

"An Act creating the Alaska Municipal Bond Bank Authority and prescribing its organization, powers and duties; and providing for an effective date."

COMMITTEE REPORT

2/26/75

HOUSE

Mr. Speaker:

Date April 8, 1975

The Committee on FINANCE has had HR 72

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

(X) recommends it BE REPLACED WITH CS FOR HR 72 AND THAT
CS FOR HR 72 DO PASS *BE REPLACED WITH BANK WITH RECOMMENDATION*

() "and" recommends it BE REFERRED TO THE _____
COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

<u>[Signature]</u>	<u>No Rec</u>
<u>[Signature]</u>	<u>No recommendation</u>
<u>[Signature]</u>	<u>No Rec</u>
<u>[Signature]</u>	<u>No Rec</u>
<u>[Signature]</u>	<u>NO RECOMMENDATION</u>

Members NOT concurring in the Majority report:

_____	recommends:	
<u>[Signature]</u>	recommends:	<u>do pass</u>
<u>[Signature]</u>	recommends:	<u>no recommendation</u>
_____	recommends:	<u>[Signature]</u>
_____	recommends:	

[Signature] Chairman

"An Act creating the Alaska Municipal Bond Bank Authority and prescribing its organization, powers and duties; and providing for an effective date."

1/24/75

COMMITTEE REPORT

FINANCE

HOUSE

Mr. Speaker:

Date 2-25-75

The Committee on CRA has had HB 72

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

Sam R. Carter Thine Hershenger
Freeman
Yann Harbun
Nathaniel Estroby

Members NOT concurring in the Majority report:

None recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

Sam R. Carter Chairman

A M E N D M E N T # 1

OFFERED IN THE HOUSE:

By: House Community & Regional
Affairs Committee

To: ~~HOUSE~~ Amend HOUSE BILL No. 72

SENATE BILL No. _____

PAGE: 21

LINE: 23, 25, 27

On Page 21, line 23, after the word "legislature" delete the word "shall" and insert "may".

On Page 21, line 25, after the word "governor" insert the words "and to the chairmen of the House and Senate Finance Committees".

On Page 21, line 27, after the word "January" delete "2" and insert "30".

On Page 21, line 28, after the word "governor", insert the words "and to the chairmen of the House and Senate Finance Committees".

AMENDMENT #2

OFFERED IN THE HOUSE:

House Community & Regional
BY: Affairs Committee

To: ~~XXXX~~ Amend _____ HOUSE BILL No. 72

SENATE BILL No. _____

PAGE: 22

LINE: 6, 7, 8, 9

On page 22, lines 6, 7, 8 and 9, delete the words "however, at the end of each fiscal year any amount representing earnings or income received on account of money appropriated to the reserve fund shall be transferred to the general fund." and insert the words "subject to the terms of any act appropriating money to the reserve fund."

Original sponsor: Rules Committee by
request of the Governor

Offered: 4/11/75
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 72 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act creating the Alaska Municipal Bond Bank
7 Authority and prescribing its organization, powers and
8 duties; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 44 is amended by adding a new chapter to read:

11 CHAPTER 58. ALASKA MUNICIPAL BOND BANK AUTHORITY.

12 Sec. 44.58.005. LEGISLATIVE FINDINGS. The legislature finds
13 that

14 (1) the rapid growth of municipalities in the state and the
15 incorporation of new municipalities has created a demand for capital
16 improvements which can only be met by these municipalities' borrowing
17 money through the issuance of bonds or notes;

18 (2) many of these municipalities, although creditworthy,
19 either have not issued bonds or notes or have little outstanding debt;

20 (3) the cost of borrowed money to these municipalities is or
21 may be unnecessarily high due to lack of investor familiarity with the
22 municipalities;

23 (4) other municipalities in the state pay unnecessarily high
24 borrowing costs because of the distance of the state from capital
25 markets or may find borrowing difficult or impossible because of tem-
26 porary economic dislocation due to loss of employment or prospective
27 loss of employment.

28 Sec. 44.58.010. LEGISLATIVE POLICY. (a) It is the policy of the
29 state

1 (1) to foster and promote by all reasonable means the provi-
2 sion of adequate capital markets and facilities for borrowing money by
3 municipalities in the state to finance capital improvements or for other
4 authorized purposes, to assist these municipalities in fulfilling their
5 capital needs and requirements by use of borrowed money within statutory
6 interest rate or cost of borrowing limitations, to the greatest extent
7 possible to reduce costs of borrowed money to taxpayers and residents of
8 the state, and equally to encourage continued investor interest in the
9 purchase of bonds or notes of municipalities as sound and preferred
10 securities for investment;

11 (2) to encourage municipalities to continue their independent
12 undertakings and financing of capital improvements and other authorized
13 purposes and to assist them by making capital funds available at reduced
14 interest costs for orderly financing of capital improvements and other
15 purposes especially during periods of restricted credit or money supply,
16 particularly for those municipalities not otherwise able to borrow for
17 capital needs.

18 (b) The legislature further declares that

19 (1) the exercise of the powers of the state in the interest
20 of its municipalities is required to further and implement the policies
21 declared in (a) of this section by authorizing the creation of a state
22 bond bank authority as a body corporate and politic that will have full
23 powers to borrow money and to issue its bonds and notes to make capital
24 funds available for borrowing by municipalities and by granting broad
25 powers to the bond bank authority to carry out the declared policies
26 which are in the public interest of the state and its taxpayers and
27 residents;

28 (2) state funds should be applied or authorized to be paid to
29 a state bond bank authority only to provide adequate assurance and

1 security to the holders of the bonds or notes of the bond bank authority;

2 (3) the bond bank authority should conduct its operations
3 to provide the lowest rates in terms of borrowing to municipalities as
4 is consistent with a self-supporting operation with no expectation of
5 subsidization with state funds. The legislature does not intend that
6 the bond bank authority be utilized as a means to finance municipalities
7 beyond their capability to meet repayment schedules and debt service
8 requirements of bonds or notes.

9 Sec. 44.58.020. MUNICIPAL BOND BANK AUTHORITY. There is created
10 the Alaska Municipal Bond Bank Authority. The authority is a public
11 corporation of the state. The corporation is an instrumentality of the
12 state within the Department of Revenue but has a legal existence inde-
13 pendent of and separate from the state and has continuing succession
14 until its existence is terminated by law. The exercise by the authority
15 of the powers conferred by this chapter is considered an essential
16 governmental function of the state.

17 Sec. 44.58.030. MEMBERSHIP AND VACANCIES. The bond bank authority
18 consists of the following five directors: the commissioner of revenue,
19 the commissioner of community and regional affairs, who shall each be a
20 director ex officio with voting privileges, and three directors ap-
21 pointed by the governor. The appointment of each director other than
22 the commissioner of revenue and the commissioner of community and
23 regional affairs is subject to confirmation by the legislature. The
24 three directors appointed by the governor serve at his pleasure for
25 four-year terms. They must be residents of the state and qualified
26 voters at the time of appointment and shall comply with the requirements
27 of AS 39.50 (conflict of interest). The directors first appointed shall
28 have terms of two, three and four years respectively. Each director
29 shall hold office for the term of his appointment and until his suc-

1 cessor has been appointed and qualified. A director is eligible for
2 reappointment. A vacancy in a directorship occurring other than by
3 expiration of term shall be filled in the same manner as the original
4 appointment but for the unexpired term only. Each director before
5 entering upon his duties shall take and subscribe to an oath to perform
6 the duties of his office faithfully, impartially, and justly to the best
7 of his ability. A record of the oath shall be filed in the office of
8 the governor.

9 Sec. 44.58.040. OFFICERS AND QUORUM. The directors shall elect
10 one of their number as chairman. The directors shall elect a secretary
11 and a treasurer who need not be directors, and the same person may be
12 elected to serve both as secretary and treasurer. The powers of the
13 bond bank authority are vested in the directors, and three directors of
14 the bond bank authority constitute a quorum. Action may be taken and
15 motions and resolutions adopted by the bond bank authority at any
16 meeting by the affirmative vote of at least three directors. A vacancy
17 in the directorship of the bond bank authority does not impair the right
18 of a quorum to exercise all the powers and perform all the duties of the
19 bond bank authority.

20 Sec. 44.58.050. BONDING OF MEMBERS. Before the issuance of bonds
21 or notes under this chapter, each director shall execute a surety bond
22 in the penal sum of \$25,000 and the treasurer shall execute a surety
23 bond in the penal sum of \$50,000. Each surety bond shall be conditioned
24 upon the faithful performance of the duties of the office of the direc-
25 tor or treasurer, to be executed by a surety company authorized to
26 transact business in the state as surety and filed in the office of the
27 lieutenant governor. After issuance of bonds or notes by the bond bank
28 authority each director shall maintain his surety bond in force. All
29 costs of the surety bonds shall be borne by the bond bank authority.

1 Sec. 44.58.060. COMPENSATION AND EXPENSES. The directors of the
2 bond bank authority shall serve without compensation, but the bond bank
3 authority shall reimburse its directors for actual expenses necessarily
4 incurred in the discharge of their duties. Notwithstanding any other
5 law, an officer or employee of the state shall forfeit his office or
6 employment and any benefits by reason of his acceptance of appointment
7 to the office of director of the bond bank authority.

8 Sec. 44.58.070. STAFF. The bond bank authority shall employ an
9 executive secretary who may with the approval of the bond bank authority
10 select and employ additional staff as necessary. Employees and agents
11 of the bond bank authority other than legal counsel and the executive
12 secretary are in the classified service under AS 39.25. In addition to
13 its staff of regular employees, the bond bank authority may contract for
14 and engage the services of the bond counsel, consultants, experts, and
15 financial advisors the bond bank authority considers necessary for the
16 purpose of developing information, or conducting studies, investiga-
17 tions, hearings or other proceedings.

18 Sec. 44.58.080. POWERS OF BOND BANK AUTHORITY. The bond bank
19 authority may

- 20 (1) sue and be sued;
- 21 (2) adopt and alter an official seal;
- 22 (3) make and enforce bylaws and rules for the conduct of
23 its business and for the use of its services and facilities;
- 24 (4) maintain an office at any place in the state;
- 25 (5) acquire, hold, use and dispose of its income, revenues,
26 funds and money;
- 27 (6) acquire, rent, lease, hold, use and dispose of other
28 personal property for its purposes;
- 29 (7) borrow money and issue its negotiable bonds or notes and

1 provide for and secure their payment, provide for the rights of their
2 holders and purchase, hold and dispose of any of its bonds or notes;

3 (8) fix and revise from time to time and charge and collect
4 fees and charges for the use of its services or facilities;

5 (9) accept gifts or grants from the United States, or from
6 any governmental unit or person, firm or corporation, carry out the
7 terms or provisions or make agreements with respect to the gifts or
8 grants, and do all things necessary, useful, desirable, or convenient in
9 connection with procuring, accepting or disposing of the gifts or
10 grants;

11 (10) do anything authorized by this chapter, through its
12 officers, agents or employees or by contracts with a person;

13 (11) make, enter into and enforce all contracts necessary,
14 convenient or desirable for the purposes of the bond bank authority or
15 pertaining to a loan to a political subdivision, a purchase or sale of
16 municipal bonds or other investments, or the performance of its duties
17 and execution of any of its powers under this chapter;

18 (12) purchase or hold municipal bonds at prices and in a
19 manner the bond bank authority considers advisable, and sell municipal
20 bonds acquired or held by it at prices without relation to cost and in a
21 manner the bond bank authority considers advisable;

22 (13) invest funds or money of the bond bank authority not
23 required at the time of investment for loan to political subdivisions
24 for the purchase of municipal bonds, in the same manner as permitted for
25 investment of funds belonging to the state, except as otherwise provided
26 in this chapter;

27 (14) prescribe the form of application or procedure required
28 of a political subdivision for a loan or purchase of its municipal
29 bonds, fix the terms and conditions of the loan or purchase, and enter

1 into agreements with political subdivisions with respect to loans or
2 purchases;

3 (15) render services to a political subdivision in connection
4 with a public or private sale of its municipal bonds, including advisory
5 and other services, and charge for services rendered;

6 (16) charge for its costs and services in review or consid-
7 eration of a proposed loan to a political subdivision or purchase by the
8 bond bank authority of municipal bonds of the political subdivision,
9 whether or not the loan is made or the municipal bonds purchased;

10 (17) fix and establish terms and provisions with respect to a
11 purchase of municipal bonds by the bond bank authority, including date
12 and maturities of the bonds, provisions as to redemption or payment
13 before maturity, and any other matters which in connection with the
14 purchase are necessary, desirable or advisable in the judgment of the
15 bond bank authority;

16 (18) procure insurance against any losses in connection with
17 its property, operations or assets in amounts and from insurers as it
18 considers desirable;

19 (19) to the extent permitted under its contracts with the
20 holders of bonds or notes of the bond bank authority, consent to modifi-
21 cation of the rate of interest, time and payment of installment of
22 principal or interest, security or any other term of a bond or note,
23 contract or agreement of any kind to which the bond bank authority is a
24 party; and

25 (20) do all acts and things necessary, convenient, or desir-
26 able to carry out the powers expressly granted or necessarily implied in
27 this chapter.

28 Sec. 44.58.090. LIMITATIONS. Under this chapter the bond bank
29 authority may not

1 (1) make loans of money to a person, firm or corporation
2 other than a municipality or purchase securities issued by a person,
3 other than a municipality except for investment as provided in this
4 chapter;

5 (2) emit bills of credit, accept deposits of money for time
6 or demand deposit, administer trusts, or engage in any form or manner
7 in, or in the conduct of, a private or commercial banking business, or
8 act as a savings bank or savings and loan association;

9 (3) be or constitute a bank or trust company within the
10 jurisdiction or under the control of a regulatory or supervisory board
11 or department of the state, or the Comptroller of the Currency of the
12 United States, or the Department of the Treasury, or Federal Reserve
13 Board of the United States; or

14 (4) be or constitute a bank, banker or dealer in securities
15 within the meaning of or subject to the provisions of securities, securi-
16 ties exchange, or securities dealers law, of the United States or of
17 this state or of another state.

18 Sec. 44.58.100. ANNUAL REPORT AND AUDIT. Before October 1 of each
19 year the bond bank authority shall make a report of its activities for
20 the preceding fiscal year to the governor and to the legislature. The
21 report shall set out a complete operating and financial statement
22 covering its operations during the year. The bond bank authority shall
23 have an audit of its books and accounts made at least once in each year
24 by certified public accountants and the cost of the audit shall be
25 considered an expense of the bond bank authority and a copy of the audit
26 shall be filed with the commissioner of revenue and the legislature.

27 Sec. 44.58.110. ANNUAL BUDGET. The bond bank authority shall
28 prepare and submit an annual budget in accordance with the provisions of
29 the Executive Budget Act (AS 37.07).

1 Sec. 44.58.120. CARE AND CUSTODY OF BONDS. The bond bank authority
2 may enter into agreements or contracts with a bank, trust company,
3 banking or financial institution inside or outside the state as may be
4 necessary, desirable or convenient, in the opinion of the bond bank
5 authority, for rendering services in connection with the care, custody
6 or safekeeping of municipal bonds or other investments held or owned by
7 the bond bank authority, for rendering services in connection with the
8 payment or collection of amounts payable as to principal or interest,
9 and for rendering services in connection with the delivery to the bond
10 bank authority of municipal bonds or other investments purchased by it
11 or sold by it, and to pay the cost of those services. The bond bank
12 authority may also, in connection with any of the services to be ren-
13 dered by a bank, trust company or banking or financial institution as to
14 the custody and safekeeping of its municipal bonds or investments,
15 require security in the form of collateral bonds, surety agreements or
16 security agreements in such form and amount as, in the opinion of the
17 bond bank authority, is necessary or desirable.

18 Sec. 44.58.130. EFFECT OF OBLIGATIONS. (a) Bonds and notes
19 issued under this chapter are not a debt or liability of the state and
20 do not create or constitute an indebtedness, liability or obligation of
21 the state, nor do they constitute a pledge of the faith and credit of
22 the state. All bonds and notes issued under this chapter, unless
23 funded or refunded by bonds or notes of the bond bank authority, are
24 general obligations of the authority to which the full faith and credit
25 of the authority are pledged to the payments of them, except to the
26 extent provided by the resolution authorizing the issuance of them.
27 Each bond and note must contain on its face a statement to the effect
28 that the bond bank authority is obligated to pay the principal and
29 interest on the instrument or by from revenues or funds of the bond bank

1 authority and that the state is not obligated to pay the principal or
2 interest and that neither the faith and credit nor the taxing power of
3 the state is pledged to the payment of the principal of or the interest
4 on the bond or note.

5 (b) The state pledges to and agrees with the holders of the bonds
6 or notes issued under this chapter that the state will not limit or
7 restrict the rights vested in the bond bank authority to purchase,
8 acquire, hold, sell or dispose of municipal bonds or other investments
9 or to make loans to political subdivisions or to establish and collect
10 fees or other charges convenient or necessary to produce sufficient
11 revenues to meet the expenses of operation of the bond bank authority
12 and to fulfill the terms of any agreement made with the holders of its
13 bonds or notes or in any way impair the rights or remedies of the
14 holders of the bonds or notes until the bonds or notes, together with
15 the interest on the bonds or notes, and interest on unpaid installments
16 of interest, and all costs and expenses in connection with an action or
17 proceeding by or on behalf of the holders, are fully met, paid and
18 discharged.

19 Sec. 44.58.140. NEGOTIABILITY OF BONDS OR NOTES. Notwithstanding
20 other provisions of law, a bond or note issued under this chapter is
21 fully negotiable for all purposes of the Uniform Commercial Code (AS 45.
22 05), and a holder or owner of a bond or note, or of a coupon appurtenant
23 to it, by accepting the bond, note or coupon is conclusively considered
24 to have agreed that the bond, note or coupon is fully negotiable for all
25 purposes of the Uniform Commercial Code.

26 Sec. 44.58.150. BONDS OR NOTES AS LEGAL INVESTMENTS. Notwith-
27 standing the restrictions of any other law, all banks, trust companies,
28 savings banks and institutions, building and loan associations, savings
29 and loan associations, investment companies, and other persons carrying

1 on a banking business, all insurance companies, insurance associations,
2 and other persons carrying on an insurance business, and all executors,
3 administrators, guardians, trustees and other fiduciaries, may legally
4 invest sinking funds, money or other funds belonging to them or within
5 their control in bonds or notes issued under this chapter.

6 Sec. 44.58.160. TAX EXEMPTION. All property of the bond bank
7 authority is public property devoted to an essential public and govern-
8 mental function and purpose and is exempt from all taxes and special
9 assessments of the state or a political subdivision of the state. All
10 bonds or notes issued under this chapter are issued by a body corporate
11 and public of this state and for an essential public and governmental
12 purpose and the bonds and notes, and the interest and income on and
13 from the bonds and notes, and all fees, charges, funds, revenues,
14 income and other money pledged or available to pay or secure the payment
15 of the bonds or notes, or interest on the bonds or notes, are exempt
16 from taxation except for transfer, inheritance and estate taxes.

17 Sec. 44.58.170. LOANS TO POLITICAL SUBDIVISIONS. (a) The bond
18 bank authority, to carry out the purposes and policies of this chapter,
19 may lend money to municipalities through the purchase by the bond bank
20 authority of municipal bonds of municipalities. The bond bank author-
21 ity, for this purpose, may issue its bonds and notes payable solely from
22 the revenues or funds available to the bond bank authority for such
23 payment and may otherwise assist municipalities as provided in this
24 chapter.

25 (b) To the extent that the commissioner of revenue is the custo-
26 dian of money payable to a municipality, at any time after written
27 notice to him from the bond bank authority that the municipality is in
28 default on the payment of principal or interest on municipal bonds of
29 the municipality then held or owned by the bond bank authority, the com-

1 missioner of revenue shall withhold the payment of that money from that
2 municipality until the amount of the principal or interest then due and
3 unpaid has been paid to the bond bank authority, or until the commis-
4 sioner of revenue has been advised that arrangements, satisfactory to
5 the bond bank authority, have been made for the payment of the principal
6 and interest.

7 Sec. 44.58.180. ISSUANCE OF BONDS AND NOTES. (a) The bond bank
8 authority may issue its bonds or notes in principal amounts that it
9 considers necessary to provide funds for any purposes under this chap-
10 ter, including

11 (1) the purchase of municipal bonds;

12 (2) the making of loans through the purchase of municipal
13 bonds;

14 (3) the payment, funding or refunding of the principal of, or
15 interest or redemption premiums on, bonds or notes issued by it whether
16 the bonds or notes or interest to be funded or refunded have or have not
17 become due;

18 (4) the establishment or increase of reserves to secure or to
19 pay bonds or notes or interest on bonds or notes and all other costs or
20 expenses of the bond bank authority incident to and necessary or con-
21 venient to carry out its corporate purposes and powers.

22 (b) Except as otherwise provided in this chapter or by the bond
23 bank authority, every issue of bonds or notes shall be general obli-
24 gations payable out of the revenues or funds of the bond bank authority,
25 subject only to agreements with the holders of particular bonds or notes
26 pledging a particular revenue or fund. Bonds or notes may be addi-
27 tionally secured by a pledge of a grant or contributions from the
28 United States or the state or a political subdivision or a person, firm
29 or corporation, or a pledge of income or revenues, funds or money of the

1 bond bank authority from any source whatsoever.

2 (c) Notwithstanding the provisions of (a) and (b) of this section,
3 the total amount of bond bank authority bonds and notes outstanding at
4 any one time, except bonds or notes issued to fund or refund bonds or
5 notes, may not exceed \$150,000,000.

