

HB - 72

"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 25 15

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:

[Signature] _____
[Signature] _____
[Signature] _____
[Signature] _____

Members NOT concurring in the Majority report:

[Signature] recommends:

_____ recommends:

[Signature] Chairman

A M E N D M E N T

OFFERED IN THE HOUSE:

By: House Comm'n. & Regional
Affairs Committee

To: ~~XXXX~~ 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".

Or. 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".

A M E N D M E N T

OFFERED IN THE HOUSE:

By: House Community & Regional
Affairs Committee

To: ~~HEXCP~~ 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."

House Committee on
COMMUNITY & REGIONAL AFFAIRS

Meeting Minutes
February 25, 1975
9:00 am

Meeting was called to order by Chairman Cotten to continue the discussion of the Municipal bond bank authority, HB 72 and 73. Present were:

Rep. Sam Cotten
Rep. Al Ose
Rep. Glenn Hackney
Rep. Oral Freeman
Barbara Englert Thomas, Staff
Don Berry, Municipal League
Ginny Kline, President, Municipal League

The purpose of this meeting was for the Committee to have a work session on the Municipal Bond Bank. Chairman Cotten questioned the provision for surety bonding of the Authority members. Rep. Freeman responded that this is pretty standard—it is like an insurance against dishonesty.

Rep. Hackney asked if we had a fiscal note. Cotten said no, but we could get one if the Committee felt this to be necessary. Rep. Freeman stated that the real problem with the fiscal aspect of this will come up in the Finance Com. Our Committee should be looking at the philosophy behind the bill. He stated that he has been in favor of it for 6 years or ever since the Municipal League began supporting it.

Chairman Cotten questioned sec. 44.58.090 (13). Freeman answered that this allows the Authority to invest extra money they have on hand - all in short-term investments by the nature of the provision. This just gives them a tool for prudent money management. Section 44.58.090 (18) allows them to purchase standard insurance. Section 44.58.170 is included because one government cannot tax another.

Mr. Freeman moved and Hackney seconded to pass the bill out of Committee today. Ose objected and wanted to hold it for the rest of the Committee; he withdrew his objection. Mr. Cotten suggested the Committee consider the amendments proposed by Mr. Wohlforth and Commissioner Gallagher. The Committee voted to vote the bill out of committee as amended (five do pass with attached amendments, one no recommendation).

House Committee on
COMMUNITY & REGIONAL AFFAIRS

Meeting Minutes
February 21, 1975
2:30 am

Meeting was called to order by Chairman Cotten for discussion of HB 72. Present were:

Representative Sam Cotten, chairman
" Al Ose
" Mike Hershberger
" Kathryn Ostrosky
" Larry Davis
Representative Mike Miller
Fran Ulmer
Stirling Gallagher, Commissioner of Revenue
Eric Wolforth, Ex commissioner of Revenue, designer of bill
Robert Yeastings, bond consultant from Seattle
Jack Chenoweth, Director of Local Government Assistance
Barbara Englert Thomas, Staff
Andrea Guernsey, Staff

335- Chairman Cotten makes a short introduction.

375- Yeastings makes some opening comments. "Alaska has different situation than most of the other states. Much greater need for this kind of vehicle. The Bond Bank provides substantial improvement in borrowing credit that would be available to municipalities. This is particularly true here because you've got a lot of small geographically and economically isolated communities where it's difficult to borrow at all or on a reasonable basis. The credit of the State is becoming better recognized--upgraded in eyes of lenders. He thinks the gap between what its going to cost the smaller communities to borrow and what the State can borrow at is widening and going to stay wide. Bond Bank provides means of the State going out on the market with a relatively high quality bond that will command a good interest rate and be widely accepted nationally by all types of investment institutions. Permits you to borrow at a quality bond rate. The funding of the reserve fund is important--provides backup for losses or temporary slow downs in income into the bank. With all things put together, this is a high quality bond instrument. Substantial savings to communities and means of financing to smaller communities that may not be able to borrow at all.

