."

MR. LIMANI responded it would be in the matrix on slide 6.

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RYAN WILLIAMS, Debt Manager, Treasury Division, Alaska Department of Revenue, addressed Chair McCabe's inquiry and said that ARRC is unable to issue state moral obligation debt due to legislation.

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MR. LIMANI returned to the PowerPoint and summarized slides 6 and 7, titled "State Agencies Debt Authorization." The slides covered state agencies, types of debt issued, and limitations of each.

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MR. LIMANI proceeded to slides 8 and 9, titled "General Obligation Bonds." Slide 8 read as follows [original punctuation provided]:

- What are GO Bonds? A tool to raise funds for capital needs:
  - Once authorized, bonds are issued, and the entity bond proceeds
  - Proceeds from the GO Bonds fund capital projects through an identified / defined project list
  - Examples of capital projects may include roads and bridges, parks, schools, harbors, University and/or community facilities, and renovation and deferred maintenance
- Must have authorization by law and must be ratified by voters
  - Authorized first by the governing body with defined parameters surrounding project list, this will include other factors such as one-time issuance or not to exceed limit
  - Must be approved / authorized by voters in a ballot proposition at an election as to those defined parameters set forth in the enacting authorization
  - Backed by the full faith, credit, resources and taxing authority of the issuing entity
  - GO's hold a more diverse credit structure based on the issuing entities finances
  - GO's typically have a lower interest rate commensurate with credit quality of the pledge of that underlying entity

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CHAIR MCCABE, referring to the previous slide, offered his synopsis of the process on how GO bonds and issuance by the state worked.

MR. LIMANI affirmed Chair McCabe was correct. He added that the authorization passed by the legislature had to have distinct projects and gave an example of the construction of a school. The determination of parameters would be discussed in later slides, he said.

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REPRESENTATIVE MINA inquired whether there was any secondary requirement that the capital need, which the GO bond is funding, is a statewide need or at the discretion of the legislature.

MR. LIMANI replied that as long as it had the definition of capital improvement, it did not matter if it was for a particular area.

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MR. LIMANI continued to slide 9, titled "General Obligation bonds - Continued," which read as follows [original punctuation provided]:

- General Obligation Debt:
  - Authorizing legislation identifying certain projects, dollar amounts, and any underlying fund structuring (and enactment of that Bill to move forward in the process)
  - State examples of authorizing legislation: HB424 (2010) and HB286 (2012)
  - General Obligation bonding has to go through an approved ballot proposition by vote within either the state or community (full faith /credit pledge of the entity for the GO Bond)
  - Voter authority is required as the pledge of future revenues of the entity is the payment commitment over the life of the bonds. If resources were insufficient, revenues would need to be raised to cover the payments (example: taxes)
  - Additional authorization for timing of actual debt issuance, issuance parameters, method of sale (typically through resolution, example: State Bond Committee)
  - The state bond committee shall approve the sale of bonds of each authorization in the amounts or series and at the times which it finds are for the best interests of the state and its inhabitants
  - Project Fund, funded with bond proceeds, has specific requirements associated with the underlying authorizations (specified projects, spending rules, other financial analysis on project cash flows)

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REPRESENTATIVE MINA asked whether there were other examples of authorizing legislation beside 2010 and 2012 and how often GO bonds were put on the ballot and ratified.

MR. LIMANI replied that the last one was the 2012 authorization, and going back to statehood, the dollar amount issued over that time period had been approximately \$3 billion.

MR. WILLIAMS added that prior to 2010, there were authorizations for GO bonds in 2003, 2004, and 2009. He offered his belief that there should be a table that referenced more historical information.

MR. LIMANI affirmed they could look into it and provide the information to the committee at a later date.

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MR. LIMANI proceeded to slide 10, titled "Project Finance Process," which read as follows [original punctuation provided]:

- Breakdown of total project financing and costs:
  - Project finance often involves a combination of different sources
  - Grants or other programs providing partial financial support
  - This may include Federal / State / Entity programs, appropriations, and/or contributions
  - Could have strict administrative requirements through grant or other alternative programs GO Bonds
- The financing:
  - Assemble the Financing Team: Bond Counsel, Underwriting Banks, Disclosure Counsel, Financial Advisor / Municipal Advisor, Representatives
  - State policy requirements - level debt service, method of sale, and potential refunding requirements
  - The financing team is usually involved in both original issuance and subsequent maintenance of debt

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CHAIR MCCABE inquired about the length of time in issuing a GO bond, how long the service is for the bond, and the income received for the bond.

MR. LIMANI advised that generally, the debt structure is based on the life of the asset. He touched on a time frame of 20 years for the GO bond but added that it depended on the asset.

MR. WILLIAMS added that bond counsel would look at the useful average life.

CHAIR MCCABE opined that it could be a 6 percent return for 100 years, which would be a "no brainer" for a union or retirement fund. He commented on the rail and inner ties not going away after 20 years and added that the roads would not go away either.

MR. LIMANI said that generally the roads, because of required upkeep and maintenance, have a shorter span. For some of the aforementioned longer life assets, the useful life could be 50 to 75 years, so the debt is stretched accordingly.

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REPRESENTATIVE MINA asked how much of the financing team is under the Department of Revenue (DOR) versus the legislature versus other entities.