6 (d) In deciding to purchase municipal bonds of a municipality, the
7 bond bank authority shall give preference to the municipalities referred
8 to in sec. 5 of this chapter. In addition, the following, listed in
9 order of preference, are preferred purposes of the municipal bonds that
10 may be considered by the bond bank authority for purchase: schools,
11 waste water treatment facilities, fire protection and public safety
12 facilities, public health facilities and public transportation facili-
13 ties.

14 Sec. 44.58.190. FORM OF ISSUANCE. Bonds or notes of the bond bank
15 authority shall be authorized by resolution of the bond bank authority
16 and may be issued in one or more series and shall bear the date, mature
17 at the time, bear interest at the rate of interest each year or within a
18 maximum rate, be in the denomination, be in the form, either coupon or
19 registered, carry the conversion or registration privileges, have the
20 rank or priority, be executed in the manner, be payable from the sources
21 in the medium of payment at the place inside or outside the state, and
22 be subject to the terms of redemption, with or without premium, as the
23 resolution of the bond bank authority provides.

24 Sec. 44.58.200. SALE PRICE. Bonds or notes of the bond bank
25 authority may be sold at public or private sale at the price the bond
26 bank authority determines.

27 Sec. 44.58.210. PAYMENT OR REFUNDING OF NOTES. The bond bank
28 authority may from time to time issue its notes under this chapter and
29 pay and retire or fund or refund the notes from proceeds of bonds or of

1 other notes, or from other funds or money of the bond bank authority
2 available for that purpose in accordance with a contract between the
3 bond bank authority and the holders of the notes.

4 Sec. 44.58.220. TERMS OF AGREEMENT WITH THE BOND- OR NOTEHOLDER.

5 In a resolution of the bond bank authority authorizing or relating to
6 the issuance of bonds or notes, the bond bank authority, in order to
7 secure the payment of the bonds or notes and in addition to its other
8 powers, may covenant and contract with the holders of the bonds or notes

9 (1) to pledge to a payment or purpose all or a part of its
10 revenues to which its right then exists or may thereafter come into
11 existence, and the money derived from the revenues, and the proceeds of
12 any bonds or notes;

13 (2) to covenant against pledging all or a part of its reve-
14 nues, or against permitting or suffering a lien on those revenues or its
15 property;

16 (3) to covenant as to the use and disposition of payments of
17 principal or interest received by the bond bank authority on municipal
18 bonds or other investments held by the bond bank authority;

19 (4) to covenant as to establishment of reserves or sinking
20 funds, the making of provision for them, and the regulation and dis-
21 position of the reserves or sinking funds;

22 (5) to covenant with respect to or against limitations on a
23 right to sell or otherwise dispose of property of any kind;

24 (6) to covenant as to bonds or notes to be issued, and their
25 limitations, terms and conditions, and as to their custody, and as to
26 the application and disposition of the proceeds of the bonds and notes;

27 (7) to covenant as to the issuance of additional bonds or
28 notes or as to limitations on the issuance of additional bonds or notes
29 and on the incurring of other debts by it;

1 (8) to covenant as to the payment of the principal of or
2 interest on the bonds or notes, as to the sources and methods of pay-
3 ment, as to the rank or priority of bonds or notes with respect to a
4 lien or security or as to the acceleration of the maturity of any bonds
5 or notes;

6 (9) to provide for the replacement of lost, stolen, destroyed
7 or mutilated bonds or notes;

8 (10) to covenant against extending the time for the payment of
9 bonds or notes or interest on the bonds or notes;

10 (11) to covenant as to the redemption of bonds or notes and
11 privileges of their exchange for other bonds or notes of the bond bank
12 authority;

13 (12) to covenant as to charges to be established and charged,
14 the amount to be raised each year or other period of time by charges or
15 other revenues, and as to the use and disposition to be made of the
16 charges or other revenues;

17 (13) to covenant to create or authorize the creation of
18 special funds or money to be held in pledge or otherwise for operating
19 expenses, payment or redemption of bonds or notes, reserves or other
20 purposes and as to the use and disposition of the money held in those
21 funds;

22 (14) to establish the procedure, if any, by which the terms of
23 a contract or covenant with or for the benefit of the holders of bonds
24 or notes may be amended or abrogated, the amount of bonds or notes the
25 holders of which must consent to amendment or abrogation, and the manner
26 in which the consent may be given;

27 (15) to covenant as to the custody of any of its property or
28 investments, their safekeeping and insurance, and the use and disposi-
29 tion of insurance money;

1 (16) to covenant as to the time or manner of enforcement or
2 restraint from enforcement of any rights of the bond bank authority
3 arising by reason of or with respect to nonpayment of the principal or
4 interest of a municipal bond;

5 (17) to provide for the rights and liabilities, powers and
6 duties arising upon the breach of any covenant, condition or obligation
7 and to prescribe the events of default and the terms and conditions upon
8 which any or all of the bonds, notes or other obligation of the bond
9 bank authority become or may be declared due and payable before matur-
10 ity and the terms and conditions upon which the declaration and its
11 consequences may be waived;

12 (18) to vest in a trustee inside or outside the state such
13 property, rights, powers and duties in trust as the bond authority may
14 determine, which may include any of the rights, powers and duties of a
15 trustee appointed by the holders of the bonds or notes, and to limit or
16 abrogate the right of the holders of the bonds or notes of the bond bank
17 authority to appoint a trustee under this chapter or limit the rights,
18 powers and duties of the trustee;

19 (19) to pay the costs or expenses incident to the enforcement
20 of the bonds or notes or of the resolution or of a covenant or agreement
21 of the bond bank authority with the holders of its bonds or notes;

22 (20) to agree with a corporate trustee which may be a trust
23 company or bank having the powers of a trust company inside or outside
24 the state, as to the pledging or assigning of revenues or funds in which
25 the bond bank authority has a right or interest, and may further provide
26 for such other rights and remedies exercisable by the trustee as may be
27 proper for the protection of the holders of bonds or notes of the bond
28 bank authority and not otherwise in violation of law, and the agreement
29 may also provide for the restriction of the rights of an individual

1 holder of bonds or notes of the bond bank authority;

2 (21) to appoint and to provide for the duties and obligations
3 of a paying agent or paying agents, or other fiduciaries as the resolu-
4 tion may provide inside or outside the state;

5 (22) to limit the rights of the holders of bonds or notes to
6 enforce a pledge or covenant securing bonds or notes; and

7 (23) to make covenants other than and in addition to the
8 covenants expressly authorized in this section, of like or different
9 character, and to make covenants to do or refrain from doing acts and
10 things as may be necessary, or convenient and desirable, in order to
11 better secure bonds or notes or which, in the absolute discretion of the
12 bond bank authority, will tend to make bonds or notes more marketable,
13 notwithstanding that the covenants, acts or things may not be enumerated
14 in this section.

15 Sec. 44.58.230. PURCHASE AND DISPOSITION OF OWN OBLIGATIONS. The
16 bond bank authority may purchase bonds or notes of the bond bank author-
17 ity out of its funds or money available for the purchase of its own
18 bonds and notes. The bond bank authority may hold, cancel or resell the
19 bonds or notes subject to and in accordance with agreements with holders
20 of its bonds or notes.

21 Sec. 44.58.240. BOND ANTICIPATION NOTES. Notwithstanding any law
22 applicable to a municipality as to the period for temporary financing of
23 a public improvement or purpose by issuance of its notes in anticipation
24 of the issuance of permanent bonds or as to the renewal of bond antici-
25 pation notes, the bond bank authority may purchase and the municipality
26 may issue bond anticipation notes and may renew them from time to time;
27 however, the bond anticipation notes, including renewals, shall mature
28 in such amounts and in such years not exceeding five years from the date
29 of the original issuance as is agreed between the bond bank authority

1 and the municipality. In connection with the transaction and purchase
2 of bond anticipation notes, the bond bank authority may by agreement
3 with the municipality impose any terms, conditions and limitations as in
4 its opinion are proper for the purposes and security of the bond bank
5 authority and the holders of its bonds or notes. The failure of a
6 municipality to comply with the agreement constitutes a failure of the
7 municipality to pay principal of and interest on the bonds or notes, and
8 the bond bank authority shall enforce all rights, remedies, and provi-
9 sions of law as it has under this chapter or are elsewhere provided.

10 Sec. 44.58.250. DOCUMENTATION. All municipal bonds purchased,
11 held or owned by the bond bank authority, upon delivery to the bond bank
12 authority, must be accompanied by all documentation required by the
13 authority.

14 Sec. 44.58.260. PRESUMPTION OF VALIDITY. After issuance, all
15 bonds or notes of the bond bank authority shall be conclusively presumed
16 to be fully authorized and issued under the laws of the state, and a
17 person or a municipality is estopped from questioning their authoriza-
18 tion, sale, issuance, execution or delivery by the bond bank authority.

19 Sec. 44.58.270. RESERVE FUND. (a) The bond bank authority shall
20 establish and maintain a special fund called the "Alaska municipal bond
21 bank authority reserve fund" in which there shall be deposited or
22 transferred

23 (1) all money appropriated by the legislature for the purpose
24 of the fund in accordance with the provisions of (g) of this section;

25 (2) all proceeds of bonds required to be deposited in the
26 fund by terms of a contract between the bond bank authority and its
27 bondholders or a resolution of the bond bank authority with respect to
28 the proceeds of bonds;

29 (3) all other money appropriated by the legislature to the

1 reserve fund; and

2 (4) any other money or funds of the bond bank authority which
3 it decides to deposit in the fund.

4 (b) Subject to the provisions of (h) of this section, money in the
5 reserve fund shall be held and applied solely to the payment of the
6 interest on and principal of bonds of the bond bank authority as the
7 interest and principal become due and payable and for the retirement of
8 bonds; and the money may not be withdrawn if a withdrawal would reduce
9 the amount in the reserve fund to an amount less than the required debt
10 service reserve except for payment of interest then due and payable on
11 bonds and the principal of bonds then maturing and payable and for the
12 retirement of bonds in accordance with the terms of a contract between
13 the bond bank authority and its bondholders and for which payments of
14 other money of the bond bank authority is not then available. As used
15 in this subsection, "required debt service reserve" means, as of the
16 date of computation, the amount required to be on deposit in the reserve
17 fund as provided by resolution of the bond bank authority.

18 (c) Money in the reserve fund in excess of the required debt
19 service reserve as defined in (b) of this section, whether by reason of
20 investment or otherwise, may be withdrawn at any time by the bond bank
21 authority and transferred to another fund or account of the bond bank
22 authority subject to the provision of (h) of this section.

23 (d) Money in the reserve fund may be invested in the same manner
24 and on the same conditions as permitted for investment of funds belong-
25 ing to the state or held in the treasury under AS 37.10.070; however,
26 the authority may agree with the bondholders to further limit these
27 investments.

28 (e) For purposes of valuation, investments in the reserve fund
29 shall be valued at par or if purchased at less than par, at cost unless

1 otherwise provided by resolution of the bond bank authority. Valuation
2 on a particular date shall include the amount of interest then earned or
3 accrued to that date on the money or investments in the reserve fund.

4 (f) Notwithstanding any other provision of this chapter, no bonds
5 may be issued by the bond bank authority unless there is in the reserve
6 fund the required debt service reserve for all bonds then issued and
7 outstanding and for the bonds to be issued; however, the bond bank
8 authority may satisfy this requirement by depositing as much of the
9 proceeds of the bonds to be issued, upon their issuance, as is needed to
10 meet the required debt service reserve. The bond bank authority may at
11 any time issue its bonds or notes for the purpose of increasing the
12 amount in the reserve fund to the required debt service reserve, or to
13 meet whatever higher or additional reserve that may be fixed by the bond
14 bank authority with respect to the fund.

15 (g) In order to assure the maintenance of the required debt ser-
16 vice reserve in the reserve fund, the legislature may appropriate
17 annually to the bond bank authority for deposit in the fund the sum,
18 certified by the chairman of the bond bank authority to the governor
19 and to the legislature, that is necessary to restore the fund to an
20 amount equal to the required debt service reserve. The chairman an-
21 nually, before January 30, shall make and deliver to the governor and to
22 the legislature his certificate stating the sum required to restore the
23 fund to that amount, and the sum so certified may be appropriated and
24 paid to the bond bank authority during the then current state fiscal
25 year. Nothing in this subsection creates a debt or liability of the
26 state.

27 (h) All amounts received on account of money appropriated to the
28 reserve fund referred to in (a)(3) of this section shall be held and
29 applied in accordance with (b) of this section; however, at the end of

1 each fiscal year any amount representing earnings or income received on
2 account of money appropriated to the reserve fund shall be transferred
3 to the general fund of the state.

4 Sec. 44.58.280. ADDITIONAL FUNDS AND ACCOUNTS. The bond bank
5 authority may establish additional reserves or other funds or accounts
6 as may be, in its discretion, necessary, desirable, or convenient to
7 further the accomplishment of its purposes or to comply with the provi-
8 sions of any of its agreements or resolutions.

9 Sec. 44.58.290. APPLICATION OF FUNDS. Money or investments in a
10 fund or account of the bond bank authority established or held for
11 bonds, notes, indebtedness or liability to be paid, funded, or refunded
12 by issuance of bonds or notes, unless the resolution authorizing the
13 bonds or notes provides otherwise, shall be applied to the payment or
14 retirement of the bonds, notes, indebtedness or liability, and to no
15 other purpose.

16 Sec. 44.58.300. RIGHTS OF HOLDERS PARAMOUNT. In order to carry
17 out its purpose under this chapter of making loans to municipalities by
18 purchase of the municipal bonds of those municipalities and by receipt
19 of its income from service charges and from payments of interest on the
20 maturing principal of municipal bonds purchased and held by it, and in
21 order to produce revenues or income to the bond bank authority suffi-
22 cient at all times to meet its costs and expenses of operation under
23 this chapter and to pay the principal of and interest on its outstanding
24 bonds and notes when due, the bond bank authority must at all times, and
25 to the greatest extent possible, plan to issue its bonds and notes and
26 lend money to political subdivisions so that the purpose is achieved
27 without in any way jeopardizing any rights of the holders of bonds or
28 notes of the bond bank authority or affecting other matters under this
29 chapter.

1 Sec. 44.58.310. DEFAULT IN PAYMENT. If the bond bank authority
2 defaults in the payment of principal or interest on an issue of notes or
3 bonds after they become due, whether at maturity or upon call for
4 redemption, and the default continues for 30 days, or if the bond bank
5 authority fails or refuses to comply with this chapter or defaults in an
6 agreement made with the holders of an issue of notes or bonds, the
7 holders of 25 per cent in the aggregate principal amount of the out-
8 standing notes or bonds of that issue, by instrument filed in the office
9 of the clerk of the district court of the first judicial district and
10 executed in the same manner as a deed to be recorded, may appoint a
11 trustee to represent the holders of those notes or bonds for the pur-
12 poses provided in this chapter.

13 Sec. 44.58.320. POWERS AND DUTIES OF TRUSTEE ON DEFAULT. (a) A
14 trustee appointed under sec. 320 of this chapter may, and shall in his
15 or its name, upon written request of the holders of 25 per cent in
16 principal amount of the outstanding notes or bonds,

17 (1) by civil action enforce all rights of the noteholders or
18 bondholders, including the right to require the bond bank authority to
19 collect rates, charges and other fees and to collect interest and
20 amortization payments on municipal bonds and not s held by it adequate
21 to carry out an agreement as to, or pledge of, the rates, charges and
22 other fees and of the interest and amortization payments, and to require
23 the bond bank authority to carry out any other agreements with the
24 holders of the notes or bonds and to perform its duties under this
25 chapter;

26 (2) bring a civil action upon the notes or bonds;

27 (3) by civil action require the bond bank authority to
28 account as if it were the trustee of an express trust for the holders of
29 the notes or bonds;

1 (4) by civil action enjoin anything which may be unlawful or
2 in violation of the rights of the holders of the notes or bonds;

3 (5) declare all the notes or bonds due and payable, and if
4 all defaults are made good, then with the consent of the holders of 25
5 per cent of the principal amount of the outstanding notes or bonds,
6 annul the declaration and its consequences;

7 (6) the trustee, in addition to the foregoing, has all the
8 powers necessary for the exercise of functions specifically set out or
9 incident to the general representation of bondholders or noteholders in
10 the enforcement and protection of their rights.

11 (b) Before declaring the principal of notes or bonds due and
12 payable, the trustee must first give 30 days notice in writing to the
13 governor, the bond bank authority, the commissioner of community and
14 regional affairs, and the attorney general of the state.

15 Sec. 44.58.330. PERSONAL LIABILITY. Neither a member of the bond
16 bank authority nor a person executing bonds or notes issued under this
17 chapter is liable personally on the bonds or notes.

18 Sec. 44.58.340. EXEMPTION FROM EXECUTION AND SALE. All property
19 of the bond bank authority is exempt from levy and sale by virtue of an
20 execution and no execution or other judicial process may issue against
21 the property. A judgment against the bond bank authority may not be a
22 charge or lien upon its property; however, nothing in this section
23 applies to or limits the rights of the holder of bonds or notes to
24 pursue a remedy for the enforcement of a pledge or lien given by the
25 bond bank authority on its revenues or other money.

26 Sec. 44.58.350. LIEN OF PLEDGE. A pledge of revenues or other
27 money made by the bond bank authority is binding from the time the
28 pledge is made. Revenues or other money so pledged and thereafter
29 received by the bond bank authority are immediately subject to the lien

1 of the pledge without any further act, and the lien of a pledge is
2 binding against all parties having claims of any kind in tort, contract
3 or otherwise against the bond bank authority, regardless of whether the
4 parties have notice of the lien. Neither the resolution nor any other
5 instrument by which a pledge is created needs to be filed or recorded
6 except in the records of the bond bank authority.

7 Sec. 44.58.360. INSURANCE OR GUARANTY. The bond bank authority
8 may obtain from a department or agency of the United States, or a non-
9 governmental insurer available insurance or guaranty for the payment or
10 repayment of interest or principal, or both, or any part of interest or
11 principal, on bonds or notes issued by the bond bank authority, or on
12 municipal bonds of municipalities purchased or held by the bond bank
13 authority.

14 Sec. 44.58.370. SURETY FOR DEPOSITS BY BANK. All banks, trust
15 companies, savings banks, investment companies and other persons carry-
16 ing on a banking business are authorized to give to the bond bank
17 authority a good and sufficient undertaking with such sureties as are
18 approved by the bank to the effect that the bank or banking institution
19 shall faithfully keep and pay over to the order of or upon the warrant
20 of the bond bank authority or its authorized agent all those funds
21 deposited with it by the bank and agreed interest under or by reason of
22 this chapter, at such times or upon such demands as may be agreed with
23 the bank or in lieu of these sureties, deposit with the bond bank
24 authority or its authorized agent or a trustee or for the holders of
25 bonds, as collateral, those securities as the bond bank authority may
26 approve. The deposits of the bond bank authority may be evidenced by an
27 agreement in the form and upon the terms and conditions that may be
28 agreed upon by the bond bank authority and the depository bank or
29 banking institution.

1 Sec. 44.58.380. EXPENSES OF ADMINISTRATION. All expenses incurred
2 in carrying out this chapter are payable solely from revenues or funds
3 appropriated under this chapter and nothing in this chapter authorizes
4 the bond bank authority to incur an indebtedness or liability on behalf
5 of or payable by the state.

6 Sec. 44.58.390. COOPERATION BY GOVERNMENT AGENCIES. All officers,
7 departments, boards, agencies, divisions and commissions of the state
8 shall render services to the bond bank authority that are within the
9 area of their respective governmental functions and that may be re-
10 quested by the bond bank authority and must comply promptly with any
11 reasonable request by the bond bank authority relating to making of a
12 study or review as to desirability, need, cost or expense, or financial
13 feasibility with respect to a public project, purpose or improvement, or
14 the financial or fiscal responsibility or ability of a political sub-
15 division making application for loan to the bond bank authority and for
16 the purchase by the bond bank authority of municipal bonds to be issued
17 by that municipality. The cost and expense of a service requested by
18 the bond bank authority, at the request of the officer, department,
19 board, agency, division or commission rendering the service, shall be
20 paid by the bond bank authority.

21 Sec. 44.58.400. PUBLIC RECORDS; OPEN MEETINGS. The provisions of
22 AS 09.25.110 - 09.25.120 (public records) and AS 44.62.310 - 44.62.312
23 (agency public meetings) apply to the bond bank authority.

24 Sec. 44.58.410. DEFINITIONS. In this chapter, unless the context
25 requires otherwise,

26 (1) "bond bank authority" means the Alaska Municipal Bond
27 Bank Authority established by sec. 20 of this chapter;

28 (2) "bonds" means bonds of the bond bank authority issued
29 under this chapter;

1 (3) "municipal bond" means a bond or note or evidence of debt
2 which constitutes a direct and general obligation of a political sub-
3 division of the state, all the taxable property within which is subject
4 to taxation to pay the bond, note or evidence of debt, and the interest
5 without limitation, as to rate or amount generally or to avoid a default
6 as provided for second class cities under AS 29.53.410;

7 (4) "municipality" means a home rule or general law city or
8 borough including but not limited to a unified municipality organized
9 under AS 29.68;

10 (5) "notes" means notes of the bond bank authority issued
11 under this chapter;

12 (6) "public body" means a public body corporate and politic
13 or a political subdivision of the state established under any law of the
14 state which may issue municipal bonds;

15 (7) "reserve fund" means the Alaska municipal bond bank
16 reserve fund established under sec. 280 of this chapter;

17 (8) "revenues" means all fees, charges, money, profits,
18 payments of principal of or interest on municipal bonds and other
19 investments, gifts, grants, contributions, appropriations and all other
20 income derived or to be derived by the bond bank authority under this
21 chapter.