492-Eric stated that the same bill passed the House in 1971 and went through the first Committee referral in the Senate but got lost. There has been testimony over the years on this kind of legislation and its merits. The difference between this legislation and ones on books in other states is the contemplation that there would be an appropriation into a debt service fund of enough dollars to provide a fund to secure a certain amount of bonds. This is called for in Alaska because many of the communities which aren't credit worthy have a lot of existing potential resources, have such a small population basis that the major rating services don't give them the kind of credit they should get. This is one financing vehicle that would package local government bond issues. Bank which loans money to municipalities on a package basis, when enough bonds have been purchased sells its own bonds enabling those municipalities to achieve the benefits of a lower rate. Appropriate vehicle for State action.

No technical points have come up since the first drafting. He has a redraft for The committee.

- 1) page 21, subsec g and h--language currently says that the Legislature shall appropriate annually any amount the reserve fund may be in deficit. Should take out shall and add may. A Legislature shouldn't attempt to direct what a future Legislature does.
- 2) HB 73--The suggestion is to provide for an appropriation of enough to the reserve fund for 50 million in bonds. \$4,445,000 appropriation to debt reserve fund--1 years debt service on 50 million bonds of the Authority. Earnings on that amount go to the general fund. The Legislature has the opportunity to see if the Bond Bank is functioning in the proper way. Can increase or not appropriate further monies.
- 649--Chairman Cotten asked if the 2.6 wasn't enough to support 50 million in bonds? Eric said it would support 30 million. Commissioner Gallagher said that there are already 56 million authorized but unissued and 34 million anticipated for a total of 90 million.
- 656--Representative Miller said the amendment has his full concurrence.
- 711--Hershberger asked if the Authority will pick and choose among the applicants. Gallagher replied yes, they have set up criteria. Schools are #1, waterways treatment #2.
- 722--Mr. Cotten remarked that priorities would naturally be set up with 90 million requested. He asked what was the 10% figure that Gallagher mentioned earlier. The reserve fund is approximately 10% of total bonds outstanding. (its actually closer to 8%). With reserve fund of around 8% the leverage we get off of that, half returned to treasury. The earnings come back to treasury.
- 752--Gallagher remarked that the appropriation method was a good way for the Legislature to control the quality.
- 762--Sam wanted to know what would happen if the Legislature didn't appropriate enough. Would that affect the bond rating? The Bond consultant, Mr. Yeastings, said it would if it dropped below an amount equal to average annual debt service on the obligation of the bank. It depends on a lot of things but would probably adversely affect it. Under ideal circumstances the reserve fund would never change anything, Sam thought.
- 786--Representative Miller said that people usually think of spending money when the word appropriation is mentioned but actually this money will probably never be spent. We're really setting up a separate savings account of which we won't draw on the principal, only on the interest.
- 808--(Cotten) 4 1/2 million would actually be an investment by the State and we would be making money on it.
- 814--(Gallagher) All we're doing is freezing the principal. The earnings still come back to the treasury every year.
- 817--Mr. Yeastings said that normally when a community gets into trouble and can't make their payments its only temporary. They will eventually pay it back.
- 835--(Cotten) Would you be able to count that as accounts receivable for a certain amount of time? Not really, but you could consider it that way. (Cotten) There would have to be an appropriation to fill the gap if there was a default. Bob said that when the money eventually came back the reserve would rise above the requiremnt.
- 850--(Eric) If you had a half million in deficit it would be unlikely that you would issue any more bonds.
- 862--(Cotten) Would you expect 50 million to be taken care of right away? Gallagher said that they would go through 30 million the first year but don't anticipate more than 50 million.
- 882--Hershberger said that there would be issues popping out of the woodwork since the money is there. Mr. Gallagher said thats why they set up criteria (pg 14). We don't want to finance everything.
- 912--Representative miller said that the criteria weren't iron clad. Up to the discretion of the Commissioner of Revneue. Gallagher said that the other criteria was they be in an economically depressed area.