MR. LIMANI replied that the financing team would include the commissioner's office within DOR, the debt manager, and the Department of Law (DOL) since it must review the underlying resolutions up for consideration. A third-party bond counsel is also engaged, he said, and many advisors may be included.

REPRESENTATIVE MINA expressed interest in whether there was turnover with the financing team and inquired about the length of terms for maintenance of debt.

MR. LIMANI stressed that stability must be maintained, and he noted the financial advisor has been with them for approximately seven years. He noted there is an extensive process that goes into monitoring the bonds on the compliance after they are issued.

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MR. WILLIAMS continued the presentation on slide 11, titled "Project Finance Process - Continued," which read as follows [original punctuation provided]:

- After Financing:

- Arbitrage Rebate (rate examples and tax compliance)
- Continuation of cash flow forecasting for those identified projects and not to exceed limit / authorization remaining
- Call and Redemption Provisions on issued bonds (typically 10-years)
- Legal defeasance if officially funding escrow prior to call date to defease debt
  - Other special spending requirements
  - Continuing disclosure and SEC rule 15c2-12:
    - Continuing disclosure consists of important information about municipal bonds that arises after the initial issuance. This information generally reflects the financial health or operating condition of the state or local government as it changes over time, or the occurrence of specific events that can have an impact on key features of the bonds
    - Examples: Audited Financial Information or Final Statements, Notice of Failure to provide Financial Information by deadline
    - Specific events: Any payment deficiencies, defaults, bond calls and defeasances, rating changes

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MR. WILLIAMS moved to slide 12, titled "State's Debt Profile," which featured outstanding debt as of June 30, 2023, with a table and two graphs. He gave a summary of some of the main state debt items. He then moved to slides 13 and 14, titled "Outstanding Debt as of June 30, 2023 - By Type," which featured a table with numbers in millions. Broken down on the slide were the types of debt, dollar amounts of principal outstanding, interest to maturity, and total debt service to maturity. He stated that he would not go over each one by line item, but he would be happy to discuss any of them at the will of the committee.

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MR. WILLIAMS proceeded to slide 15, titled "State Debt Capacity," featuring debt affordability analysis, which read as follows [original punctuation provided]:

- Annual analysis required by AS 37.07.045 to be delivered by January 31

- Discusses credit ratings, current debt levels, history and projections
- Relies upon debt ratios, limit of 4% for directly paid state debt, and 7% when combined with municipal debt that the state supports
- Identifies currently authorized, but unissued debt □ Establishes refinancing parameters
- Determines a long-term debt capacity at current rating level
- Discusses, but doesn't define, a capacity for short-term debt □ The 2023-2024 analysis determined that the State had a debt capacity of \$1,400 million
  - Adjustments made to base analysis to account for recognition of a POMV split for PFDS vs state budget, special funding for PERS/TRS and future budget uncertainty and volatility in the State's revenue sources

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MR. WILLIAMS moved to slide 16, titled "Prior State Authorization in 2010," which he said was a "tombstone" of the 2010 issuance. He said slides 18 and 19, titled "Prior State Authorization in 2012," gave much more detail about the defined project list and amounts.

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CHAIR MCCABE noted that he did not see the Port Mackenzie rail extension on the list. He asked for layman's terms in how to go about that amount of track.

REPRESENTATIVE MCKAY pointed out where the rail extension was on the slide.

MR. LAMANI addressed Chair McCabe and explained that one could go about it the same as the \$30 million that was put in, in 2012. He noted that it would have to be in legislation first.

CHAIR MCCABE observed that the first stop would be legislation, then it must get ratified by the voters, and then the bonds must be sorted out to create the "package" for the rail.

MR. LIMANI proffered that the financial structure does not take long on the GO bond and tends to be straightforward. The majority of the time spent is with the legislative efforts, he

added. He further explained that if it generates revenues and the agency wished to pledge the revenues to pay for the debt, it becomes a "double barrel bond."

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CHAIR MCCABE sought clarity that the term "double barrel" meant both revenue and GO bond.

MR. LIMANI responded that there "is still tax exempt" and considered more of a GO bond.

CHAIR MCCABE noted that there was an amendment to the railroad bond bill and asked whether Mr. Limani was referring to that when he spoke of "the legislation."

MR. LIMANI suggested that two different things were being referenced. He offered his belief Chair McCabe meant the increase in the cap.

CHAIR MCCABE reiterated the steps a bond goes through would be legislation, voters, and a specific project attached to the bond.

MR. LIMANI confirmed that was correct.

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REPRESENTATIVE MINA referred to the 2012 GO bond and sought context as to what determined capital projects.

MR. LIMANI replied that he did not have the historical perspective as to what went through determining the projects for the 2012 authorization.

REPRESENTATIVE MINA said that she understood part of the mechanics in relation to the process for the GO bond but expressed curiosity as to what factors lead projects to be a part of a GO bond rather than normal capital budget.

MR. LIMANI responded there were many different factors that go into making the determination, and he reiterated that [those determinations are] the duty and discretion of the legislature.

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REPRESENTATIVE MCCABE asked what would happen when there is a project that does not get completed and the voters and state are still responsible for paying it off.

MR. LIMANI explained that as for the debt, there is still an obligation to make debt service payments, but as for the completion of the project, it would become a legislative item to be addressed.

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CHAIR MCCABE concluded the presentation and discussed future business.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:54 p.m.