22 Sec. 44.58.420. SHORT TITLE. This chapter may be cited as the
23 Alaska Municipal Bond Bank Authority Act.

24 * Sec. 2. AS 39.25.110 is amended by adding a new paragraph to read:

25 (16) the members, executive secretary and legal counsel of
26 the Alaska Municipal Bond Bank Authority.

27 * Sec. 3. AS 39.50.200(9) is amended by adding a new subparagraph to
28 read:

29 (JJ) Alaska Municipal Bond Bank Authority (AS 44.58.020).

1 * Sec. 4. This Act takes effect immediately in accordance with AS 01.10.-
2 070(c).

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Original sponsor: Rules Committee by request of the Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 72

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to a state municipal bond fund; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 29.58 is amended by adding new sections to read:

10 ARTICLE 7. ALASKA MUNICIPAL BOND FUND.

11 Sec. 29.58.360. LEGISLATIVE FINDINGS. The legislature finds that

12 (1) the rapid growth of municipalities in the state and the
13 incorporation of new municipalities has created a demand for capital
14 improvements which can only be met by these municipalities' borrowing
15 money through the issuance of bonds or notes;

16 (2) many of these municipalities, although creditworthy,
17 either have not issued bonds or notes or have little outstanding debt;

18 (3) the cost of borrowed money to these municipalities is
19 or may be unnecessarily high due to lack of investor familiarity with
20 the municipalities;

21 (4) other municipalities in the state pay unnecessarily high
22 borrowing costs because of the distance of the state from capital markets
23 or may find borrowing difficult or impossible because of temporary eco-
24 nomic dislocation due to loss of employment or prospective loss of
25 employment.

26 Sec. 29.58.370. LEGISLATIVE POLICY. (a) It is the policy of the
27 state

28 (1) to foster and promote by all reasonable means the pro-
29 vision of adequate capital markets and facilities for borrowing money by

1 political subdivisions of the state to finance public improvements or
2 purposes, to assist political subdivisions in fulfilling their capital
3 needs and requirements by use of borrowed money within statutory interest
4 rate or cost of borrowing limitations, to the greatest extent possible
5 to reduce costs of borrowed money to taxpayers and residents of the
6 state, and equally to encourage continued investor interest in the
7 purchase of bonds or notes of political subdivisions as sound and pre-
8 ferred securities for capital investment;

9 (2) to encourage political subdivisions to continue their
10 independent undertakings and financing of public improvements and
11 purposes and assist them by making capital funds available at reduced
12 interest costs for orderly financing of public improvements and purposes
13 during periods of restricted credit or money supply, particularly for
14 those political subdivisions not otherwise able to borrow for capital
15 needs during those periods.

16 Sec. 29.58.380. ALASKA MUNICIPAL BOND FUND. There is in the
17 department the Alaska municipal bond fund, consisting of appropriations
18 or other money deposited in the fund. Money of the fund shall be
19 utilized by the department to lend money to political subdivisions of
20 the state through purchase, as provided in sec. 390 of this chapter, of
21 general obligation and revenue bonds issued by the political sub-
22 divisions.

23 Sec. 29.58.390. LOANS TO POLITICAL SUBDIVISIONS. (a) The depart-
24 ment is authorized to lend money to political subdivisions of the state
25 through the purchase from the municipal bond fund of general obligation
26 and revenue bonds of the political subdivisions in fully marketable
27 form and including costs of the authorization, issuance and sale of the
28 bonds, and the making of loans through the purchase of municipal bonds.
29 For these purposes, the department may purchase or hold municipal bonds

1 at prices and in a manner it considers advisable and sell municipal
2 bonds acquired or held by it at prices without relation to cost and in
3 a manner it considers advisable. The department may prescribe the form
4 of application or procedure required of a political subdivision for a
5 loan or purchase of its municipal bonds, fix the terms and conditions
6 of the loan or purchase, and enter into agreements with political sub-
7 divisions with respect to loans or purchases. It may charge for its
8 costs and services in review or consideration of a proposed loan to a
9 political subdivision or purchase by the fund of bonds of the political
10 subdivision, whether or not the loan is made or the bonds purchased.

11 (b) In deciding to purchase municipal bonds, the department shall
12 give preference to municipal bonds of political subdivisions actually
13 experiencing, or with the prospect of experiencing, reduced economic
14 growth by reason of the loss or prospective loss, in whole or in part,
15 of a major employer, and to the political subdivisions referred to in
16 sec. 360 of this chapter. ~~In addition, as a prerequisite to purchase of~~
17 ~~its municipal bonds by the department, a political subdivision must~~
18 ~~demonstrate to the department its inability to sell or negotiate the~~
19 ~~sale of the municipal bonds at a rate less than two per cent over that~~
20 ~~of the bond buyer's index.~~ The following, listed in order of preference
21 are preferred purposes of the municipal bonds that may be considered
22 by the bond bank authority for purchase: schools, waste water treatment
23 facilities, fire protection and public safety facilities, public health
24 facilities and public transportation facilities.

25 (c) ~~Other provisions of law not withstanding,~~ to the extent that
26 the commissioner of revenue is the custodian of money payable to a
27 municipality other than the proceeds of tax dedicated in accordance with
28 other provisions of law, at any time after written notice to him from
29 the department that the municipality is in default on the payment of

1 principal or interest on municipal bonds of the municipality then held
2 or owned by the state, the commissioner of revenue shall withhold the
3 payment of that money from that municipality until the amount of the
4 principal or interest then due and unpaid has been paid to the committee
5 or until the commissioner of revenue has been advised that arrangements,
6 satisfactory to the committee, have been made for the payment of the
7 principal and interest.

8 Sec. 29.58.400. POWERS AND DUTIES OF DEPARTMENT. The department
9 may adopt regulations necessary to carry out the purposes of secs. 360 -
10 410 of this chapter and designate agents and delegates powers to them
11 as is necessary.

12 Sec. 29.58.410. DEFINITIONS. In secs. 360 -410 of this chapter,
13 unless the context requires otherwise,

14 (1) "bond fund" or "fund" means the Alaska municipal Bond
15 fund established under sec. 360 of this chapter;

16 (2) "department" means the Department of Community and
17 Regional Affairs;

18 (3) "municipal bond" means a bond or note or evidence of
19 debt which constitutes a direct and general obligation of a political
20 subdivision of the state, all the taxable property within which is
21 subject to taxation to pay the bond, note or evidence of debt, and the
22 interest without limitation, as to rate or amount generally or to avoid
23 a default as provided for second class cities under AS 29.53.410;

24 (4) "municipality" and "political subdivision" means a home
25 rule or general law city or borough including but not limited to a
26 unified municipality organized under AS 29.68.240 - 29.68.440.

27 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-

28 070(c).

1. Amendment
Page 124

2. 201 plan
3. p 9 Budget

Offered: 1/24/75
Referred: Community &
Regional Affairs and Finance

1 IN THE HOUSE

4. Lh

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

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5. page 26

HOUSE BILL NO. 72

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6. new sec = public records

445-8415

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

7. Cray

NINTH LEGISLATURE - FIRST SESSION

5

8. 22 - of the state A BILL

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For an Act entitled: "An Act creating the Alaska Municipal Bond Bank

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Authority and prescribing its organization, powers and

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duties; and providing for an effective date."

9

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

* Section 1. AS 44 is amended by adding a new chapter to read:

11

CHAPTER 58. ALASKA MUNICIPAL BOND BANK AUTHORITY.

12

Sec. 44.58.005. LEGISLATIVE FINDINGS. The legislature finds

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that

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(1) the rapid growth of municipalities in the state and the
incorporation of new municipalities has created a demand for capital
improvements which can only be met by these municipalities' borrowing
money through the issuance of bonds or notes;

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(2) many of these municipalities, although creditworthy,
either have not issued bonds or notes or have little outstanding debt;

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(3) the cost of borrowed money to these municipalities is
or may be unnecessarily high due to lack of investor familiarity with
the municipalities;

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(4) other municipalities in the state pay unnecessarily
high borrowing costs because of the distance of the state from capital
markets or may find borrowing difficult or impossible because of
temporary economic dislocation due to loss of employment or prospective
loss of employment.

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Sec. 44.58.010. LEGISLATIVE POLICY. (a) It is the policy of
the state

1 (1) to foster and promote by all reasonable means the
2 provision of adequate capital markets and facilities for borrowing
3 money by municipalities in the state to finance capital improvements
4 or for other authorized purposes, to assist these municipalities in
5 fulfilling their capital needs and requirements by use of borrowed
6 money within statutory interest rate or cost of borrowing limitations,
7 to the greatest extent possible to reduce costs of borrowed money to
8 taxpayers and residents of the state, and equally to encourage continued
9 investor interest in the purchase of bonds or notes of municipalities
10 as sound and preferred securities for investment;

11 (2) to encourage municipalities to continue their independent
12 undertakings and financing of capital improvements and other authorized
13 purposes and to assist them by making capital funds available at
14 reduced interest costs for orderly financing of capital improvements
15 and other purposes especially during periods of restricted credit or
16 money supply, particularly for those municipalities not otherwise able
17 to borrow for capital needs.

18 (b) The legislature further declares that

19 (1) the exercise of the powers of the state in the interest
20 of its municipalities is required to further and implement the policies
21 declared in (a) of this section by authorizing the creation of a state
22 bond bank authority as a body corporate and politic that will have
23 full powers to borrow money and to issue its bonds and notes to make
24 capital funds available for borrowing by municipalities and by granting
25 broad powers to the bond bank authority to carry out the declared
26 policies which are in the public interest of the state and its taxpayers
27 and residents;

28 (2) state funds should be applied or authorized to be paid
29 to a state bond bank authority only to provide adequate assurance and

1 security to the holders of the bonds or notes of the bond bank authority;

2 (3) the bond bank authority should conduct its operations
3 to provide the lowest rates in terms of borrowing to municipalities as
4 is consistent with a self-supporting operation with no expectation of
5 subsidization with state funds.

6 Sec. 44.58.020. MUNICIPAL BOND BANK AUTHORITY. There is created
7 the Alaska Municipal Bond Bank Authority. The authority is a public
8 corporation of the state. The corporation is an instrumentality of
9 the state within the Department of Revenue but has a legal existence
10 independent of and separate from the state and has continuing succession
11 until its existence is terminated by law. The exercise by the authority
12 of the powers conferred by this chapter is considered an essential
13 governmental function of the state.

14 Sec. 44.58.030. MEMBERSHIP AND VACANCIES. The bond bank authority
15 consists of the following five directors: the commissioner of revenue,
16 the commissioner of community and regional affairs, who shall each be
17 a director ex officio with voting privileges, and three directors
18 appointed by the governor. The appointment of each director other
19 than the commissioner of revenue and the commissioner of community and
20 regional affairs is subject to confirmation by the legislature. The
21 three directors appointed by the governor serve at his pleasure for
22 four-year terms. They must be residents of the state and qualified
23 voters at the time of appointment. The directors first appointed
24 shall have terms of two, three and four years respectively. Each
25 director shall hold office for the term of his appointment and until
26 his successor has been appointed and qualified. A director is eligible
27 for reappointment. A vacancy in a directorship occurring other than by
28 expiration of term shall be filled in the same manner as the original
29 appointment but for the unexpired term only. Each director before

1 entering upon his duties shall take and subscribe to an oath to perform
2 the duties of his office faithfully, impartially, and justly to the
3 best of his ability. A record of the oath shall be filed in the
4 office of the governor.

5 Sec. 44.58.040. OFFICERS AND QUORUM. The directors shall elect
6 one of their number as chairman. The directors shall elect a secretary
7 and a treasurer who need not be directors, and the same person may be
8 elected to serve both as secretary and treasurer. The powers of the
9 bond bank authority are vested in the directors, and three directors
10 of the bond bank authority constitute a quorum. Action may be taken
11 and motions and resolutions adopted by the bond bank authority at any
12 meeting by the affirmative vote of at least three directors. A vacancy
13 in the directorship of the bond bank authority does not impair the
14 right of a quorum to exercise all the powers and perform all the
15 duties of the bond bank authority.

16 Sec. 44.58.050. BONDING OF MEMBERS. Before the issuance of
17 bonds or notes under this chapter, each director shall execute a
18 surety bond in the penal sum of \$25,000 and the treasurer shall execute
19 a surety bond in the penal sum of \$50,000. Each surety bond shall be
20 conditioned upon the faithful performance of the duties of the office
21 of the director or treasurer, to be executed by a surety company
22 authorized to transact business in the state as surety and filed in
23 the office of the lieutenant governor. After issuance of bonds or
24 notes by the bond bank authority each director shall maintain his
25 surety bond in force. All costs of the surety bonds shall be borne by
26 the bond bank authority.

27 Sec. 44.58.060. COMPENSATION AND EXPENSES. The directors of the
28 bond bank authority shall serve without compensation, but the bond
29 bank authority shall reimburse its directors for actual expenses

1 necessarily incurred in the discharge of their duties. Notwithstanding
2 any other law, an officer or employee of the state shall forfeit his
3 office or employment and any benefits by reason of his acceptance of
4 appointment to the office of director of the bond bank authority.

5 Sec. 44.58.070. STAFF. The bond bank authority shall employ an
6 executive secretary who may with the approval of the bond bank authority
7 select and employ additional staff as necessary. Employees and agents
8 of the bond bank authority other than legal counsel and the executive
9 secretary are in the classified service under AS 39.25. In addition
10 to its staff of regular employees, the bond bank authority may contract
11 for and engage the services of the bond counsel, consultants, experts,
12 and financial advisors the bond bank authority considers necessary for
13 the purpose of developing information, or conducting studies, investi-
14 gations, hearings or other proceedings.

15 Sec. 44.58.080. CONFLICT OF INTEREST. No officer, employee or
16 agent of the bond bank authority may have an interest, direct or
17 indirect, in any contract or proposed contract for services or materials
18 to be furnished to or used by the bond bank authority, other than for
19 his contract of appointment or employment. Neither the holding of an
20 office or employment in the government of the state or of a political
21 subdivision nor employment or interest in a private banking or financial
22 business or enterprise is a disqualifying interest per se. No director
23 appointed may be considered by reason of his employment or interest in
24 a private banking or financial business or enterprise to have a disquali-
25 fying interest per se. This section is not applicable to personnel
26 whose services are purchased by the bond bank authority on an independent
27 contract basis.

28 Sec. 44.58.090. POWERS OF BOND BANK AUTHORITY. The bond bank
29 authority may

- 1 (1) sue and be sued;
- 2 (2) adopt and alter an official seal;
- 3 (3) make and enforce bylaws and rules for the conduct of
- 4 its business and for the use of its services and facilities;
- 5 (4) maintain an office at any place in the state;
- 6 (5) acquire, hold, use and dispose of its income, revenues,
- 7 funds and money;
- 8 (6) acquire, rent, lease, hold, use and dispose of other
- 9 personal property for its purposes;
- 10 (7) borrow money and issue its negotiable bonds or notes
- 11 and provide for and secure their payment, provide for the rights of
- 12 their holders and purchase, hold and dispose of any of its bonds or
- 13 notes;
- 14 (8) fix and revise from time to time and charge and collect
- 15 fees and charges for the use of its services or facilities;
- 16 (9) accept gifts or grants from the United States, or from
- 17 any governmental unit or person, firm or corporation, carry out the
- 18 terms or provisions or make agreements with respect to the gifts or
- 19 grants, and do all things necessary, useful, desirable, or convenient
- 20 in connection with procuring, accepting or disposing of the gifts or
- 21 grants;
- 22 (10) do anything authorized by this chapter, through its
- 23 officers, agents or employees or by contracts with a person;
- 24 (11) make, enter into and enforce all contracts necessary,
- 25 convenient or desirable for the purposes of the bond bank authority or
- 26 pertaining to a loan to a political subdivision, a purchase or sale of
- 27 municipal bonds or other investments, or the performance of its duties
- 28 and execution of any of its powers under this chapter;
- 29 (12) purchase or hold municipal bonds at prices and in a

1 manner the bond bank authority considers advisable, and sell municipal
2 bonds acquired or held by it at prices without relation to cost and in
3 a manner the bond bank authority considers advisable;

4 (13) invest funds or money of the bond bank authority not
5 required at the time of investment for loan to political subdivisions
6 for the purchase of municipal bonds, in the same manner as permitted
7 for investment of funds belonging to the state, except as otherwise
8 provided in this chapter;

9 (14) prescribe the form of application or procedure required
10 of a political subdivision for a loan or purchase of its municipal
11 bonds, fix the terms and conditions of the loan or purchase, and enter
12 into agreements with political subdivisions with respect to loans or
13 purchases;

14 (15) render services to a political subdivision in connection
15 with a public or private sale of its municipal bonds, including advisory
16 and other services, and charge for services rendered;

17 (16) charge for its costs and services in review or consid-
18 eration of a proposed loan to a political subdivision or purchase by
19 the bond bank authority of municipal bonds of the political subdivision,
20 whether or not the loan is made or the municipal bonds purchased;

21 (17) fix and establish terms and provisions with respect to
22 a purchase of municipal bonds by the bond bank authority, including
23 date and maturities of the bonds, provisions as to redemption or
24 payment before maturity, and any other matters which in connection
25 with the purchase are necessary, desirable or advisable in the judgment
26 of the bond bank authority;

27 (18) procure insurance against any losses in connection with
28 its property, operations or assets in amounts and from insurers as it
29 considers desirable;

1 (19) to the extent permitted under its contracts with the
2 holders of bonds or notes of the bond bank authority, consent to
3 modification of the rate of interest, time and payment of installment
4 of principal or interest, security or any other term of a bond or
5 note, contract or agreement of any kind to which the bond bank authority
6 is a party; and

7 (20) do all acts and things necessary, convenient, or desir-
8 able to carry out the powers expressly granted or necessarily implied
9 in this chapter.

10 Sec. 44.58.100. LIMITATIONS. Under this chapter the bond bank
11 authority may not

12 (1) make loans of money to a person, firm or corporation
13 other than a municipality or purchase securities issued by a person,
14 other than a municipality except for investment as provided in this
15 chapter;

16 (2) emit bills of credit, accept deposits of money for time
17 or demand deposit, administer trusts, or engage in any form or manner
18 in, or in the conduct of, a private or commercial banking business, or
19 act as a savings bank or savings and loan association;

20 (3) be or constitute a bank or trust company within the
21 jurisdiction or under the control of a regulatory or supervisory board
22 or department of the state, or the Comptroller of the Currency of the
23 United States, or the Department of the Treasury, or Federal Reserve
24 Board of the United States; or

25 (4) be or constitute a bank, banker or dealer in securities
26 within the meaning of or subject to the provisions of securities,
27 securities exchange, or securities dealers law, of the United States
28 or of this state or of another state.

29 Sec. 44.58.110. ANNUAL REPORT AND AUDIT. Before October 1 of

1 each year the bond bank authority shall make a report of its activities
2 for the preceding fiscal year to the governor and to the legislature.
3 The report shall set out a complete operating and financial statement
4 covering its operations during the year. The bond bank authority
5 shall have an audit of its books and accounts made at least once in
6 each year by certified public accountants and the cost of the audit
7 shall be considered an expense of the bond bank authority and a copy
8 of the audit shall be filed with the commissioner of revenue *and the legislature*

9 Sec. 44.58.120. ANNUAL BUDGET. *new language* (a) *Not* later than January 1 of
10 each year the bond bank authority shall adopt an annual budget for the
11 succeeding fiscal year. The budget shall set out the general categories
12 of expected expenditures and the amount on account for each and shall
13 include a provision or reserve for contingencies and overexpenditures
14 as well as any additional material that the bond bank authority may
15 determine. Copies of the annual budget certified by the chairman of
16 the bond bank authority shall be promptly filed with the commissioner
17 of revenue and the director of the division of budget and management
18 in the Department of Administration. The annual budget is not effective
19 until filed.

20 (b) The bond bank authority may at any time adopt an amended
21 annual budget for the current fiscal year, but the amended annual budget
22 may not supersede any prior budget until the amended budget is approved
23 by the commissioner of revenue as reasonable and necessary and is
24 filed as required ~~in~~ the case of the annual budget.

25 Sec. 44.58.130. CARE AND CUSTODY OF BONDS. The bond bank authority
26 may enter into agreements or contracts with a bank, trust company,
27 banking or financial institution inside or outside the state as may be
28 necessary, desirable or convenient, in the opinion of the bond bank
29 authority, for rendering services in connection with the care, custody

1 or safekeeping of municipal bonds or other investments held or owned
2 by the bond bank authority, for rendering services in connection with
3 the payment or collection of amounts payable as to principal or interest
4 and for rendering services in connection with the delivery to the bond
5 bank authority of municipal bonds or other investments purchased by it
6 or sold by it, and to pay the cost of those services. The bond bank
7 authority may also, in connection with any of the services to be
8 rendered by a bank, trust company or banking or financial institution
9 as to the custody and safekeeping of its municipal bonds or investments,
10 require security in the form of collateral bonds, surety agreements or
11 security agreements in such form and amount as, in the opinion of the
12 bond bank authority, is necessary or desirable.

13 Sec. 44.58.140. EFFECT OF OBLIGATIONS. (a) Bonds and notes
14 issued under this chapter are not a debt or liability of the state and
15 do not create or constitute an indebtedness, liability or obligation
16 of the state, nor do they constitute a pledge of the faith and credit
17 of the state. All bonds and notes issued under this chapter, unless
18 funded or refunded by bonds or notes of the bond bank authority, are
19 general obligations of the authority to which the full faith and
20 credit of the authority are pledged to the payments of them, except to
21 the extent provided by the resolution authorizing the issuance of
22 them. Each bond and note must contain on its face a statement to the
23 effect that the bond bank authority is obligated to pay the principal
24 and interest on the instrument only from revenues or funds of the bond
25 bank authority and that the state is not obligated to pay the principal
26 or interest and that neither the faith and credit nor the taxing power
27 of the state is pledged to the payment of the principal of or the
28 interest on the bond or note.