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- 958-(Miller) What bond rating do you expect this to give to these communities?
Hopefully an A rating, Yeastings said.
- 972-(Cotten) If the full faith and credit of the State were behind it it would be an A-1 rating.
- 984-(Yeastings) An A rating is probably as good as you could hope for. Many issues would be non-rated mostly because of small population or isolated economy.
- 1000- Chairman Cotten asked Mr. Chenoweth if he had any comments. Jack said he didn't.
- 1007-REpresentative Ostrosky asked about the staffing. Mr. Gallagher said there was an investment officer in the Dept. of REvenue called a debt manager. The Bond Bank would be one of his duties.
- 1031-Cotten asked what difficulties the bill had in the past so they could avoid the pitfalls.
- 1037-Eric said the House Finance Committe in 1971 thought the earnings on funds should go back to the general fund. We've changed that this year to provide for that. The bill never was a high legislative priority.
- 1065-REpresentative Miller pointed out that it was never enough of a project. This bill has everything to gain and nothing to lose.
- 1083-(Eric) You're not likely to receive any support from the Anchorage Borough or the Fairbanks borough because they probably wouldn't use it.
- 1095-Cotten wondered about the similar bill in the Senate. Eric said they tried to coordinate and hopes the Senate will use the same bill that comes out of this committee.
- 1117-Mr. Hershberger likes the idea.
- 1129-Mrs. Ostrosky had a question about sec 9 on page 6.(grants).This was just an excess of caution. Have to plan for everything just in case, Eric said.
- 1170-Chairman Cotten askeed for recommended reading. Eric said he would supply the Committee with materials.
- 1190-Kathryn asked if this would eliminate the need for communities to hire a financial consultant. Bob said it would as far as assistance in issuing actual issuance of bonds. Theree might be a consultant bringing the community up to the point of issuance of bonds.

Meeting adjourned.(end 1228)

House Committee on
COMMUNITY & REGIONAL AFFAIRS

Meeting Minutes
February 19, 1975
4:00 pm

Meeting was called to order at 4:15 by Chairman Cotten for discussion of HB72.

Present were:

Representative Cotten, Chairman
" Ose
Hershberger Ostrosky--absent
Hackney
Freeman
" Davis
Commissioner Gallagher, Revenue
Mark Erteschek, Dept. of Law
Jack Chenoweth, Director, Local Government Assistance
Representative Bradley
Senator Rodey
Senator Willis
Barbara Englert Thomas, Staff
Andrea Guernsey, Staff
Pat Corbett, Senate Staff

Commissioner Gallagher started by giving a run down of the bill. "Municipal bond bank is a state agency type financing that can help the communities to finance their debt in the open market. A lot of the communities are shut out, even though they're credit worthy, by being that the issue size is too small; situation like the new Eagle River Borough who don't have bonded indebtedness history, people don't know how they're going to perform in market, so initially when they go into the market they have a problem selling their debt. Quite often a New York house will not rate a bond until it's 2 years in the existence. Eagle River-Chugiak will probably have bonded indebtedness needs within the first 2 years of it's existence. Also because of the size of the credit it costs just as much to underwrite a large credit as it does to a small credit so we have whole series of smaller communities who find high borrowing costs just because their borrowing costs are not that large. They have a hard time selling. The answer to that problem of course is the Municipal Bond Bank and its an agency financing and we purposely put it funded reserve behind this agency to make it sell better on the market. Hopefully designed the bill to sell at one credit rating below the State credit. State credit is a A1 rating and we think this credit will sell like an A bond. Anchorage and Fairbanks are A rated communities, so are Ketchikan and the North Slope. All the rest are BAA rated bonds. These communities have a stable economic base. Other communities, for example the Matanuska-Susitna Borough, who although they have a stable economic base, as a bedroom community for Anchorage, they're very leverage credit. The bill wouldn't help Fairbanks because its average debt is \$250 per person. Anchorage is \$1100 per person and Mat-Su is \$1,000.

With the funded reserve behind this authority, it will raise the bond from a BAA, the weakest link in the series of bonds, to a level of one stop underneath the State. You've put some commitment behind those credits. It will save the State

money by doing this. We set out criteria under which what projects should be considered in this bill. The #1 project are schools--it helps the community and also helps the State because we have 50% funding requirement under the foundation program for school construction. So any money you save the school district the State also saves. Other criteria are water waste treatment.