29 (b) The state pledges to and agrees with the holders of the

1 bonds or notes issued under this chapter that the state will not limit
2 or restrict the rights vested in the bond bank authority to purchase,
3 acquire, hold, sell or dispose of municipal bonds or other investments
4 or to make loans to political subdivisions or to establish and collect
5 fees or other charges convenient or necessary to produce sufficient
6 revenues to meet the expenses of operation of the bond bank authority
7 and to fulfill the terms of any agreement made with the holders of its
8 bonds or notes or in any way impair the rights or remedies of the
9 holders of the bonds or notes until the bonds or notes, together with
10 the interest on the bonds or notes, and interest on unpaid install-
11 ments of interest, and all costs and expenses in connection with an
12 action or proceeding by or on behalf of the holders, are fully met,
13 paid and discharged.

14 Sec. 44.58.150. NEGOTIABILITY OF BONDS OR NOTES. Notwithstanding
15 other provisions of law, a bond or note issued under this chapter is
16 fully negotiable for all purposes of the Uniform Commercial Code
17 (AS 45.05), and a holder or owner of a bond or note, or of a coupon
18 appurtenant to it, by accepting the bond, note or coupon is conclusively
19 considered to have agreed that the bond, note or coupon is fully
20 negotiable for all purposes of the Uniform Commercial Code.

21 Sec. 44.58.160. BONDS OR NOTES AS LEGAL INVESTMENTS. Notwith-
22 standing the restrictions of any other law, all banks, trust companies,
23 savings banks and institutions, building and loan associations, savings
24 and loan associations, investment companies, and other persons carrying
25 on a banking business, all insurance companies, insurance associations,
26 and other persons carrying on an insurance business, and all executors,
27 administrators, guardians, trustees and other fiduciaries, may legally
28 invest sinking funds, money or other funds belonging to them or within
29 their control in bonds or notes issued under this chapter.

1 Sec. 44.58.170. TAX EXEMPTION. All property of the bond bank
2 authority is public property devoted to an essential public and govern-
3 mental function and purpose and is exempt from all taxes and special
4 assessments of the state or a political subdivision of the state. All
5 bonds or notes issued under this chapter are issued by a body corporate
6 and public of this state and for an essential public and governmental
7 purpose and the bonds and notes, and the interest and income on and
8 from the bonds and notes, and all fees, charges, funds, revenues,
9 income and other money pledged or available to pay or secure the
10 payment of the bonds or notes, or interest on the bonds or notes, are
11 exempt from taxation except for transfer, inheritance and estate
12 taxes.

13 Sec. 44.58.180. LOANS TO POLITICAL SUBDIVISIONS. (a) The bond
14 bank authority, to carry out the purposes and policies of this chapter,
15 may lend money to municipalities through the purchase by the bond bank
16 authority of municipal bonds of municipalities. The bond bank authority,
17 for this purpose, may issue its bonds and notes payable solely from
18 the revenues or funds available to the bond bank authority for such
19 payment and may otherwise assist municipalities as provided in this
20 chapter.

21 (b) To the extent that the commissioner of revenue is the custodian
22 of money payable to a municipality, at any time after written notice
23 to him from the bond bank authority that the municipality is in default
24 on the payment of principal or interest on municipal bonds of the
25 municipality then held or owned by the bond bank authority, the com-
26 missioner of revenue shall withhold the payment of that money from
27 that municipality until the amount of the principal or interest then
28 due and unpaid has been paid to the bond bank authority, or until the
29 commissioner of revenue has been advised that arrangements, satisfactory

1 to the bond bank authority, have been made for the payment of the
2 principal and interest.

3 Sec. 44.58.190. ISSUANCE OF BONDS AND NOTES. (a) The bond bank
4 authority may issue its bonds or notes in principal amounts that it
5 considers necessary to provide funds for any purposes under this
6 chapter, including

7 (1) the purchase of municipal bonds;

8 (2) the making of loans through the purchase of municipal
9 bonds;

10 (3) the payment, funding or refunding of the principal of,
11 or interest or redemption premiums on, bonds or notes issued by it
12 whether the bonds or notes or interest to be funded or refunded have
13 or have not become due;

14 (4) the establishment or increase of reserves to secure or
15 to pay bonds or notes or interest on bonds or notes and all other
16 costs or expenses of the bond bank authority incident to and necessary
17 or convenient to carry out its corporate purposes and powers.

18 (b) Except as otherwise provided in this chapter or by the bond
19 bank authority, every issue of bonds or notes shall be general obli-
20 gations payable out of the revenues or funds of the bond bank authority,
21 subject only to agreements with the holders of particular bonds or
22 notes pledging a particular revenue or fund. Bonds or notes may be
23 additionally secured by a pledge of a grant or contributions from the
24 United States or the state or a political subdivision or a person,
25 firm or corporation, or a pledge of income or revenues, funds or money
26 of the bond bank authority from any source whatsoever.

27 (c) Notwithstanding the provisions of (a) and (b) of this section,
28 the total amount of bond bank authority bonds and notes outstanding at
29 any one time, except bonds or notes issued to fund or refund bonds or

1 notes, may not exceed \$150,000,000.

2 (d) In deciding to purchase municipal bonds of a municipality, the
3 bond bank authority shall give preference ~~to municipal bonds of municip-~~
4 ~~alities actually experiencing, or with the prospect of experiencing,~~
5 ~~reduced economic growth by reason of the loss or prospective loss, in~~
6 ~~whole or in part, of a major employer, and~~ to the municipalities
7 referred to in sec. 5 of this chapter. In addition, the following,
8 listed in order of preference, are preferred purposes of the municipal
9 bonds that may be considered by the bond bank authority for purchase:
10 schools, waste water treatment facilities, fire protection and public
11 safety facilities, public health facilities and public transportation
12 facilities.

13 Sec. 44.58.200. FORM OF ISSUANCE. Bonds or notes of the bond
14 bank authority shall be authorized by resolution of the bond bank
15 authority and may be issued in one or more series and shall bear the
16 date, mature at the time, bear interest at the rate of interest each
17 year or within a maximum rate, be in the denomination, be in the form,
18 either coupon or registered, carry the conversion or registration
19 privileges, have the rank or priority, be executed in the manner, be
20 payable from the sources in the medium of payment at the place inside
21 or outside the state, and be subject to the terms of redemption, with
22 or without premium, as the resolution of the bond bank authority
23 provides.

24 Sec. 44.58.210. SALE PRICE. Bonds or notes of the bond bank
25 authority may be sold at public or private sale at the price the bond
26 bank authority determines.

27 Sec. 44.58.220. PAYMENT OR REFUNDING OF NOTES. The bond bank
28 authority may from time to time issue its notes under this chapter and
29 pay and retire or fund or refund the notes from proceeds of bonds or

1 of other notes, or from other funds or money of the bond bank authority
2 available for that purpose in accordance with a contract between the
3 bond bank authority and the holders of the notes.

4 Sec. 44.58.230. TERMS OF AGREEMENT WITH THE BOND- OR NOTEHOLDER.

5 In a resolution of the bond bank authority authorizing or relating to
6 the issuance of bonds or notes, the bond bank authority, in order to
7 secure the payment of the bonds or notes and in addition to its other
8 powers, may covenant and contract with the holders of the bonds or
9 notes

10 (1) to pledge to a payment or purpose all or a part of its
11 revenues to which its right then exists or may thereafter come into
12 existence, and the money derived from the revenues, and the proceeds
13 of any bonds or notes;

14 (2) to covenant against pledging all or a part of its
15 revenues, or against permitting or suffering a lien on those revenues
16 or its property;

17 (3) to covenant as to the use and disposition of payments
18 of principal or interest received by the bond bank authority on municipal
19 bonds or other investments held by the bond bank authority;

20 (4) to covenant as to establishment of reserves or sinking
21 funds, the making of provision for them, and the regulation and dis-
22 position of the reserves or sinking funds;

23 (5) to covenant with respect to or against limitations on a
24 right to sell or otherwise dispose of property of any kind;

25 (6) to covenant as to bonds or notes to be issued, and
26 their limitations, terms and conditions, and as to their custody, and
27 as to the application and disposition of the proceeds of the bonds and
28 notes;

29 (7) to covenant as to the issuance of additional bonds or

1 notes or as to limitations on the issuance of additional bonds or
2 notes and on the incurring of other debts by it;

3 (8) to covenant as to the payment of the principal of or
4 interest on the bonds or notes, as to the sources and methods of
5 payment, as to the rank or priority of bonds or notes with respect to
6 a lien or security or as to the acceleration of the maturity of any
7 bonds or notes;

8 (9) to provide for the replacement of lost, stolen, destroyed
9 or mutilated bonds or notes;

10 (10) to covenant against extending the time for the payment
11 of bonds or notes or interest on the bonds or notes;

12 (11) to covenant as to the redemption of bonds or notes and
13 privileges of their exchange for other bonds or notes of the bond bank
14 authority;

15 (12) to covenant as to charges to be established and charged,
16 the amount to be raised each year or other period of time by charges
17 or other revenues, and as to the use and disposition to be made of the
18 charges or other revenues;

19 (13) to covenant to create or authorize the creation of
20 special funds or money to be held in pledge or otherwise for operating
21 expenses, payment or redemption of bonds or notes, reserves or other
22 purposes and as to the use and disposition of the money held in those
23 funds;

24 (14) to establish the procedure, if any, by which the terms
25 of a contract or covenant with or for the benefit of the holders of
26 bonds or notes may be amended or abrogated, the amount of bonds or
27 notes the holders of which must consent to amendment or abrogation,
28 and the manner in which the consent may be given;

29 (15) to covenant as to the custody of any of its property or

1 investments, their safekeeping and insurance, and the use and dis-
2 position of insurance money;

3 (16) to covenant as to the time or manner of enforcement or
4 restraint from enforcement of any rights of the bond bank authority
5 arising by reason of or with respect to nonpayment of the principal or
6 interest of a municipal bond;

7 (17) to provide for the rights and liabilities, powers and
8 duties arising upon the breach of any covenant, condition or obligation
9 and to prescribe the events of default and the terms and conditions
10 upon which any or all of the bonds, notes or other obligation of the
11 bond bank authority become or may be declared due and payable before
12 maturity and the terms and conditions upon which the declaration and
13 its consequences may be waived;

14 (18) to vest in a trustee inside or outside the state such
15 property, rights, powers and duties in trust as the bond authority may
16 determine, which may include any of the rights, powers and duties of a
17 trustee appointed by the holders of the bonds or notes, and to limit
18 or abrogate the right of the holders of the bonds or notes of the bond
19 bank authority to appoint a trustee under this chapter or limit the
20 rights, powers and duties of the trustee;

21 (19) to pay the costs or expenses incident to the enforcement
22 of the bonds or notes or of the resolution or of a covenant or agree-
23 ment of the bond bank authority with the holders of its bonds or
24 notes;

25 (20) to agree with a corporate trustee which may be a trust
26 company or bank having the powers of a trust company inside or outside
27 the state, as to the pledging or assigning of revenues or funds in
28 which the bond bank authority has a right or interest, and may further
29 provide for such other rights and remedies exercisable by the trustee

1 as may be proper for the protection of the holders of bonds or notes
2 of the bond bank authority and not otherwise in violation of law, and
3 the agreement may also provide for the restriction of the rights of an
4 individual holder of bonds or notes of the bond bank authority;

5 (21) to appoint and to provide for the duties and obligations
6 of a paying agent or paying agents, or other fiduciaries as the resolu-
7 tion may provide inside or outside the state;

8 (22) to limit the rights of the holders of bonds or notes to
9 enforce a pledge or covenant securing bonds or notes; and

10 (23) to make covenants other than and in addition to the
11 covenants expressly authorized in this section, of like or different
12 character, and to make covenants to do or refrain from doing acts and
13 things as may be necessary, or convenient and desirable, in order to
14 better secure bonds or notes or which, in the absolute discretion of
15 the bond bank authority, will tend to make bonds or notes more market-
16 able, notwithstanding that the covenants, acts or things may not be
17 enumerated in this section.

18 Sec. 44.58.240. PURCHASE AND DISPOSITION OF OWN OBLIGATIONS.

19 The bond bank authority may purchase bonds or notes of the bond bank
20 authority out of its funds or money available for the purchase of its
21 own bonds and notes. The bond bank authority may hold, cancel or
22 resell the bonds or notes subject to and in accordance with agreements
23 with holders of its bonds or notes.

24 Sec. 44.58.250. BOND ANTICIPATION NOTES. Notwithstanding any
25 law applicable to a municipality as to the period for temporary financing
26 of a public improvement or purpose by issuance of its notes in antici-
27 pation of the issuance of permanent bonds or as to the renewal of bond
28 anticipation notes, the bond bank authority may purchase and the
29 municipality may issue bond anticipation notes and may renew them from

1 time to time; however, the bond anticipation notes, including renewals,
2 shall mature in such amounts and in such years not exceeding five
3 years from the date of the original issuance as is agreed between the
4 bond bank authority and the municipality. In connection with the
5 transaction and purchase of bond anticipation notes, the bond bank
6 authority may by agreement with the municipality impose any terms,
7 conditions and limitations as in its opinion are proper for the purposes
8 and security of the bond bank authority and the holders of its bonds
9 or notes. The failure of a municipality to comply with the agreement
10 constitutes a failure of the municipality to pay principal of and
11 interest on the bonds or notes, and the bond bank authority shall
12 enforce all rights, remedies, and provisions of law as it has under
13 this chapter or are elsewhere provided.

14 Sec. 44.58.260. DOCUMENTATION. All municipal bonds purchased,
15 held or owned by the bond bank authority, upon delivery to the bond
16 bank authority, must be accompanied by all documentation required by
17 the authority.

18 Sec. 44.58.270. PRESUMPTION OF VALIDITY. After issuance, all
19 bonds or notes of the bond bank authority shall be conclusively presumed
20 to be fully authorized and issued under the laws of the state, and a
21 person or a municipality is estopped from questioning their authori-
22 zation, sale, issuance, execution or delivery by the bond bank authority

23 Sec. 44.58.280. RESERVE FUND. (a) The bond bank authority
24 shall establish and maintain a special fund called the "Alaska municipal
25 bond bank authority reserve fund" in which there shall be deposited or
26 transferred

27 (1) all money appropriated by the legislature for the
28 purpose of the fund in accordance with the provisions of (g) of this
29 section;

1 (2) all proceeds of bonds required to be deposited in the
2 fund by terms of a contract between the bond bank authority and its
3 bondholders or a resolution of the bond bank authority with respect to
4 the proceeds of bonds;

5 (3) all other money appropriated by the legislature to the
6 reserve fund; and

7 (4) any other money or funds of the bond bank authority
8 which it decides to deposit in the fund.

9 (b) Subject to the provisions of (h) of this section, money in
10 the reserve fund shall be held and applied solely to the payment of
11 the interest on and principal of bonds of the bond bank authority as
12 the interest and principal become due and payable and for the retirement
13 of bonds; and the money may not be withdrawn if a withdrawal would
14 reduce the amount in the reserve fund to an amount less than the
15 required debt service reserve except for payment of interest then due
16 and payable on bonds and the principal of bonds then maturing and
17 payable and for the retirement of bonds in accordance with the terms
18 of a contract between the bond bank authority and its bondholders and
19 for which payments of other money of the bond bank authority is not
20 then available. As used in this subsection, "required debt service
21 reserve" means, as of the date of computation, the amount required to
22 be on deposit in the reserve fund as provided by resolution of the
23 bond bank authority.

24 (c) Money in the reserve fund in excess of the required debt
25 service reserve as defined in (b) of this section, whether by reason
26 of investment or otherwise, may be withdrawn at any time by the bond
27 bank authority and transferred to another fund or account of the bond
28 bank authority subject to the provision of (h) of this section.

29 (d) Money in the reserve fund may be invested in the same manner

1 and on the same conditions as permitted for investment of funds belonging
2 to the state or held in the treasury under AS 37.10.070; however, the
3 authority may agree with the bondholders to further limit these invest-
4 ments.

5 (e) For purposes of valuation, investments in the reserve fund
6 shall be valued at par or if purchased at less than par, at cost
7 unless otherwise provided by resolution of the bond bank authority.
8 Valuation on a particular date shall include the amount of interest
9 then earned or accrued to that date on the money or investments in the
10 reserve fund.

11 (f) Notwithstanding any other provision of this chapter, no
12 bonds may be issued by the bond bank authority unless there is in the
13 reserve fund the required debt service reserve for all bonds then
14 issued and outstanding and for the bonds to be issued; however, the
15 bond bank authority may satisfy this requirement by depositing as much
16 of the proceeds of the bonds to be issued, upon their issuance, as is
17 needed to meet the required debt service reserve. The bond bank
18 authority may at any time issue its bonds or notes for the purpose of
19 increasing the amount in the reserve fund to the required debt service
20 reserve, or to meet whatever higher or additional reserve that may be
21 fixed by the bond bank authority with respect to the fund.

22 (g) in order to assure the maintenance of the required debt
23 service reserve in the reserve fund, the legislature shall appropriate
24 annually to the bond bank authority for deposit in the fund, the sum
25 certified by the chairman of the bond bank authority to the governor,
26 that is necessary to restore the fund to an amount equal to the required
27 debt service reserve. The chairman annually, before January 2, shall
28 make and deliver to the governor ^{and to the Legislature} his certificate stating the sum
29 required to restore the fund to that amount, and the sum so certified

1 ~~shall~~ ^{may} be appropriated and paid to the bond bank authority during the
2 then current state fiscal year. Nothing in this subsection creates a
3 debt or liability of the state.

4 (h) All amounts received on account of money appropriated to the
5 reserve fund referred to in (a)(3) of this section shall be held and
6 applied in accordance with (b) of this section; however, at the end of
7 each fiscal year any amount representing earnings or income received
8 on account of money appropriated to the reserve fund shall be trans-
9 ferred to the general fund *of the state*.

10 Sec. 44.58.290. ADDITIONAL FUNDS AND ACCOUNTS. The bond bank
11 authority may establish additional reserves or other funds or accounts
12 as may be, in its discretion, necessary, desirable, or convenient to
13 further the accomplishment of its purposes or to comply with the
14 provisions of any of its agreements or resolutions.

15 Sec. 44.58.300. APPLICATION OF FUNDS. Money or investments in a
16 fund or account of the bond bank authority established or held for
17 bonds, notes, indebtedness or liability to be paid, funded, or refunded
18 by issuance of bonds or notes, unless the resolution authorizing the
19 bonds or notes provides otherwise, shall be applied to the payment or
20 retirement of the bonds, notes, indebtedness or liability, and to no
21 other purpose.

22 Sec. 44.58.310. RIGHTS OF HOLDERS PARAMOUNT. In order to carry
23 out its purpose under this chapter of making loans to municipalities
24 by purchase of the municipal bonds of those municipalities and by
25 receipt of its income from service charges and from payments of interest
26 on the maturing principal of municipal bonds purchased and held by it,
27 and in order to produce revenues or income to the bond bank authority
28 sufficient at all times to meet its costs and expenses of operation

1 under this chapter and to pay the principal of and interest on its
2 outstanding bonds and notes when due, the bond bank authority must at
3 all times, and to the greatest extent possible, plan to issue its
4 bonds and notes and lend money to political subdivisions so that the
5 purpose is achieved without in any way jeopardizing any rights of the
6 holders of bonds or notes of the bond bank authority or affecting
7 other matters under this chapter.

8 Sec. 44.58.320. DEFAULT IN PAYMENT. If the bond bank authority
9 defaults in the payment of principal or interest on an issue of notes
10 or bonds after they become due, whether at maturity or upon call for
11 redemption, and the default continues for 30 days, or if the bond bank
12 authority fails or refuses to comply with this chapter or defaults in
13 an agreement made with the holders of an issue of notes or bonds, the
14 holders of 25 per cent in the aggregate principal amount of the out-
15 standing notes or bonds of that issue, by instrument filed in the
16 office of the clerk of the district court of the first judicial dis-
17 trict and executed in the same manner as a deed to be recorded, may
18 appoint a trustee to represent the holders of those notes or bonds for
19 the purposes provided in this chapter.

20 Sec. 44.58.330. POWERS AND DUTIES OF TRUSTEE ON DEFAULT. (a)
21 A trustee appointed under sec. 320 of this chapter may, and shall in
22 his or its name, upon written request of the holders of 25 per cent in
23 principal amount of the outstanding notes or bonds,

24 (1) by civil action enforce all rights of the noteholders
25 or bondholders, including the right to require the bond bank authority
26 to collect rates, charges and other fees and to collect interest and
27 amortization payments on municipal bonds and notes held by it adequate
28 to carry out an agreement as to, or pledge of, the rates, charges and
29 other fees and of the interest and amortization payments, and to

1 require the bond bank authority to carry out any other agreements with
2 the holders of the notes or bonds and to perform its duties under this
3 chapter;

4 (2) bring a civil action upon the notes or bonds;

5 (3) by civil action require the bond bank authority to
6 account as if it were the trustee of an express trust for the holders
7 of the notes or bonds;

8 (4) by civil action enjoin anything which may be unlawful
9 or in violation of the rights of the holders of the notes or bonds;

10 (5) declare all the notes or bonds due and payable, and if
11 all defaults are made good, then with the consent of the holders of 25
12 per cent of the principal amount of the outstanding notes or bonds,
13 annul the declaration and its consequences;

14 (6) the trustee, in addition to the foregoing, has all the
15 powers necessary for the exercise of functions specifically set out
16 or incident to the general representation of bondholders or note-
17 holders in the enforcement and protection of their rights.

18 (b) Before declaring the principal of notes or bonds due and
19 payable, the trustee must first give 30 days notice in writing to the
20 governor, the bond bank authority, the commissioner of community and
21 regional affairs, and the attorney general of the state.

22 Sec. 44.58.340. PERSONAL LIABILITY. Neither a member of the
23 bond bank authority nor a person executing bonds or notes issued under
24 this chapter is liable personally on the bonds or notes.

25 Sec. 44.58.350. EXEMPTION FROM EXECUTION AND SALE. All property
26 of the bond bank authority is exempt from levy and sale by virtue of
27 an execution and no execution or other judicial process may issue
28 against the property. A judgment against the bond bank authority may
29 not be a charge or lien upon its property; however, nothing in this

1 section applies to or limits the rights of the holder of bonds or
2 notes to pursue a remedy for the enforcement of a pledge or lien given
3 by the bond bank authority on its revenues or other money.

4 Sec. 44.58.360. LIEN OF PLEDGE. A pledge of revenues or other
5 money made by the bond bank authority is binding from the time the
6 pledge is made. Revenues or other money so pledged and thereafter
7 received by the bond bank authority are immediately subject to the
8 lien of the pledge without any further act, and the lien of a pledge
9 is binding against all parties having claims of any kind in tort,
10 contract or otherwise against the bond bank authority, regardless of
11 whether the parties have notice of the lien. Neither the resolution
12 nor any other instrument by which a pledge is created needs to be
13 filed or recorded except in the records of the bond bank authority.

14 Sec. 44.58.370. INSURANCE OR GUARANTY. The bond bank authority
15 may obtain from a department or agency of the United States, or a non-
16 governmental insurer available insurance or guaranty for the payment
17 or repayment of interest or principal, or both, or any part of interest
18 or principal, on bonds or notes issued by the bond bank authority, or
19 on municipal bonds of municipalities purchased or held by the bond
20 bank authority.

21 Sec. 44.58.380. SURETY FOR DEPOSITS BY BANK. All banks, trust
22 companies, savings banks, investment companies and other persons
23 carrying on a banking business are authorized to give to the bond bank
24 authority a good and sufficient undertaking with such sureties as are
25 approved by the bank to the effect that the bank or banking institution
26 shall faithfully keep and pay over to the order of or upon the warrant
27 of the bond bank authority or its authorized agent all those funds
28 deposited with it by the bank and agreed interest under or by reason
29 of this chapter, at such times or upon such demands as may be agreed

1 with the bank or in lieu of these sureties, deposit with the bond bank
2 authority or its authorized agent or a trustee or for the holders of
3 bonds, as collateral, those securities as the bond bank authority may
4 approve. The deposits of the bond bank authority may be evidenced by
5 an agreement in the form and upon the terms and conditions that may be
6 agreed upon by the bond bank authority and the depository bank or
7 banking institution.

8 Sec. 44.58.390. EXPENSES OF ADMINISTRATION. All expenses incurred
9 in carrying out this chapter are payable solely from revenues or funds
10 ~~provided~~ ^{appropriated} under this chapter and nothing in this chapter authorizes the
11 bond bank authority to incur an indebtedness or liability on behalf of
12 or payable by the state.

13 Sec. 44.58.400. COOPERATION BY GOVERNMENT AGENCIES. All officers,
14 departments, boards, agencies, divisions and commissions of the state
15 shall render services to the bond bank authority that are within the
16 area of their respective governmental functions and that may be re-
17 quested by the bond bank authority and must comply promptly with any
18 reasonable request by the bond bank authority relating to making of a
19 study or review as to desirability, need, cost or expense, or financial
20 feasibility with respect to a public project, purpose or improvement,
21 or the financial or fiscal responsibility or ability of a political
22 subdivision making application for loan to the bond bank authority and
23 for the purchase by the bond bank authority of municipal bonds to be
24 issued by that municipality. The cost and expense of a service re-
25 quested by the bond bank authority, at the request of the officer,
26 department, board, agency, division or commission rendering the service,
27 shall be paid by the bond bank authority.

28 Sec. 44.58.410. DEFINITIONS. In this chapter, unless the context
29 requires otherwise,

1 (1) "bond bank authority" means the Alaska Municipal Bond
2 Bank Authority established by sec. 20 of this chapter;

3 (2) "bonds" means bonds of the bond bank authority issued
4 under this chapter;

5 (3) "municipal bond" means a bond or note or evidence of
6 debt which constitutes a direct and general obligation of a political
7 subdivision of the state, all the taxable property within which is
8 subject to taxation to pay the bond, note or evidence of debt, and the
9 interest without limitation, as to rate or amount generally or to
10 avoid a default as provided for second class cities under AS 29.53.410;

11 (4) "municipality" means a home rule or general law city or
12 borough including but not limited to a unified municipality organized
13 under AS 29.68;

14 (5) "notes" means notes of the bond bank authority issued
15 under this chapter;

16 (6) "public body" means a public body corporate and politic
17 or a political subdivision of the state established under any law of
18 the state which may issue municipal bonds;

19 (7) "reserve fund" means the Alaska municipal bond bank
20 reserve fund established under sec. 280 of this chapter;

21 (8) "revenues" means all fees, charges, money, profits,
22 payments of principal of or interest on municipal bonds and other
23 investments, gifts, grants, contributions, appropriations and all
24 other income derived or to be derived by the bond bank authority under
25 this chapter.

26 *new sec 415*
27 Sec. 44.58.420. SHORT TITLE. This chapter may be cited as the
28 Alaska Municipal Bond Bank Authority Act.

29 * Sec. 2. AS 39.25.110 is amended by adding a new paragraph to read:

(16) the members, executive secretary and legal counsel of

1 the Alaska Municipal Bond Bank Authority.

2 * Sec. 3. This Act takes effect immediately in accordance with the
3 provisions of AS 01.10.070(c).

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Local Government Facing a Challenge

The Road to Lower NIC: Bond Banks

May Deter Sound Public Policy

BY MERRILL RING & CAROL A. ARCAESE

THE STATE BOND BANK concept has stirred considerable discussion in a number of state legislatures and public interest groups since first being enacted in Vermont in 1969. Following its introduction, the States of Maine and New York and the Commonwealth of Puerto Rico created similar bond-bank vehicles, while such other states as Alaska, Connecticut, Florida, Illinois, Missouri, Oregon and Washington have weighed like action as well.

Although the details may vary, the basic rationale for all such legislation is to obtain lower interest rates for local units of government by broadening the market for their debt securities.

The level of interest rates on municipal borrowings is largely a function of credit rating, issue size and institutional investment appeal. In some states, there is an appreciable penalty cost to small borrowers because of their relatively low and non-rated credit status, the limited absorptive capacity of local markets and the comparative illiquidity of minor names by reason of insufficient market identity, the modest quantity of their outstandings, infrequency of debt offerings and usually small par value of new issues.

Each of these market impediments may be overcome, according to bond bank proponents, by assimilating the small borrower under the aegis of the state through the creation of a debt vehicle of a size and credit substance which could draw support from the national investment stream and command lower interest rates as a result. This vehicle, as conceived, would pool the debt securities of local governments and offer such debt in single issues payable in the first instance on a pro-rata basis from the revenues of the benefited localities. The ultimate

security to the investor would reside in the moral obligation of the state for debt repayment. Having so obtained the proper size and credit substance, the lower borrowing rate accruing to bond banks would be reflected accordingly in reduced interest costs to participating local governments.

- Inflating or increasing local government programs.
- Weakening the sub-state government structure.
- Sapping state resources as a whole through the unrestricted use of the moral obligation pledge.

FRAGMENTATION

HOW THEY FUNCTION

The bond banks of Vermont, Maine and Puerto Rico function in practice by purchasing local bond issues with the proceeds of their own securities, totaling in sum the aggregate par value of component borrowings plus a reserve fund typically equal to maximum annual debt service.

As principal and interest on the bank's bonds fall due, the bank passes through to the bondholders the debt service payments collected from the participating local governments. Should any of the underlying local governments fail to meet the repayment commitment, funds are drawn down from the reserve fund to cover the deficiency. The bond bank may then be required to notify the state of the deficiency and request that the legislature appropriate the necessary monies to replenish the fund. Remedial action for the defaulting government may include withholding of any state funds until a satisfactory credit arrangement is obtained.

At best, bond banks constitute an artificial marketing device providing short-term relief to a complex problem. Lowering the financing costs of local governments by the use of bond banks is analogous to the manufacturer who chooses to shore up his declining share of the market by redesigning the package rather than by improving the product.

At worst, bond banks may serve as a deterrent to sound public policy by:

- Sustaining governmental fragmentation.

Most states have far more political subdivisions than necessary to perform municipal services proficiently on a home-rule basis. Although a few states have sought to deter further fragmentation of local government by providing incentives for consolidation and preventing the creation of additional special districts, most states have left the choice in the hands of local governments. Without the impetus of either carrot or stick, few such entities have opted for consolidation because of geographic, political, legal or fiscal considerations. Nonetheless, it has become increasingly clear in recent years that a variety of local government services could be performed more effectively and at lower cost on a county- or region-wide basis.

The day is largely past, for example, when a local entity could construct and operate its own water or sewage treatment plant to its own specifications without regard for the surrounding area comprising the watershed. In many states and districts adequate water supply and sewerage facilities are regional problems demanding a regional solution. Similarly, in the educational sector, the disparity in plant, personnel, tax rate and programs of neighboring school districts could be eased or eliminated by an artful consolidation of such units. In the broader context of housing, transportation and economic development, few communities of themselves have the necessary revenue base to meet the challenges effectively.



Mrs. Carol A. Arcarese and Merrill Ring

Where other arguments failed in promoting consolidation, there yet remained to local advocates the spur of excessive borrowing costs to individual units having size, management or resource deficiencies. That remaining spur would be dulled, of course, by the creation of a bond bank which enables such units to obtain financing at tolerable interest rates. By contributing to the durability of governmental fragmentation, bond banks deny to taxpayers the full-dollar benefits of full-service government under the single pretext of interest "savings" on occasional borrowing.

INFLATING PROGRAMS

Bond banks, by design, serve as a financing conduit for local agencies. Since the bond bank virtually guarantees the marketability of their debt, local governments are assured of a funding source regardless of the need for and feasibility of the programs or projects being financed. Moreover, bond banks shield local participants from such essential credit tests as debt capacity, repayment ability, operating performance, tax burden, income trends, potential additional debt and economic outlook. Many projects have been strengthened, modified, postponed or canceled by having to qualify under these tests for market acceptance.

By providing a buffer between the marketplace and the local entity, bond banks allow local governments to be spared this discipline of credit-worthiness. Without such restraining influence, the result could very well be the inflating or increasing of local government programs by loosing a spate of ill-conceived projects that may otherwise have been scaled down or abandoned.

WEAKENING STRUCTURE

By their very nature, bond banks appeal to weaker units of government. In states having bond banks, the stronger credits or marketing units would tend to maintain their borrowing independence while weaker units would likely opt for inclusion to reduce interest costs. What is frequently overlooked in evaluating the bond bank process is that the bank, among other things, may create a disincentive for participants to develop or enhance their management, budgetary and planning skills.

Local governments which lack such expertise will have no urgency to gain it. Worse yet, those medial governments which have already achieved a certain degree of expertise in these areas, may allow proficiencies to erode. Given the relative ease of bank borrowing, such medial governments may well be enticed to choose the bond bank route, lessening in course both their incentive and need to sustain or upgrade basic operating strengths.

Achieving excellence in municipal finance is more than a laudable goal, for in its achievement lies the preservation of local government. The gradual encroachment of state and Federal financing techniques upon areas previously reserved exclusively for municipalities portends the ultimate atrophy of local government as an independent entity capable of meeting or reflecting the desires of its citizens.

SAPPING OF RESOURCES

The moral obligation pledge of states to back debt issuances was first utilized in 1960 as a marketing tool for problematic projects incapable on their own merits of obtaining an investment-grade credit rating and a reasonable financing rate. Initially, the rating agencies considered securities backed by a moral obligation pledge as being second only in creditworthiness to the state's general obligation bonds, and deserving of a credit rating one grade below that of the state itself.

Since 1960, New York State alone has used the moral obligation pledge to cover bonds issued for almost 25 programs: 10 independent agencies and authorities of the State. To date, at least nine additional states have adopted the moral pledge device and several others are contemplating its use.

As moral obligations began to proliferate, the marketplace came to view these securities as a class unto itself which tended to sell and trade at appreciably lower levels than market comparably-rated general market names. More recently, the rating standard for moral obligation bonds has also undergone a change. In its continuing review of all agency credits backed by moral pledges, Moody's Investors Service is now placing the critical evaluative emphasis on the basic financial integrity of each program and project claiming as ultimate security the temporal and legally

unenforceable moral obligation of a state or city for debt repayment.

With a substantial rise in the contingent liability of a state under moral obligations, its future ability or even willingness to meet such commitments may become impaired. Unfettered use of indirect obligations such as the moral pledge may also detract from the overall marketability and credit quality of direct debt obligations of a state. While possibly not a decisive factor, it should be observed nonetheless that the bond-bank States of Vermont and Maine subsequently experienced a downgrading by Moody's of their general credit from triple-"A" to double-"A" status. It is questionable public policy to foster the development of financing techniques which have the potential to jeopardize the credit standing and prime market rate of the state as a whole, for the less certain good of lowering debt costs for a few.

A CONSTRUCTIVE ALTERNATIVE

Viewed over the long-term, reason would dictate that a more constructive approach to reducing interest rates lies in strengthening the financial administration of local governments rather than in the perpetuation of faltering units by subsidizing their borrowing costs. State and local governments, together with investment bankers, can develop actionable programs to aid municipal governments in sharpening expertise in financial administration as well as the market-

ing of debt issues at attractive interest rates.

An example of the kind of effort which can be undertaken on the state level is provided by the North Carolina Local Government Commission. Established in 1931 to restructure the debt of defaulted local governments, the Commission operates within the Department of State Treasurer as a central marketing service for local governments.

The Commission provides aid to municipal governments through the performance of the following functions: (1) advice on planning and issuing local bonds and notes; (2) approval of the issue of local bonds and notes; (3) the sale of local bonds and notes; (4) management of local government accounting, audits, and current cash balances; and (5) the maintenance of local government data.

Municipal governments contemplating capital improvement programs submit their proposals for review by the Commission. Preliminary engineering, cost and feasibility studies are reviewed, as well as the community's outstanding debt and other factors, impacting on its ability to finance the improvement. Local officials, Commission specialists and bond attorneys work together to develop strictly defined projects and sound financing techniques. Upon receiving formal approval of the Commission, the local government presents the bond issue to the voters for consideration.

The Commission participates actively in every aspect of the issuance of the bonds including advertising for sealed bids, sending financial prospectuses to the rating agencies and potential buyers, conducting the sale, receiving the monies, and transferring them to the local government. If no bids are received, the Commission may negotiate private sales.

THE DIFFERENCES

While many of these services are similar to those provided by a bond bank, there are substantial differences which clearly distinguish the Commission from a bond bank. The intent of the Commission is to help individual local governments to compete more effectively in the marketplace, rather than to offer them relief from competition and its discipline. Since the securities sold through the Commission constitute direct obligations of local governments and are not secondarily secured by the pledge of the State or Commission, interest rates reflect the relative credit-worthiness and marketability of the issuer.

Further, rather than offer a haven for unrated or lesser rated issuers, the Commission actively encourages local governments to secure one national credit rating upon the incurrence of \$500,000 in debt and two national credit ratings upon reachings of \$1 million in outstanding debt. Local governments seeking to upgrade their credit standing are assisted by the financial management experience of the Commission.

On the regional level, the Commission makes available credit information to the North Carolina Municipal Council, a non-profit trade organization sponsored by the investment banking industry in North Carolina. Working as an independent agency, the Council publishes timely reports on the financial management, debt administration, and relative credit-worthiness of all North Carolina issuers. Similar trade-supported, credit reporting agencies have been established in other states as well.

The combined action of a state agency, which took the form in North Carolina of a Local Government Commission, in concert with that state's investment banking industry as rep-

resented by the Municipal Council, has provided well for the expanded marketability of North Carolina bonds on both regional and national levels. Neither of these groups could have achieved the desired results without the active support and cooperation of the local governments.

REGIONAL SUPPORT VITAL

The importance of generating regional support is often ignored when considering ways to improve borrowing costs for local governments. Regional support, mustered through the accurate, timely, and complete reporting of municipal debt and financial data, can be essential to securing the lowest possible borrowing costs, particularly in periods of rising rates.

Small banks and dealers which would normally bid consistently and aggressively for moderately-sized local debt offerings may not feel the same sense of urgency (loyalty, if you will) about bidding on considerably larger offerings of a bond bank designed for national underwriters and investors.

Catering to large institutions at the expense of neglecting the development of regional-industry support is tantamount to putting all your eggs in one basket. Just as major corporations establish lines of credit with more than one bank, local governments should seek marketability of their debt on both regional and national levels.

The ultimate responsibility for creating the conditions necessary to obtain lower interest rates lies with the local government. Clearly, the task is not an easy one. But for those units which undertake the critical examination and corrective action necessary, the benefits to be derived will far outweigh the advantages received from bond bank financing. The future of local government will be shaped by its effectiveness in responding to this challenge. □

The chief argument made for a state bond bank is that it will lower the interest costs of smaller issuers and, in times of restricted credit, increase the supply of funds for their borrowings. Nationally, the bonds of smaller issuers usually face investor resistance because these issuers often have limited economic bases, limited long-term debt management and debt planning, and/or because their names are not widely known in the market. In addition, these issuers typically have small offerings. The larger buyers, however, commonly want large amounts from relatively few issuers, not only because they have large sums to place at one time but, too, because it reduces their analyzing and handling costs. In the case of bond dealers, the purchase of larger blocks lowers selling expenses and the borrowing costs of holding a bond inventory. Moreover, many small issuers are ineligible by law for trust and institutional investment because they lack a sufficiently high credit rating from a national rating bureau, are not rated, fall below a minimum population, cannot be used to collateralize public deposits, etc. Further, some of the smaller issuers handicap themselves by an inadequate presentation of their community and its bond proposals or by insisting on unusual bidding terms. The result is that higher rates and sweetened yields are necessary to attract investors.

Fortunately, smaller issuers in California have consistently fared better than comparable issuers in the rest of the nation. Indeed, their bonds have often sold as well as bonds in other states that enjoyed higher ratings and greater familiarity in the market. This is explained by the fact that California is virtually unique in having a well developed local market for local issuers. By reason of the State's large population

and high personal income, a sophisticated financial structure has evolved, including several major dealer banks and an extensive broker dealer network. These institutions trade heavily in all types of California issues, partly because the market for large, nationally known issues from other states has centered in New York City for decades, but also because these institutions are bound up with the future of California. The construction of schools, sewer and water systems, and civic centers, for example, is not only part of the State's economic growth, but is also crucial to economic growth in the future. Not surprisingly, nearly all California issuers of even marginal creditworthiness have been able to market their bonds at reasonable rates.

The bond bank proposed in SB 179 is not only unnecessary in California, but it would bring grave disadvantages to our smaller issuers. SB 179 is copied after the bill that established a bond bank for the State of Vermont, except that it lacks even an implicit moral guarantee of the state that the Vermont bill provides. Without such backing, the bank's debt will not be rated by Moody's as a matter of policy, thus lowering the appeal of the bank's offerings. Moreover, the market will price the bank's offerings to compensate for the fact that they will represent, as it were, a fixed return mutual fund in the California bonds with lowest creditworthiness and marketability. Rather than selling at the average of the bonds securing the bank's debt, as might seem to be the case at first glance, the bank's offerings will sell nearer the level of the weakest links in the chain. For the market exacts a price for lacking any control over what risks the bank will assume. In our judgment, this means the bank's debt will probably trade at the level

of the bonds at the lower end of Moody's "Baa" category. Currently, this is about 80 basis points above the level of the general obligation bonds of the State of California.

On the other hand, moral backing of the bank's debt by the State would tend to impair the State's credit standing and is almost certain to lead to severe conflicts between State and local bonding priorities, conflicts from which the State can be expected to emerge the victor. With state backing, bonds of a California municipal bond bank would probably be rated "A" by Moody and trade at slightly above "Baa" levels - or some 50 basis points above state general obligations.

The bond bank proposed in SB 179 will cost the communities that participate through higher interest rates and could mean substantial losses for those selling the outstanding bonds of these issuers.

The California bond dealer network would be effectively destroyed by this bank. Large buyers can be expected to win most bids on the bank's offerings, leaving our bond dealers to survive on a limited business in nationally known issues and in 1911 and 1915 Act bonds.

Additionally, the bill provides that the bond bank is to ration its funds on the basis of "need". With the drastic curtailment of the bond market within California, our smaller issuers will be increasingly dependent upon the bank --- and local priorities will be increasingly under State control.

Finally, the bond bank will obviously not atone for any lack of sound financial and accounting advice. Rather, for the first time, the communities with the greatest problems in these areas will drive up the borrowing costs of others.

It must be conceded that the bond bank will spare the communi-

ties involved from such costs as preparing a prospectus, advertising for sales, printing bonds, etc. Yet the savings would be ^{offset} by the costs of documenting need to the bond bank, and in higher borrowing costs.