The bond bank has 5 members on the board: Commissioner of Revenue; Commissioner of Community and Regional Affairs and 3 others. Under the dept. of Revenue we have a man called a debt manager for the State. We sell \$300 million bonds every year. There should be a man charged with the responsibility of debt management. The man will also get the applications for the Municipal Bond Bank, as the executive secretary. The dept. of Community and Regional Affairs will have a lot of input about which credits we accept.

Powers of the bond bank are to make loans or to purchase bonds of a community to sell into the market at a reasonable rate of interest with the proper safe guards built into it, making sure the monies are paid properly into the reserve fund.

We limited the Bond Bank from getting into other sorts of investments. We only want them in investments of communities. Not in the bill to buy revenue bonds of cities--maybe at some later date if the program is successful. We need a successful program with general obligation bonds first."

1465- Freeman: Will these be tax exempt bonds? Gallagher replied yes.

1468- Cotten: When you talk about savings between an A1 and A rating what are you talking about? Gallagher said that most communities are a BAA rating;

A rating-50-70 basis points (basis points 7%-7.01). 70 basis pointson \$10,000,000 is worth \$1,000,000 on 20 year issue. 70 points=7 tenths of 1 percent. 20 difference between A and A1.

1486-Willis: Will Fairbanks and Anchorage still be allowed to go independently to market? yes, they don't have to use the state agency. Will the Bond Bank cover individual service areas in municipality? yes, it could.

1527-Freeman: What backing? Mark Esteshek answered: Bill will create independent corporation which will be under control and be in an administrative sense under the dept. of Revenue but will have separate legal existence. This organization will pledge its own credit to the bonds. Its credit will be based on: 1) reserve fund which will contain sufficient money to give bonds the rating that we want to market them at and will be funded out of appropriation from the Legislature; 2) actual funds of authority itself. Authority will generate revenue from its own purchase of municipal bonds. Authority will sell its bonds and take money and buy municipal bonds. Municipal bonds will be paid off by municipality and the funds coming into the bond bank authority from the municipalities will be used to pay off its own bonds which it sold in the larger money markets and behind it all sits the reserve fund to make payments in the event of a possible default. This device will not give municipality a source of money that they won't have to pay back. It will save them administrative expenses of making sale on their own. We will give them better bond rating when they actually do make a sale.