In summary, the smaller issuers of California will not benefit from a bond bank; indeed, they will pay a high price for this approach. The extensive bond dealer network in the State will be lost. Perhaps the greatest cost is an intangible one, the erosion of local control over local capital improvements.

BANK INVESTMENT SECURITIES DIVISION
Portfolio & Research Group
March 14, 1972

Wash. Treasurer Doubts Need to Create State Bond Bank to Aid Small Localities

Special Report to THE BOND BUYER

OLYMPIA, Wash.—The market for municipal bonds in the State of Washington is served adequately now by financial institutions, and there is no need to establish a State bond bank, said State Treasurer Robert S. O'Brien in his "tentative conclusion" on a study begun late last year.

The bond bank, which would have been similar to the one created by Vermont in 1970, was defined by the Treasurer's office as "a public corporate agency established by a state with the powers to issue its own obligations, which are secured by obligations of subordinate political entities."

The purpose is to give smaller agencies a surer access to markets and a lower interest cost. In summarizing "preliminary conclusions,"

Mr. O'Brien said:

"In weighing the pros and cons of a state bond bank, the crucial question to be answered is this: Can this institution better serve the public welfare than existing arrangements at the presently available financial institutions? While the states of Vermont and Maine must have answered affirmatively to this question, it is our tentative conclusion that, in Washington, the existing arrangements and the presently available financial institutions are, in fact providing adequate bond market for the smaller municipality.

"Let me indicate how we arrived at this conclusion," Mr. O'Brien said in his monthly financial report.

"First, we solicited relevant materials from those states with operating bond banks. Second, because of an article in "The Daily Bond Buyer," we were deluged with information from other states that had or were in the process of considering the bond bank concept, or other alternatives. Third, in Washington we solicited the comments from all public treasurers and their respective associations, and received comments from local banks and investment houses.

Generally speaking, Mr. O'Brien said, the in-State survey showed "local treasurers in Washington believe that the current financial marketplace is, in fact, doing the job." He cited one unidentified treasurer who summed up: "I know of no municipality that has not been able to sell their bonds on the open market if the proceeds were to be used

for any feasible project. It is possible to suggest that only the lower credits would go into the bond bank."

In concluding that a bond bank would be of "marginal value," Mr. O'Brien said that on the basis of outstanding debt in 1972 a bond bank would assist only those municipalities that account for between 4% and 10% of all State and local debt issued.

"Most of the bond financing done in this State," he explained, is done by school districts which are either represented by financial consultants or have the necessary skill within the administrative arm of the district to enable them to attract bids from 2 or 3 local underwriters. In the case of larger issues — over \$2 million — bidders are attracted from all over the U.S.

Only Modest Savings

"In the case of municipalities, per se, it is our conclusion that only the very largest cities in Washington are required to turn to the bond market for any type of financing. While it is true that if those smaller municipalities were amalgamated with other small issuers and the total were floated under the structure of a municipal bond bank, the interest cost could be lower, it is also true that there is not a sufficient quantity of such financing in the State of Washington in any one year to justify an offering of \$1 million."

Mr. O'Brien also noted, "Our data indicate only modest savings in potential obligation bonds rated double-"A", bond bank issues would probably receive a single-"A" rating. Beyond this, the State Treasurer added:

"Major branch banks in Washington have policies of bidding on every local issue in the state. Indeed, unlike Vermont, we have a very strong and well-developed investment banking network, and, as I recall, no local unit of government was denied funds even during the big credit crunch of 1970. Our study indicates that, during the last seven years, there has been no time when a local municipality has not received at least one bid (in the case of issues of \$25,000 or less), and usually two or more bids."

Mr. O'Brien said that his present comments "summarize a comprehensive report which is currently being finalized and which will be made available upon request."

Levitt Asks Better Control of Authorities; Seeks End to Moral Commitment Bonds

By ALAN BAUTZER

Seeing "inherent evil" in what he believes to be "excessive" use of the authority structure to finance capital construction, State Comptroller Levitt has called for "closer scrutiny" and control of State authorities and for an end to financing their projects by means of the so-called "moral commitment" board.

In a report on New York State Public Authorities submitted Friday to Gov. Hugh Carey and to the Legislature, Mr. Levitt charged that 14 of the State's 41 State-wide or regional authorities currently owe the State more than \$275 million, most of which, in his opinion, may never be repaid. Mr. Levitt said this figure would be even higher except that \$150 million of additional advances to various authorities by the State have been written off as bad debt.

Mr. Levitt points out that the State's authorities now have more than \$12 billion in outstanding debt, of which nearly \$6 billion is of the "moral obligation" variety.

"It is quite obvious," says Mr. Levitt, "that the State and its public authorities have close financial ties. Many authorities are simply not economically viable and cannot exist without the continuing support of the State. Their operations must be brought under closer scrutiny of the State itself. At the same time, public authorities have to provide a vehicle for highly questionable State fiscal policies. These policies must be terminated."

The Levitt blast against the proliferation and expansion of authorities comes just one day after the Senate Committee on Housing and Urban Development conducted a one-day hearing into the financial status of one of the largest of the State authorities—Urban Development Corp. "Must Be Salvaged"

In his report, the Comptroller singles out UDC for special mention, saying, "There can be no doubt that the billion dollar program of vital public construction now underway by UDC must be salvaged."

But, he continued, the agency's financial plight demonstrates what he considers a "basic fault" in the way UDC has been authorized to finance its program—a way he feels cannot be further tolerated.

Repeating a theme appearing again and again in his reports, Mr. Levitt charged that the public authorities have represented an evasion of the

State's constitutional obligation to "go to the People" when it wants to spend large funds for public capital projects.

Viewing with alarm the greatly expanded authorizations granted to authorities in recent years, Mr. Levitt points out that the largest of them, the Housing Finance Agency, has an outstanding debt of \$4.7 billion—much larger than the State's own full faith and credit debt of \$3.5 billion as of Dec. 31, 1974.

Other points he emphasizes are:

- Most public authorities in New York State are not self-sufficient.

- Virtually all of the public authorities are of financial concern to the State.

- The State has granted outright subsidies to meet operating deficits, including \$100 million in 1974 for transportation, and \$30 million during the last few years to UDC.

- Tax revenues which would otherwise be used to meet general municipal expenditures have been diverted to authorities to overcome their operating deficits. As an example, he cites the diversion of one-quarter cent of State taxes on each gallon of gasoline and diesel fuel to pay debt service on a special highway improvement program for which the Thruway Authority acts as the State's financing agent. Nearly \$17 million in these funds have been turned over to the TA. What gripes Mr. Levitt is that it represents "the incurrence of debt to finance a State purpose without the approval of the People."

- The State is committed to special "lease-purchase" debt of \$2.3 billion. Talking of yet another similar financing scheme used to finance special health, senior citizen, and community college facilities, Mr. Levitt charged that "the long run effect of this financing approach is an increased cost to the State in the form of interest cost which would not otherwise be incurred if the construction were financed from current tax revenues. Also, says Mr. Levitt, the interest costs are higher than if State full faith and credit debt were used.

Comptroller Levitt offered the Governor and the Legislature a number of recommendations, including:

- An end to the "moral commitment" clause in further statutes concerning public authorities, and an end to any further programs involving that kind of debt.

- The State should take a more "realistic" attitude toward first in-

stance advances to authorities, a process Mr. Levitt says has been abused. Outright grants are recommended instead where no real hope of repayment exists.

- The minutes of the boards of directors of all state-wide public authorities should be subject to the approval of the Governor.

- Appropriate State agencies should be given authority to set up performance guidelines for authorities which would have to be met as a prerequisite to State aid.

- Budgets of all State authorities should be reviewed by the State Budget Director.

- Increases in user fees, such as tolls proposed by public authorities, should be subject to analysis by an appropriate State body.

"Legitimate public authorities have a proper place in our governmental structure," Mr. Levitt concedes in his covering letter accompanying the 66-page report, "but I fear that many others have been given form without substance—that is why they are a drain on the public treasury."

The seven largest authorities and their outstanding debt in thousands of dollars as of the end of the 1973 fiscal year are:

Port Authority, \$2,029,867; Housing Finance Agency, \$1,699,700; State Power Authority, \$1,221,318; Urban Development Corp., \$769,970; Thruway Authority \$833,681, and Dormitory Authority, \$1,438,164.

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH 5 — JUNEAU 99801

March 11, 1975

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Rhode:

Enclosed is a memorandum from Jack Chenoweth to Larry Eppenbach on current bond issues outstanding in various communities of the State.

These are the communities we would deem in need of assistance. The smaller cities have the most need such as Sitka, Cordova, Nome, Petersburg, Seward and Valdez.

Sincerely,



Sterling Gallagher
Commissioner

SG:gd

Enclosure

	<u>AUTHORIZED BUT UNISSUED</u>	<u>ANTICIPATED</u>	<u>PURPOSE</u>
Ketchikan	\$ 1,250,000	\$ None	Sewer treatment facility
Kodiak	1,380,000	None	Water and sewer/streets
Nome	1,000,000	2,000,000	Schools Port facilities
Pelican	None	58,500	Sewage treatment facility
Petersburg	None	5,500,000	School
Seward	600,000	50,000	Water/sewer/sewage treatment Dock improvement
Skagway	200,000	None	Sewer
Soldotna	1,400,000	None	Water/sewer
Wrangell	750,000	350,000	Sewer Pool
Valdez	None	12,500,000	School

Other municipalities contacted but indicating no unissued bonds or anticipated projects are:

Bristol Bay Borough
Haines Borough
Ketchikan Gateway Borough
Barrow
Craig
Dillingham
Haines
Homer
Hoonah
Hydaburg

Kake
Kenai
King Cove
Klawock
Kotzebue
Menana
Saint Mary's
Seldovia
Unalaska
Yakutat

Totals of the bonds listed are:

Authorized but unissued	\$ 55,715,000
Anticipated	\$ 34,703,500

MEMORANDUM

State of Alaska

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Larry Eppenback
Deputy Commissioner of Treasury
Department of Revenue

DATE: December 13, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Chenoweth
Director
Local Government Assistance Division

SUBJECT: Municipal bond bank: reported authorized but unissued and anticipated general obligation bond issues.

Questionnaires directed to some 40 Alaska municipalities inquired as to anticipated general obligation bond issues. The information returned is summarized below. The Cities of Anchorage and Fairbanks, the Greater Anchorage Area Borough and the Fairbanks North Star Borough are excluded.

	<u>AUTHORIZED BUT UNISSUED</u>	<u>ANTICIPATED</u>	<u>PURPOSE</u>
Juneau	\$ 2,500,000	\$ 4,000,000	School Fire facilities and equipment
Sitka	-0-	1,000,000	Roads
Kenai Peninsula Borough	-0-	3,500,000	Schools
Kodiak Island Borough	35,000	None	Schools
Matanuska-Susitna Borough	15,500,000	None	Schools
North Slope Borough	20,000,000 2,900,000 650,000 50,000 50,000 7,650,000	None	Schools Roads Public housing Water/sewer Utilities Other capital improvements
Bethel	None	250,000	Dock improvements
Cordova	1,000,000	5,500,000	Civic center complex School

Statement on HB 72
Submitted by Don M. Berry
Executive Director
Alaska Municipal League

Mr. Chairman, Members of the Committee:

For the record, I am Don M. Berry, Executive Director of the Alaska Municipal League, an organization representing cities and boroughs throughout Alaska. On behalf of the League members, I wish to express our appreciation for this opportunity to present testimony in support of HB 72 an act establishing the Municipal Bond Bank Authority.

The League has spent several years reviewing and drafting the concept of assistance to local governments by the creation of a financing agency within the State which could provide a viable means of aiding these local governments to overcome many of the high cost problems incurred in the capital markets and which could aid communities in the financing of needed capital improvements. We feel that HB 72 as it appears before this committee adequately meets these needs.

As you are well aware, many communities in Alaska have experienced extreme difficulty in obtaining necessary funds to construct civic improvement due to existing bonded indebtedness or high interest rates. Because of the extreme costs of normal local government responsibilities, vitally needed capital improvements such as streets, sewers, water systems, hospitals, parks and

recreation facilities, pollution control, libraries, etc. have become inferior claimants in the competition for the local tax base. Therefore, the only recourse has been to go to the bond market with its nearly prohibitive costs. While many plans have been advanced by the U. S. Treasury, Congress and others to aid such communities, one thing that all proposals have in common is the powerful involvement of the federal government one way or another. The League believes that state involvement is not only more appropriate but much more beneficial.

This involvement could take two courses - outright grants to political subdivisions for capital improvements or the creation of a municipal authority such as you now have before you. Since HR 72 does not deal with outright grants, we will confine our remarks to the bond authority.

Unlike most states with their numerous political subdivisions issuing bonds in large volume, Alaska has relatively few issuers, with most of the volume in the City and Borough of Anchorage, the City of Fairbanks, the Fairbanks North Star Borough, and, to a lesser extent, the Kenai Peninsula Borough, the City and Borough of Juneau, and the City of Ketchikan and Ketchikan Gateway Borough.

However, with the rapid increase of economic activity over the next few years, Alaska may anticipate that its smaller cities such as Valdez and Cordova and less populous boroughs such as the Matanuska-Susitna and North Slope will begin to borrow on a volume comparable to the larger population centers. In addition, villages or communities may be expected to incorporate or attain corporate status permitting bond issuance, and other pockets of

growth will develop. These new growth pockets will have capital demands, initially for schools and later for other municipal purposes.

Alaska may expect then over the next few years a number of potential bond issuers who have never approached the municipal bond market. Many of these will obviously be unrated on their initial financings. Thus, some of the local issues will not gain nearly the investor attention they might deserve because of the difficulty of analyzing the credit of a new municipality or a municipality which has not heretofore borrowed. Particular economic, political or social problems might be present in a given situation which would preclude any reasonable expectation of obtaining funds by borrowing. Local officials in many of these budding communities may find that readying an issue for market is beyond their capabilities because of inexperience.

A Municipal Bond Bank Authority, such as envisioned in HR 72, could be of immeasurable help to first time borrowers if only because of the advice it could render on the techniques of preparing bonds for market.

In addition, the concept of packaging a number of issues from new or smaller municipalities in effect reoffered through the new uniform security of the Municipal Bond Bank Authority could be of great help in local debt management. The primary analysis of the local bond security could be undertaken by the Bond Authority and the burden relieved from outside municipal bond purchasers. It may be expected that the Municipal Bond Authority operation could result in interest cost savings to the smaller municipalities

since the uniform security it offers to bond holders would obviate the difficult issue-by-issue bond analysis now necessary and because the State, although not legally obligated to support the bonds would be considered to be involved, nevertheless, in assuring its successful operation. These obvious advantages would also accrue to the larger and more experienced municipalities if they chose, under the terms of HB 72 to issue their bonds through the Authority rather than on the public market.

An additional feature of the Municipal Bond Authority, available to all Alaskan Communities, is the fact that it would help provide a continuing staff to assist in local finance operations. It is realistic to assume that, with a specific bond purchase and marketing function assigned to the Authority, progress could be made for the first time in securing and keeping current a uniform accounting and information system from municipalities - the lack of which has heretofore proved a problem to our local government operation in Alaska.

Thus, it is obvious that the Municipal Bond Bank Authority as established by HB 72 offers much more far-reaching assistance to local governments than just the capability of securing lower interest rates on local bond issues. It provides the essential tools which might eventually enable each community to attract investor interest on its own. It could assist in developing financial stability in local governments which in turn would enhance the credit of the State at all levels.

The League realizes the tremendous responsibility with which the Committee has been charged. Your decisions here will

have a lasting effect on Alaska and its citizens for years to come. So too will the decisions of local government as they plan vitally needed capital improvements not only for the present but for the generation of Alaskans who will require and utilize these facilities in the future. We sincerely feel that an investment now in the schools, hospitals, roads, environmental pollution control facilities of the future would be a wise and judicious investment of the State's resources to assure its continued growth and the development of its bright prospects in the decades to come.

In conclusion, I wish to express the thanks and appreciation of the entire Alaska Municipal League for the opportunity to present this statement of strong support of strong support of HB 72. We are anxious to assist you in your important task and stand ready to help you in every way possible.

Thank you very much.

Respectfully submitted,

Don M. Berry
Executive Director

DMB/jf

SB 179 - California State Bond Bank

The chief argument made for a state bond bank is that it will lower the interest costs of smaller issuers and, in times of restricted credit, increase the supply of funds for their borrowings. Nationally, the bonds of smaller issuers usually face investor resistance because these issuers often have limited economic bases, limited long-term debt management and debt planning, and/or because their names are not widely known in the market. In addition, these issuers typically have small offerings. The larger buyers, however, commonly want large amounts from relatively few issuers, not only because they have large sums to place at one time but, too, because it reduces their analyzing and handling costs. In the case of bond dealers, the purchase of larger blocks lowers selling expenses and the borrowing costs of holding a bond inventory. Moreover, many small issuers are ineligible by law for trust and institutional investment because they lack a sufficiently high credit rating from a national rating bureau, are not rated, fall below a minimum population, cannot be used to collateralize public deposits, etc. Further, some of the smaller issuers handicap themselves by an inadequate presentation of their community and its bond proposals or by insisting on unusual bidding terms. The result is that higher rates and sweetened yields are necessary to attract investors.

Fortunately, smaller issuers in California have consistently fared better than comparable issuers in the rest of the nation. Indeed, their bonds have often sold as well as bonds in other states that enjoyed higher ratings and greater familiarity in the market. This is explained by the fact that California is virtually unique in having a well developed local market for local issuers. By reason of the State's large population

and high personal income, a sophisticated financial structure has evolved, including several major dealer banks and an extensive broker dealer network. These institutions trade heavily in all types of California issues, partly because the market for large, nationally known issues from other states has centered in New York City for decades, but also because these institutions are bound up with the future of California. The construction of schools, sewer and water systems, and civic centers, for example, is not only part of the State's economic growth, but is also crucial to economic growth in the future. Not surprisingly, nearly all California issuers of even marginal creditworthiness have been able to market their bonds at reasonable rates.

The bond bank proposed in SB 179 is not only unnecessary in California, but it would bring grave disadvantages to our smaller issuers. SB 179 is copied after the bill that established a bond bank for the State of Vermont, except that it lacks even an implicit moral guarantee of the state that the Vermont bill provides. Without such backing, the bank's debt will not be rated by Moody's as a matter of policy, thus lowering the appeal of the bank's offerings. Moreover, the market will price the bank's offerings to compensate for the fact that they will represent, as it were, a fixed return mutual fund in the California bonds with lowest creditworthiness and marketability. Rather than selling at the average of the bonds securing the bank's debt, as might seem to be the case at first glance, the bank's offerings will sell nearer the level of the weakest links in the chain. For the market exacts a price for lacking any control over what risks the bank will assume. In our judgment, this means the bank's debt will probably trade at the level

of the bonds at the lower end of Moody's "Baa" category. Currently, this is about 80 basis points above the level of the general obligation bonds of the State of California.

On the other hand, moral backing of the bank's debt by the State would tend to impair the State's credit standing and is almost certain to lead to severe conflicts between State and local bonding priorities, conflicts from which the State can be expected to emerge the victor. With state backing, bonds of a California municipal bond bank would probably be rated "A" by Moody and trade at slightly above "Baa" levels - or some 50 basis points above state general obligations.

The bond bank proposed in SB 179 will cost the communities that participate through higher interest rates and could mean substantial losses for those selling the outstanding bonds of these issuers.

The California bond dealer network would be effectively destroyed by this bank. Large buyers can be expected to win most bids on the bank's offerings, leaving our bond dealers to survive on a limited business in nationally known issues and in 1911 and 1915 Act bonds.

Additionally, the bill provides that the bond bank is to ration its funds on the basis of "need". With the drastic curtailment of the bond market within California, our smaller issuers will be increasingly dependent upon the bank --- and local priorities will be increasingly under State control.

Finally, the bond bank will obviously not atone for any lack of sound financial and accounting advice. Rather, for the first time, the communities with the greatest problems in these areas will drive up the borrowing costs of others.

It must be conceded that the bond bank will spare the communi-

ties involved from such costs as preparing a prospectus, advertising for sales, printing bonds, etc. Yet the savings would be ^{offset} by the costs of documenting need to the bond bank, and in higher borrowing costs.

In summary, the smaller issuers of California will not benefit from a bond bank; indeed, they will pay a high price for this approach. The extensive bond dealer network in the State will be lost. Perhaps the greatest cost is an intangible one, the erosion of local control over local capital improvements.

BANK INVESTMENT SECURITIES DIVISION
Portfolio & Research Group
March 14, 1972

January 24, 1975

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature, I am transmitting the attached bill creating a Municipal Bond Bank Authority which is intended to open a new avenue of financing to many of our State's smaller communities. At the present time these communities, while economically capable of issuing creditworthy debt instruments, are not able to issue marketable bonds or notes. There are a number of reasons for this situation. Some may never have issued bonds or notes before. Some may have very little outstanding debt. Some may not desire to issue debt in amounts large enough to make it economically feasible to market the bonds or notes. Others may be able to use this method of financing but only by paying very high interest rates. The municipal bond bank we intend to create would eliminate these problems by selling its own bonds in the major capital markets and in turn using the proceeds to purchase the bonds of municipalities within Alaska.

The State's financial commitment will be held to a minimum. The bill would permit the municipal bond bank to issue up to \$150 million in bonds. The money required to service the bonds will be provided by the payments of the municipalities whose bonds have been purchased by the Municipal Bond Bank Authority. In order to insure that the bonds of the Municipal Bond Bank Authority can be sold at a reasonable interest rate, the bill will create a reserve fund which can be used to pay the bond payments in the event that defaults on the part of municipalities reduce the Municipal Bond Bank Authority's cash flow below the level needed to service its own bonds. The State will not pledge its own credit to the payment of the bonds of the

Municipal Bond Bank Authority but will instead take up a moral obligation to keep the reserve fund at a level sufficient to insure that the Municipal Bond Bank Authority will be able to service its own bonds.

The financing will be available to all creditworthy municipalities, but the preferred purposes for which the bonds will be purchased are: schools, waste and water treatment facilities, fire protection and public safety facilities, public health facilities, and public transportation facilities.

The bond bank authority will have five directors: the commissioner of revenue, the commissioner of community and regional affairs and three directors appointed by the governor. In addition, there will be a permanent executive secretary and other staff as necessary. The Department of Law will provide legal advice, except that the bond bank authority will have the power to hire outside bond counsel and such other experts or consultants as it finds necessary.

The bond bank authority will in all respects have an independent existence. Its bonds or notes will be fully negotiable and will be valid investments for financial institutions and insurance companies. The property of the authority will be exempt from taxation.

Sincerely,

Jay S. Hammond
Governor

RECEIVED FEB 28 1975



NATIONAL
Bank of Alaska

Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

February 27, 1975

Treasurer
City of Dillingham
P.O. Box 191
Dillingham, Alaska 99576

Re: Bond Paid Agencies

Gentlemen:

In recent months we in the Trust Department of the National Bank of Alaska have been forced to reevaluate our bond paying agency accounts. As a result of our reevaluation the management of the bank has decided that it would not be feasible for us to accept any more business of this type.

Let me assure that the decision was reached only after careful consideration. As you may well imagine, of primary concern to the bank is its relationship with the municipalities throughout the state and the desire on the part of the bank to see needed services provided locally. What has become increasingly evident, however, is the fact that because of the low volume and the resulting high unit costs we cannot continue to bring these services to you on a competitive basis. Rather than ask you to pay what we would consider excessive fees, the bank has decided to curtail its activity in this area.

In the future, we ask that you do not consider the National Bank of Alaska for paying agent or co-paying agent on any bonds you may issue. We regret that we have found it necessary to make this request and henceforth will decline any appointments as bond paying agents, or co-paying agents.

Yours very truly,

Jerry H. Rigler, J.D.
Vice President and Trust Officer

RECEIVED FEB 28 1975



NATIONAL
Bank of Alaska

Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

February 27, 1975

Treasurer
City of Dillingham
P.O. Box 191
Dillingham, Alaska 99576

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Yours very truly,

A handwritten signature in cursive script, appearing to read 'J. Rigler'.

Jerry H. Rigler, J.D.
Vice President and Trust Officer

STATE OF ALASKA

HB 72

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH 5 — JUNEAU 99801

March 5, 1975

The Honorable Hugh Malone
Chairman House Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Mr. Malone:

In re House Bill No. 72

House Bill No. 72 creating the Alaska Municipal Bond Bank Authority was referred to the House Finance Committee on February 26, 1975 with two amendments made by the House Community and Regional Affairs Committee that appear on pages 291 and 292 of the House Journal of February 26, 1975.

I am enclosing a copy of a letter dated March 3, 1975 from Eric E. Wohlforth of Wohlforth & Flint to Commissioner Sterling Gallagher calling attention to one further amendment that is necessary from a legal standpoint. Mr. Wohlforth is employed as the State's Bond Counsel jointly with the firm of Orrick, Herrington, Rowley & Sutcliffe.

The necessary amendment as indicated in Mr. Wohlforth's letter is to delete the word shall that appears as the first word on line 1 of page 22 of the bill and replace it with the word may.

Mr. Wohlforth advises by a telephone conversation with the writer that recent court cases concerning the subject necessitate the above described amendment.

Respectfully yours,



R. D. Stevenson
Special Assistant

RDS:ns

cc Sterling Gallagher
Commissioner
Department of Revenue

Eric E. Wohlforth
Wohlforth & Flint
645 G Street
Anchorage, AK 99501

ERIC E. WOHLFORTH
ROBERT B. FLINT

LAW OFFICES
WOHLFORTH & FLINT
645 G STREET
ANCHORAGE, ALASKA 99501

TELEPHONE
AREA CODE 907
272-9489

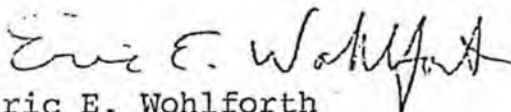
March 3, 1975

Commissioner Sterling Gallagher
Department of Revenue
Pouch S
Juneau, Alaska 99801

Dear Commissioner Gallagher:

Bob Stevenson sent me a copy of House Journal pages 291 and 292 for February 26, 1975, in which the House Community and Regional Affairs Committee amends HB 72 and 73 in accordance with the draft amendments submitted to the Committee on February 21, with one minor clerical oversight. The Committee failed to amend the word shall appearing in line one on page 22 to may as was suggested and as is necessary. Hopefully, this amendment can be made by the House Finance Committee as part of their Committee report approving the bill.

Very truly yours,


Eric E. Wohlforth

EEW/am

cc: R. D. Stevenson, Department of Revenue
Deputy Commissioner - Investments
Lawrence Eppenbach

1 ^{may}
2 [shall] be appropriated and paid to the bond bank authority during the
3 then current state fiscal year. Nothing in this subsection creates a
4 debt or liability of the state.

5 (h) All amounts received on account of money appropriated to the
6 reserve fund referred to in (a)(3) of this section shall be held and
7 applied in accordance with (b) of this section; however, at the end of
8 each fiscal year any amount representing earnings or income received
9 on account of money appropriated to the reserve fund shall be trans-
ferred to the general fund.

10 Sec. 44.58.290. ADDITIONAL FUNDS AND ACCOUNTS. The bond bank
11 authority may establish additional reserves or other funds or accounts
12 as may be, in its discretion, necessary, desirable, or convenient to
13 further the accomplishment of its purposes or to comply with the
14 provisions of any of its agreements or resolutions.

15 Sec. 44.58.300. APPLICATION OF FUNDS. Money or investments in a
16 fund or account of the bond bank authority established or held for
17 bonds, notes, indebtedness or liability to be paid, funded, or refunded
18 by issuance of bonds or notes, unless the resolution authorizing the
19 bonds or notes provides otherwise, shall be applied to the payment or
20 retirement of the bonds, notes, indebtedness or liability, and to no
21 other purpose.

22 Sec. 44.58.310. RIGHTS OF HOLDERS PARAMOUNT. In order to carry
23 out its purpose under this chapter of making loans to municipalities
24 by purchase of the municipal bonds of those municipalities and by
25 receipt of its income from service charges and from payments of interest
26 on the maturing principal of municipal bonds purchased and held by it,
27 and in order to produce revenues or income to the bond bank authority
28 sufficient at all times to meet its costs and expenses of operation
29

TO BE CAPITALIZED

Master file FROM BOND PROCEED

REQUEST
 Bill No. House Bill 72
 Title: Creating the Alaska Municipal Bond Bank Authority
 Requested by: Representative Hugh Malone, Hse. Fin. Date: _____
 Return Date Requested: _____ Com. Chairman: _____
 Agency: Revenue Program: Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100 PERSONAL SERVICES		9.2	10.1	11.1	12.2	13.4
200 TRAVEL		12.5	13.8	15.2	16.7	18.4
300 CONTRACTUAL		71.0	78.1	85.9	94.5	104.0
400 COMMODITIES		.5	.6	.7	.7	.8
500 EQUIPMENT		1.2				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
900 INTER-AGENCY SERVICES		6.0	8.8	9.7	10.7	11.8
TOTAL	-0-	102.4	111.4	122.6	134.8	148.4

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		102.4	111.4	122.6	134.8	148.4

C. POSITIONS:

PERMANENT/TEMPORARY	/	1/	1/	1/	1/	1/
MAN MONTHS (P./T.)	/	3/	3/	3/	3/	3/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

. See attached analysis

IV. ATTACHMENTS

V. DATE: April 12, 1975 PREPARED BY:  P. A. Wall

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 Senator Bill Ray

ANALYSIS

Personnel Services:

Executive Secretary: Range 25: 3 months salary @ 2,608 mo =	\$7,824
plus 18% benefits for 3 months	<u>1,408</u>
	\$9,232

Travel:

Bond Bank Authority Travel : 12 trips x 5 directors x 5 days per trip,	
\$2.6 per diem + 2.4 travel	= 5,000

Executive Director Travel: 5 trips x 5 days per trip,	
\$1.1 per diem + 1.0 travel	= 2,100

Contractual:

Surety Bonding	500
Bond Counsel and Financial Advisors	55,000
Communications (postage, phones, forms, etc.)	5,000
Misc. Contractual	3,000
Annual Audit and Annual Report	7,500

Inter-agency Services:

Central Duplicating and Service for the Authority by State Agencies	8,000
---	-------

Commodities	500
-------------	-----

<u>Equipment:</u> For new positions: Desks, chairs & calculators	1,200
--	-------

Fiscal Analysis -- HB 72 aim in House Finance

Sec. 44.58.050 (page 4, line 16) requires that "all costs of surety bonds shall be borne by the authority."

Sec. 44.58.060 (page 4, line 27) states that "the authority shall reimburse its directors for actual expenses."

Sec. 44.58.070 (page 5, line 5) provides for the mandatory employment of an "executive secretary" who is in the classified service. Permission is also given for the authority to engage services of "bond counsel, consultants, experts and financial advisors."

Sec. 44.58.110 (page 8, line 29) requires the production of an annual report and audit.

Sec. 44.58.170 (page 9, line 9) requires an annual budget be filed which is subject to the Executive Budget Act (AS 37.09).

Sec. 44.58.390 (page 26, line 8) provides that "all expenses incurred in carrying out this chapter are payable solely from revenue or funds appropriated under this chapter."

Sec. 44.58.400 (page 26, line 13) allows that "the cost and expense of a service requested by the authority . . . shall be paid by the authority."

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 — JUNEAU 99801

March 11, 1975

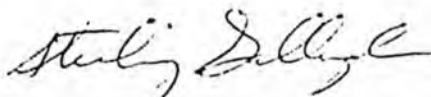
James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Rhode:

Enclosed is a memorandum from Jack Chenoweth to Larry Eppenbach on current bond issues outstanding in various communities of the State.

These are the communities we would deem in need of assistance. The smaller cities have the most need such as Sitka, Cordova, Nome, Petersburg, Seward and Valdez.

Sincerely,



Sterling Gallagher
Commissioner

SG:gd

Enclosure

MEMORANDUM

State of Alaska

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Larry Eppenback
Deputy Commissioner of Treasury
Department of Revenue

DATE: December 13, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Chenoweth
Director
Local Government Assistance Division

SUBJECT: Municipal bond bank: reported authorized but unissued and anticipated general obligation bond issues.

Questionnaires directed to some 40 Alaska municipalities inquired as to anticipated general obligation bond issues. The information returned is summarized below. The Cities of Anchorage and Fairbanks, the Greater Anchorage Area Borough and the Fairbanks North Star Borough are excluded.

	<u>AUTHORIZED BUT UNISSUED</u>	<u>ANTICIPATED</u>	<u>PURPOSE</u>
Juneau	\$ 2,500,000	\$ 4,000,000	School Fire facilities and equipment
Sitka	-0-	1,000,000	Roads
Kenai Peninsula Borough	-0-	3,500,000	Schools
Kodiak Island Borough	35,000	None	Schools
Matanuska-Susitna Borough	15,500,000	None	Schools
North Slope Borough	20,000,000 2,900,000 650,000 50,000 50,000 7,650,000	None	Schools Roads Public housing Water/sewer Utilities Other capital improvements
Bethel	None	250,000	Dock improvements
Cordova	1,000,000	5,500,000	Civic center complex School

	<u>AUTHORIZED BUT UNISSUED</u>	<u>ANTICIPATED</u>	<u>PURPOSE</u>
Ketchikan	\$ 1,250,000	\$ None	Sewer treatment facility
Kodiak	1,380,000	None	Water and sewer/streets
Nome	1,000,000	2,000,000	Schools Port facilities
Pelican	None	58,500	Sewage treatment facility
Petersburg	None	5,500,000	School
Seward	600,000	50,000	Water/sewer/sewage treatment Dock improvement
Skagway	200,000	None	Sewer
Soldotna	1,400,000	None	Water/sewer
Wrangell	750,000	350,000	Sewer Pool
Waldez	None	12,500,000	School

Other municipalities contacted but indicating no unissued bonds or anticipated projects are:

- | | |
|---------------------------|--------------|
| Bristol Bay Borough | Kake |
| Haines Borough | Kenai |
| Ketchikan Gateway Borough | King Cove |
| Barrow | Klawock |
| Craig | Kotzebue |
| Dillingham | Nenana |
| Haines | Saint Mary's |
| Homer | Seldovia |
| Hoonah | Unalaska |
| Hydaburg | Yakutat |

Totals of the bonds listed are:

Authorized but unissued	\$ 56,715,000
Anticipated	\$ 34,708,500

M E M O R A N D U M

April 9, 1975

Subject: State Bond Bank - House Bill 72

This subject has been before the House Finance Committee.

The theory is that the State would create a corporation which would operate by purchasing municipal bond issues at a time when several municipalities were in a position to issue bonds. It would buy only general obligation bonds. When a sufficient number of municipalities have bonds with approximately an equal rating and similar characteristics such as the same maturity dates, the bond bank would put out a prospectus inviting bids on bonds issued by the bond bank. These would be revenue bonds of the bank payable from the revenue derived from the municipal bonds purchased by the bank. The bank's bonds would be backed by a reserve fund to be appropriated by the legislature for this purpose equal to principal and interest payable in one year on the bonds issued by the bank. The proponents of this bill anticipate that the State could sell a revenue bond of this type at a lower rate of interest than the municipalities can sell their general obligation bonds because the State's larger issue would be more attractive than a number of municipal smaller issues and the reserve fund would be additional security for the holders of the bank's bonds.

The proponents of the bill frankly stated that the bond bank would be unable to buy bonds of inferior quality and it can not be used as a vehicle to sell bonds to the bank unless they were good quality. They stated that the purchaser of the bank's bonds would consider a package to have a quality equal to the lowest quality municipal bonds in the package and this is true.

I advised the committee that municipalities who do not keep proper minutes of their meetings, levy and collect taxes as they should and keep proper books of account to reflect their financial standing would not be able to sell their bonds. I told them that they should not go home and tell their constituents that this was the answer to their financial problems because it would only be beneficial in my opinion to some communities.

The State with an "A" rating sold its last general obligation bonds for 5.99% interest. Since these are revenue bonds they would sell for a higher rate of interest. At the present time State revenue bonds are being sold only at very high interest rates because of a default of \$105,000,000 in bonds by the Urban Development

Corporation of the State of New York. In normal times a bond bank bond of this type should sell for about 6-1/2 to 7% interest. The bill states that the State would assume no obligation for the payment of the bonds and that the bond bank revenues are the only backing for the bonds. It further states that the State would not subsidize the bank except to establish a reserve fund. The cost of operations would have to be paid from the income received from the municipalities which they would pay in the form of interest on their bonds. Therefore it is my opinion that the bond bank would have to pay 6.5 to 7% interest on its bonds and would have to charge the municipalities somewhat more. The larger municipalities are having no trouble selling their bonds at rates slightly above 6%. The last Juneau issue went for 6.2. Therefore they could not save any money by selling to the bond bank. The bond bank is of no value to a community unless it can either sell the municipal bonds with a rate of interest less than they can sell otherwise or can market a bond which is not marketable otherwise.

The way it is designed at the present time the communities with good credit rating can sell cheaper on the open market and the bond bank would be of no help to them. Municipalities which have large amounts of bonds outstanding and have used up their credit can not issue more bonds and sell them to the bank because the bank would not purchase them and jeopardize the reserve funds. However, there are municipalities which have never issued bonds and have no reputation in the market. There are also new communities springing up which have no financial history but have good prospects. There are other communities which because of unsettled economic conditions may have trouble marketing bonds at a reasonable rate of interest such as 6.5%. For these communities who might have to pay 7% or more on a general obligation bond, the bond bank may be able to provide them a market which would otherwise not be available and it may be able to save them money in the interest rate.

In my opinion any small community in Southeastern Alaska which has not over-extended itself in the issuance of bonds and has good financial records can sell their bonds to Alaska banks at rates of interest and with less delay and expense than is necessary when dealing with a bond bank established as proposed. Therefore it is doubtful that the bank would be of any benefit to such a community but it could have advantages for municipalities which do not have such a good position in the market.

I advised the committee that the proposed appropriation of \$2,650,000 for the reserve would not support more than \$30,000,000 of bonds outstanding and if the bank is to operate efficiently, it must have a larger reserve fund. The administration is now asking for an appropriation of \$4,445,000 to be appropriated to the reserve fund to support \$50,000,000 of bonds. The prospects of getting such an appropriation are not good.

N. C. Banfield
N. C. Banfield

NCB;np

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES

HERBERT L. FAULKNER (1862-1972)
NORMAN C. BANFIELD
FRANK M. DOOGAN
MICHAEL M. HOLMES
RANDALL J. WEDDLE
WILLIAM B. ROZELL

SUITE 201, 311 FRANKLIN STREET
JUNEAU, ALASKA 99801

TEL. 586-2210
AREA CODE 907

April 9, 1975

JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. DRENNAN

City of Craig
P. O. Box 12
Craig, Alaska 99921

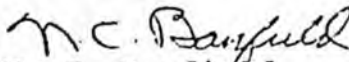
Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska
Municipal League to support House Bill No. 72
which would authorize the State to establish a
bond bank.

I have written a Memorandum on the subject
which I am sending you for your information and
consideration.

Yours very truly,


N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES
SUITE 201, 311 FRANKLIN STREET
JUNEAU, ALASKA 99801

HERBERT L. FAULKNER 11882-19721
NORMAN C. BANFIELD
FRANK M. DOOGAN
MICHAEL M. HOLMES
RANDALL J. WEDDLE
WILLIAM B. ROZELL

JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. DRENNAN

TEL. 586-2210
AREA CODE 907

April 9, 1975

City of Pelican
P. O. Box 757
Pelican, Alaska 99832

Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska Municipal League to support House Bill No. 72 which would authorize the State to establish a bond bank.

I have written a Memorandum on the subject which I am sending you for your information and consideration.

Yours very truly,


N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

Statement on HB 72
Submitted by Don M. Berry
Executive Director
Alaska Municipal League

Mr. Chairman, Members of the Committee:

For the record, I am Don M. Berry, Executive Director of the Alaska Municipal League, an organization representing cities and boroughs throughout Alaska. On behalf of the League members, I wish to express our appreciation for this opportunity to present testimony in support of HB 72 an act establishing the Municipal Bond Bank Authority.

The League has spent several years reviewing and drafting the concept of assistance to local governments by the creation of a financing agency within the State which could provide a viable means of aiding these local governments to overcome many of the high cost problems incurred in the capital markets and which could aid communities in the financing of needed capital improvements. We feel that HB 72 as it appears before this committee adequately meets these needs.

As you are well aware, many communities in Alaska have experienced extreme difficulty in obtaining necessary funds to construct civic improvements due to existing bonded indebtedness or high interest rates. Because of the extreme costs of normal local government responsibilities, vitally needed capital improvements such as streets, sewers, water systems, hospitals, parks and

recreation facilities, pollution control, libraries, etc. have become inferior claimants in the competition for the local tax base. Therefore, the only recourse has been to go to the bond market with its nearly prohibitive costs. While many plans have been advanced by the U. S. Treasury, Congress and others to aid such communities, one thing that all proposals have in common is the powerful involvement of the federal government one way or another. The League believes that state involvement is not only more appropriate but much more beneficial.

This involvement could take two courses - outright grants to political subdivisions for capital improvements or the creation of a municipal authority such as you now have before you. Since HB 72 does not deal with outright grants, we will confine our remarks to the bond authority.

Unlike most states with their numerous political subdivisions issuing bonds in large volume, Alaska has relatively few issuers, with most of the volume in the City and Borough of Anchorage, the City of Fairbanks, the Fairbanks North Star Borough, and, to a lesser extent, the Kenai Peninsula Borough, the City and Borough of Juneau, and the City of Ketchikan and Ketchikan Gateway Borough.

However, with the rapid increase of economic activity over the next few years, Alaska may anticipate that its smaller cities such as Valdez and Cordova and less populous boroughs such as the Matanuska-Susitna and North Slope will begin to borrow on a volume comparable to the larger population centers. In addition, villages or communities may be expected to incorporate or attain corporate status permitting bond issuance, and other pockets of

growth will develop. These new growth pockets will have capital demands, initially for schools and later for other municipal purposes.

Alaska may expect then over the next few years a number of potential bond issuers who have never approached the municipal bond market. Many of these will obviously be unrated on their initial financings. Thus, some of the local issues will not gain nearly the investor attention they might deserve because of the difficulty of analyzing the credit of a new municipality or a municipality which has not heretofore borrowed. Particular economic, political or social problems might be present in a given situation which would preclude any reasonable expectation of obtaining funds by borrowing. Local officials in many of these budding communities may find that readying an issue for market is beyond their capabilities because of inexperience.

A Municipal Bond Bank Authority, such as envisioned in HB 72, could be of immeasurable help to first time borrowers if only because of the advice it could render on the techniques of preparing bonds for market.

In addition, the concept of packaging a number of issues from new or smaller municipalities in effect reoffered through the new uniform security of the Municipal Bond Bank Authority could be of great help in local debt management. The primary analysis of the local bond security could be undertaken by the Bond Authority and the burden relieved from outside municipal bond purchasers. It may be expected that the Municipal Bond Authority operation could result in interest cost savings to the smaller municipalities

since the uniform security it offers to bond holders would obviate the difficult issue-by-issue bond analysis now necessary and because the State, although not legally obligated to support the bonds would be considered to be involved, nevertheless, in assuring its successful operation. These obvious advantages would also accrue to the larger and more experienced municipalities if they chose, under the terms of HB 72 to issue their bonds through the Authority rather than on the public market.

An additional feature of the Municipal Bond Authority, available to all Alaskan Communities, is the fact that it would help provide a continuing staff to assist in local finance operations. It is realistic to assume that, with a specific bond purchase and marketing function assigned to the Authority, progress could be made for the first time in securing and keeping current a uniform accounting and information system from municipalities - the lack of which has heretofore proved a problem to our local government operation in Alaska.

Thus, it is obvious that the Municipal Bond Bank Authority as established by HB 72 offers much more far-reaching assistance to local governments than just the capability of securing lower interest rates on local bond issues. It provides the essential tools which might eventually enable each community to attract investor interest on its own. It could assist in developing financial stability in local governments which in turn would enhance the credit of the State at all levels.

The League realizes the tremendous responsibility with which the Committee has been charged. Your decisions here will

have a lasting effect on Alaska and its citizens for years to come. So too will the decisions of local government as they plan vitally needed capital improvements not only for the present but for the generation of Alaskans who will require and utilize these facilities in the future. We sincerely feel that an investment now in the schools, hospitals, roads, environmental pollution control, facilities of the future would be a wise and judicious investment of the State's resources to assure its continued growth and the development of its bright prospects in the decades to come.

In conclusion, I wish to express the thanks and appreciation of the entire Alaska Municipal League for the opportunity to present this statement of strong support of strong support of HB 72. We are anxious to assist you in your important task and stand ready to help you in every way possible.

Thank you very much.

Respectfully submitted,

Don M. Berry
Executive Director

DMB/jf

BANK OF AMERICA

April 18, 1975

BANK INVESTMENT SECURITIES DIVISION

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Jim:

The creation of an Alaska Municipal Bond Bank would appear, in theory, to solve many local financing problems. In practice, however, such a bank could generate greater problems for the State of Alaska, then may be solved. One has only to glance at the trade papers to recognize that state agency financing backed by a "moral" pledge of the state has "fallen on hard times". While in the recent past many professional bond analysts have pointed out that the "moral obligation" is not legally binding upon a State, be it worded "may or shall", no one has been so presumptuous as to suggest that a State would not "honor this clause" at the slightest hint of trouble. Recent difficulties in New York State associated with notes and bonds of Development Corporation present some insight into possible responses by states to "moral obligation" debt. In this period of high inflation, mounting unemployment and government revenue shortfalls, most states are finding it difficult to balance their budgets. Surplus revenue for any purpose is hard to come by. Many political observers as well as investors have come to feel that the Moral Obligation pledge is in reality an escape on the part of those in public office who, on the one hand, do not wish to forego pet projects for fiscal reasons but are unwilling, nonetheless, to place the State's credit on the line for such projects, relying instead on future legislators to resolve any problems that may arise.

If Alaska creates the Alaska Municipal Bond Bank backed by a moral pledge, the bond market will act accordingly. In our opinion the cost of a moral obligation bond of an Alaskan Municipal Bond Bank would be considerable. For example: if the State of Alaska were to sell a full faith and credit obligation of \$25,000,000 repayable over a 25 year period with level debt service, we estimate the overall cost of principal and interest to be \$51,238,425. The exact same issue sold under the Alaska Municipal Bond Bank, with a moral pledge, would incur an estimated debt service cost of \$58,549,225, or \$7,310,800 in additional expense. It should also be noted that while the State of Alaska enjoys a Moody's "A1" rating, the Alaska Municipal Bond Bank would in all probability be assigned an "A" rating.

The sale of general obligation bonds by the State does not require "funded interest" during construction, or the establishment of a

James B. Rhode, SA
House Finance Committee
April 18, 1975

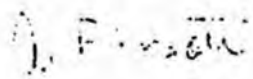
Page 2.

Reserve Fund. The full \$25 million, therefore, would be available to the State using g.o. method. Under the "Bond Bank" procedure, the net would be \$18,258,031, giving effect to funded interest and other expense. Thus, the bond funds available to complete various projects would have declined by some \$7 million, in addition to the higher debt service cost over the life of the bond issue. Although some monies would be recovered through interest earned on the reserve fund, the return on such investment would be limited by arbitrage regulations of the U.S. Treasury.

In the harsh reality of present-day finance, it appears to us that the public interest would best be served by the development of a total and well conceived capital improvement program, supported by sound fiscal and budgetary practices, effective debt management and strong public policy objectives.

The State of Alaska credit rating has now reached the "A1" level, placing the State on the same level with many other states in the lower "48" and just slightly over one step below the coveted "Aaa" level. The use of the "moral obligation" pledge would not enhance this rating. Alaska is a new state with a model Constitution, a young population and happily lacking many of the problems found in most other states. The State of Alaska, its cities and other political units have no reason to compete with each other in the bond market for funds. Though the topography of Alaska, its climate, population centers and special needs do indeed present a formidable challenge, we nevertheless feel that a departure from the general obligation bond to the moral obligation bond, with all its related problems and costs, would not be in the best interest of the State.

Sincerely,


A. F. Mazotti
Senior Research Officer

AFM/vs

The Legislature of the State of Alaska
FISCAL NOTE

First Session - Ninth Legislature

NOT ADOPTED BY LATER

I. REQUEST

Bill No. HB 72, and Analysis on CS for HB 73
 Title: Short Title: Alaska Municipal Bond Bank Authority Act
 Requested by: _____ Date: _____
 Return Date Requested: _____
 Agency: Department of Revenue Program: General Government - Fiscal Services - Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Treasury Management

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100 PERSONAL SERVICES		39,917	53,720	53,720	53,720	53,720
200 TRAVEL		5,100	3,600	3,600	3,600	3,600
300 CONTRACTUAL		3,000	5,000	5,000	5,000	5,000
400 COMMODITIES		1,250	1,000	-0-	-0-	200
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		49,567	63,620	62,620	62,620	62,820

B. REVENUE: (Thousands of dollars)

OPERATING REVENUE		49,500	63,600	62,600	62,600	62,800
NON-OPERATING REVENUE						
TOTAL						

C. PERSONNEL:

	0 / 0	2 / 0	3 / 0	3 / 0	3 / 0	3 / 0
PERMANENT/TEMPORARY	0 / 0	2 / 0	3 / 0	3 / 0	3 / 0	3 / 0
MAN MONTHS (P./T.)	0 / 0	24 / 0	36 / 0	36 / 0	36 / 0	36 / 0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attached Fiscal Note

V. DATE: March 10, 1975

PREPARED BY: _____

Original: Legislative Council
 cc: Finance and Management
 Bill Sponsor (First Legislator Named)

CS FOR HB 73

Analysis:

The appropriation of \$4,445,000 is sufficient to fully fund a reserve for one year's debt service (interest and principal amortization) on \$50 million in 30 year 8% bonds. This same amount will fund a year's debt service on \$50 million 20 year 6% bonds as an alternative.

Until the Municipal Bond Bank is functioning it is impossible to predict the actual value of one year's debt service. The assumption of \$50 million in bonds reflects the reasonable forecast of future Alaska municipal debt likely to participate with the Bond Bank during fiscal years 1976 and 1977. Should the success of the bond bank be such that more than \$50 million in bonds were desired to be issued then the Bond Bank would be required to justify an additional appropriation. On the other hand, if an amount less than \$50 million were issued then the surplus debt service amount would lapse to the General Fund beginning in FY 1978. In the meantime, the reserves would be continuously invested with all interest earnings credited to the General Fund.

Municipality Bond Bank Authority

Fiscal Note - HB 72

III. Analysis

This fiscal note assumes that two initial positions; an Investment Officer II and a Clerk Typist III, and direct expenses relating to these positions will be funded from the General Fund. Eventually, a third position, a Statistical Technician II, may be similarly funded. All other expenditures of the Bond Bank should be paid from the proceeds of Bank Bond Issues. These expenses are not listed in this fiscal note because of their uncertain nature. They will include, however, bond counsel and financial adviser fees, as well as all direct debt issuance expenses.

The reason for general funding of the core positions are two-fold. First, this allows the Bank to begin functioning without being forced to issue bonds immediately. Second, these positions will have "debt management" responsibilities assigned to them that will not be limited to those of the bond bank.

The attached new position requests describes these duties in some detail.

13

PERSONAL SERVICES
REQUEST FOR NEW POSITION

FY 75

AGENCY	CATEGORY	code
Revenue	PROGRAM	
DIVISION	SUB-PROGRAM	
Treasury	ELEMENT	
	SUB-ELEMENT	

POSITION TITLE	Clerk Typist III		RANGE	8	LOCATION	Juneau	APPROVED CLASSIFICATION	
TYPE OF POSITION	PFT	NEW ESTABLISHED	M/C:	C	PRIORITY	PAGE / LINE		
TYPE OF EXPENDITURE	AMOUNT	FY 75 FUNDING SOURCE	DETAIL OF RELATED EXPENSES					CLASS CODE
PERSONAL SERVICES	11,441		Salary	9,696				
			Benefits	1,745				
EQUIPMENT	250		Total	\$11,441				
OTHER			Desk - 210	Chair - 40				
TOTAL	11,691							RANGE

PROJECTIONS		FY 76	FY 77	FY 78	FY 79	APPROVED BY:
TOTAL EXPENSES						
FUNDING SOURCE						EFFECTIVE DATE
						LOCATION
						PCN

EXPLANATION:

This position would supply clerical support for Debt Management Section of the Treasury Division.

GOVERNOR	APPROVED <input type="checkbox"/>	LEGISLATURE	APPROVED <input type="checkbox"/>	CERTIFICATION BY AGENCY HEAD	DATE
	DISAPPROVED <input type="checkbox"/>		DISAPPROVED <input type="checkbox"/>		

13 Request for New Position

POSITION TITLE		STATISTICAL TECHNICIAN II		RANGE	14	LOCATION	JUNEAU
TYPE OF POSITION (PFT, PPT, SEAS)		NEW XXX ESTABLISHED		M/C:	C	PRIORITY	PAGE/LINE
		BUDGET YEAR (BY)					
TYPE OF EXPENDITURE	AMOUNT	FUNDING SOURCE	DETAIL OF RELATED EXPENSES				
PERSONAL SERVICES	13,803	[Hatched Box]	1,116 x 12 = 13,392 + 18% = 15,803				
TRAVEL	500						
CONTRACTUAL							
COMMODITIES							
EQUIPMENT	1,000		Desk, Chair, Statistical Computer				
OTHER							
TOTAL			17,303				

EXPLANATION:

The Debt Management Section of the Treasury Division requires a Statistical Tech II to collect and analyze data for the preparation of Official Statements and to coordinate municipal finance offering through the publication of an Alaska Bond Calendar.

This Statistical Tech II will assist the Debt Finance Specialist in the data gathering requirement and prepare complete and current tables of revenues, expenditures and fund balances. He will also work directly with the Financial Advisor to coordinate the publication of these documents and provide data to rating agencies on a continuous basis.

The Statistical Tech II will also assist in the preparation of a monthly all-Alaskan Bond Calendar. This will involve continuous contact with municipalities and bond insuing authorities throughout Alaska.

Lastly, the Statistical Tech II will work with the Capital Receipts Planner to assist in gathering information about agencies' long term financing needs.

GOVERNOR	APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	LEGISLATURE	APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	CERTIFICATION BY AGENCY HEAD	DATE
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APPROVED CLASSIFICATION

CLASS CODE

RANGE

APPROVED BY:

EFFECTIVE DATE

LOCATION

PCN

BRU TREASURY MANAGEMENT BRU CODE 04-93-7-02-00-00 REVISED _____

13 PERSONAL SERVICES
REQUEST FOR NEW POSITION

INVESTMENT OFFICER II (Request)

Attachment #9

Third, there is a need for someone at the State level to coordinate Alaska Municipal debt offerings to lessen adverse market impact of bunched Alaska offerings. Also, recent legislation enacted relating to municipal obligations for school construction requires someone knowledgeable to advise municipalities in this financing area. In this capacity, extensive travel throughout the State will be necessary to meet with municipal finance officers. Outside travel is also necessary for coordinating activities of the State Bond Counsel and Financial Advisors.

Fourth, there is a need for a specialist within the Department of Revenue to be Executive Secretary to the proposed Municipal Bond Bank Authority. This authority must have the ability to review applications and set quality guidelines immediately.

Fifth, there is a need to begin work today on developing sources of long term financing to fund the capital relocation costs. This will involve forecasting preliminary construction bond requirements and testing alternative debt finance plans to determine the least cost method.

13 Request for New Position

POSITION TITLE INVESTMENT OFFICER II		RANGE 22	LOCATION JUNEAU
TYPE OF POSITION (PFT, PPT, SEAS) PFT		NEW XXX ESTABLISHED	M/C: C PRIORITY _____ PAGE/LINE _____
TYPE OF EXPENDITURE	BUDGET YEAR (BY)		DETAIL OF RELATED EXPENSES
	AMOUNT	FUNDING SOURCE	
PERSONAL SERVICES	28,476	[Hatched Area]	2,011 x 12 = 24,132 + 18% = 28,476
TRAVEL	3,100		
CONTRACTUAL			
COMMODITIES	300		
EQUIPMENT	1,000		Desk, Chair, Calculator
OTHER			
TOTAL	32,876		

EXPLANATION:

An experienced tax exempt financing specialist is needed by the State to work in five critical areas.

First, the Secretary for the State Bond Committee, who is the Commissioner of Revenue needs a specialist for staff support in issuing increasing numbers of General Obligation and Revenue Bonds. In this capacity the Investment Officer would serve as the full time staff of the Committee and be responsible for the preparation of Official Statements and Notice of Sales for all issues and develop long term financing programs. He would remain in continuous contact with the markets for tax exempt securities, the rating agencies, and the latest IRS tax regulations. He would also remain in close contact with the Committee's Bond Counsel and the Financial Advisors between meetings and coordinate their activities.

Secondly, there is a need for an experienced tax exempt financing specialist to assist in developing a mortgage financing program to assume the capital requirements of the increasing Veterans loan program. This would involve preparing legislation for a Veterans Loan Authority and analyzing the security value of pledging presently held veterans mortgages to secure authority bond issues.

GOVERNOR APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	LEGISLATURE APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	CERTIFICATION BY AGENCY HEAD _____	DATE _____
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BRU _____ BRU CODE _____ REVISED _____

13 PERSONAL SERVICES
REQUEST FOR NEW POSITION

APPROVED CLASSIFICATION
CLASS CODE
RANGE
APPROVED BY
EFFECTIVE DATE
LOCATION
PCN

FCC report

I. REQUEST

Bill No. HB 72
 Title: Creating the Alaska Municipal Bond Bank Authority
 Requested by: Representative Hugh Malone, Hs. Date: _____
 Return Date Requested: _____ Finance Committee Chairman
 Agency: Revenue Program: Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100 PERSONAL SERVICES		36.8	40.5	44.5	48.9	53.3
200 TRAVEL		12.5	13.8	15.2	16.7	18.2
300 CONTRACTUAL		71.0	78.1	85.9	94.5	104.0
400 COMMODITIES		.5	.6	.7	.7	.8
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
Inter-agency Services		8.0	8.8	9.7	10.7	11.8
TOTAL		130.0	141.8	156.0	171.5	188.8

B. FUNDING: (Thousands of dollars)

GENERAL FUND	24.6	27.0	29.6	32.6	35.8
FEDERAL FUNDS					
OTHER	105.4	114.8	126.4	138.9	153.0

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

NOTE - Personal Services is funded $\frac{2}{3}$ General Fund and $\frac{1}{3}$ by the Authority.

See Attachments. *JA*

IV. ATTACHMENTS

V. DATE: May 21, 1975

PREPARED BY: *P. A. Wall*
 P. A. Wall

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

MEMORANDUM

State of Alaska

TO: Kent Dawson, Director
Division of Budget & Management
Department of Revenue

DATE: May 20, 1975

FILE NO:

TELEPHONE NO:

FROM Sterling Gallagher *SG*
Commissioner
Department of Revenue

SUBJECT: HB 72 - Alaska Municipal
Bond Bank Law

A debt manager position will be required to administer the Alaska Municipal Bond Bank Law (HB 72). At the time the budget passed the Governor's Review Committee, I believed that the debt manager position was in my budget (Budget Workbook, page 940, line 7).

As we evaluate managing \$30,000,000 in Municipal Bonds plus the normal \$150,000,000 per year of bonds that we sell, I feel that a full-time manager is required. Please consider asking the Free-Conference Committee on the budget to increase our fiscal note from \$9.2 for 3 man-months to \$36.8 for 12 man-months to establish this vital debt manager position. I have attached an updated fiscal note.

Thank you for your consideration.

SG:es

ANALYSIS

Personnel Services:

Executive Secretary: Range 25: 12 months salary @ 2,608 mo = \$31,200
plus 18% benefits for 12 months 5,600
\$36,800

Travel:

Bond Bank Authority Travel: 12 trips x 5 directors x 5 days per trip,
\$2.6 per diem + 2.4 travel = 5,000

Executive Director Travel: 5 trips x 5 days per trip,
\$1.1 per diem + 1.0 travel = 2,100

Travel to Municipalities throughout the State and out-of-state
Bond work = 5,400

Contractual:

Surety Bonding 500
Bond Counsel and Financial Advisors 55,000
Communications (postage, phones, forms, etc.) 5,000
Misc. Contractual 3,000
Annual Audit and Annual Report 7,500

Inter-agency Services:

Central Duplicating and Service for the
Authority by State Agencies 8,000

Commodities 500

Equipment: For new positions: Desks, chairs & calculators 1,200

Fiscal Analysis -- HB 72 aim in House Finance

Sec. 44.58.050 (page 4, line 16) requires that "all costs of surety bonds shall be borne by the authority."

Sec. 44.58.060 (page 4, line 27) states that "the authority shall reimburse its directors for actual expenses."

Sec. 44.58.070 (page 5, line 5) provides for the mandatory employment of an "executive secretary" who is in the classified service. Permission is also given for the authority to engage services of "bond counsel, consultants, experts and financial advisors."

Sec. 44.58.110 (page 8, line 29) requires the production of an annual report and audit.

Sec. 44.58.170 (page 9, line 9) requires an annual budget be filed which is subject to the Executive Budget Act (AS 37.09).

Sec. 44.58.390 (page 26, line 8) provides that "all expenses incurred in carrying out this chapter are payable solely from revenue or funds appropriated under this chapter."

Sec. 44.58.400 (page 26, line 13) allows that "the cost and expense of a service requested by the authority . . . shall be paid by the authority."

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 — JUNEAU 99801

HB 72
JAY S. HAMMOND, Governor

March 5, 1975

The Honorable Hugh Malone
Chairman, House Finance
Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

Dear Mr. Malone:

re House Bill no. 72

At the request of Sterling Gallagher, Commissioner of Revenue, in connection with your Committee's consideration of House Bill No. 72, an Act creating the Alaska Municipal Bond Bank Authority, I am enclosing copies of correspondence dated February 28, 1975 from Samuel L. Coxson, City Manager, City of Dillingham and dated February 27, 1975 from Jerry H. Rigler, J. D., Vice President and Trust Officer, National Bank of Alaska, Anchorage, Alaska to the Treasurer, City of Dillingham.

You will note the problems posed to the City of Dillingham regarding bond paying agency accounts and Mr. Coxson's comments.

Respectfully,



R. D. Stevenson
Special Assistant

RDS:lw

Enclosures (2)

cc Sterling Gallagher
Commissioner of Revenue

DEPT. OF REVENUE
RECEIVED

CITY OF DILLINGHAM

BOX 191 • DILLINGHAM, ALASKA 99576 • PHONES 842-3483 OR 842-3933
JUNEAU, ALASKA

FILE MESSAGE

TO [Mr. Sterling Gallagher, Commissioner]

SUBJECT

Department of Revenue

[Pouch S]

DATE February 28, 1975

Juneau, Alaska 99801

Dear Mr. Gallagher:

I am enclosing a letter received today from the National Bank of Alaska which may be of interest to you. This policy change may have an impact on the Municipal Bond Bank though it is not directly related.

Sincerely yours,

cc: Mr. Jack Chenoweth

SLC/lrh

BY: *Samuel L. Coxson*
Samuel L. Coxson, City Manager

REPLY

DATE

SIGNED

RECEIVED FEB 28 1975



NATIONAL
Bank of Alaska

Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

February 27, 1975

Treasurer
City of Dillingham
P.O. Box 191
Dillingham, Alaska 99576

Re: Bond Paid Agencies

Gentlemen:

In recent months we in the Trust Department of the National Bank of Alaska have been forced to reevaluate our bond paying agency accounts. As a result of our reevaluation the management of the bank has decided that it would not be feasible for us to accept any more business of this type.

Let me assure that the decision was reached only after careful consideration. As you may well imagine, of primary concern to the bank is its relationship with the municipalities throughout the state and the desire on the part of the bank to see needed services provided locally. What has become increasingly evident, however, is the fact that because of the low volume and the resulting high unit costs we cannot continue to bring these services to you on a competitive basis. Rather than ask you to pay what we would consider excessive fees, the bank has decided to curtail its activity in this area.

In the future, we ask that you do not consider the National Bank of Alaska for paying agent or co-paying agent on any bonds you may issue. We regret that we have found it necessary to make this request and henceforth will decline any appointments as bond paying agents, or co-paying agents.

Yours very truly,

Jerry H. Rigler, J.D.
Vice President and Trust Officer