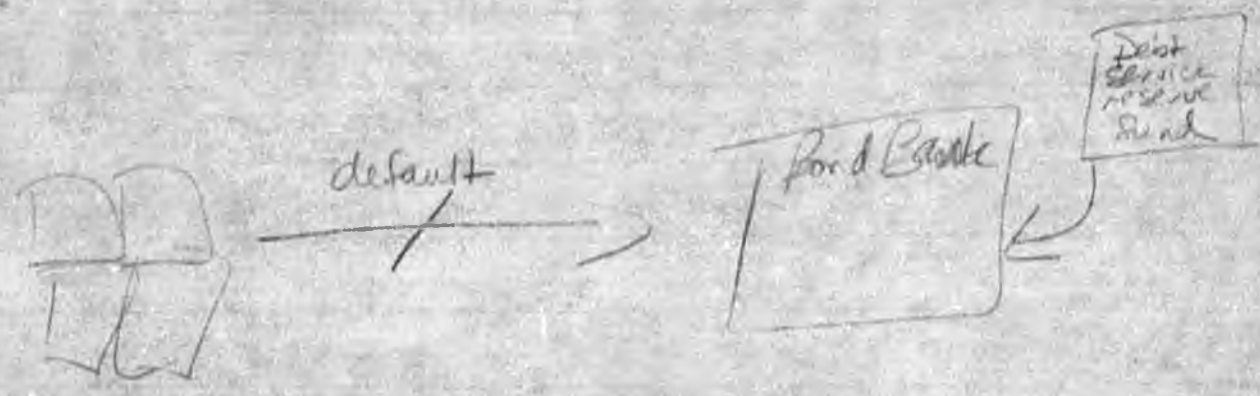
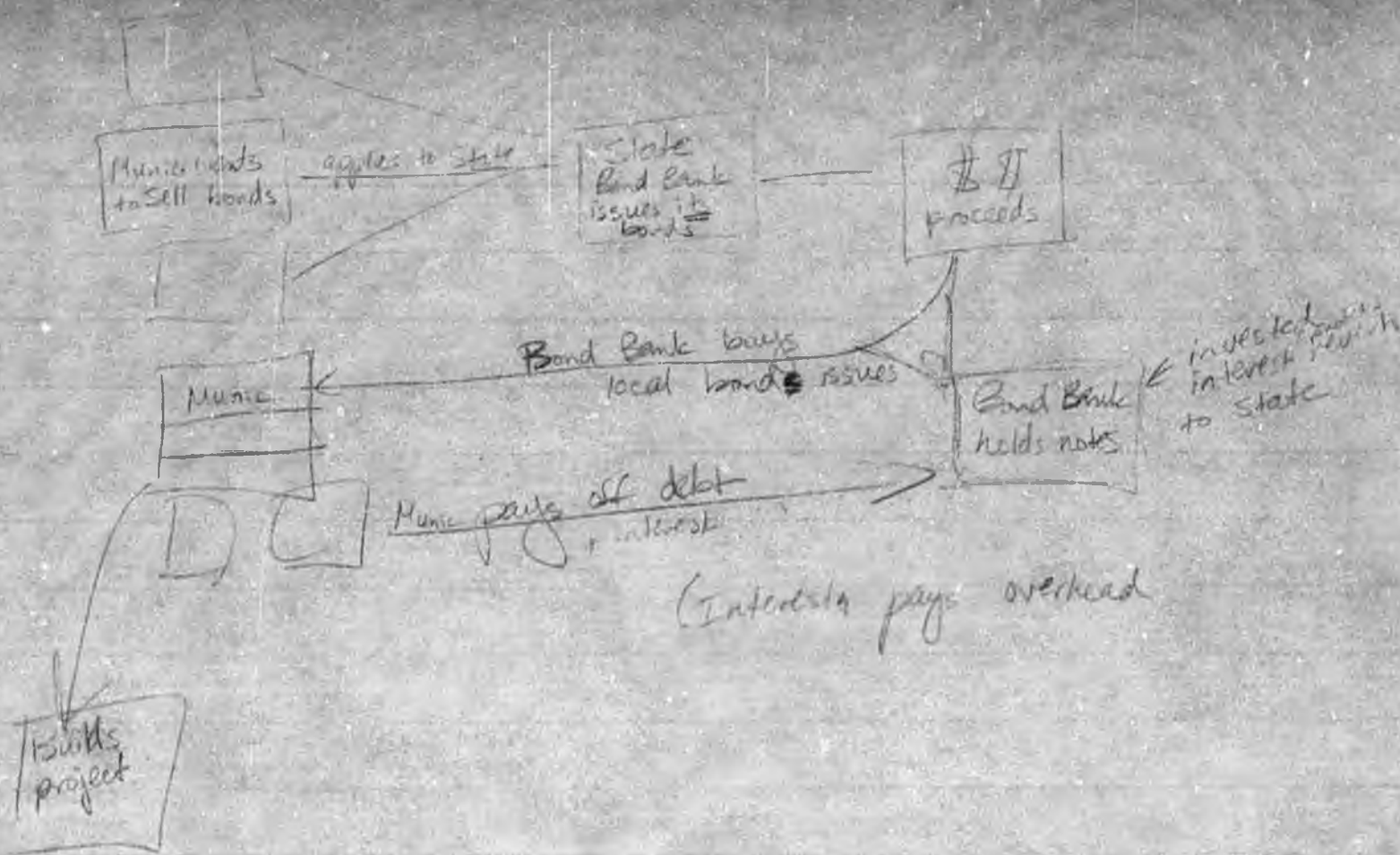
1560-Freeman: If you don't put full faith and credit of State behind it what gives the bond authority better credit rating than Ketchikan has right now? Mark replied: Reserve fund gives better bond rating. What if reserve fund used up? The State will have obligation to replenish reserve fund. When we refuse credit of State it means bond holder will not be able to sue state of Alaska on that bond if its defaulted but State is pledging moral obligation but not in a legal sense.

- 1614-Freeman: The less guarantee there is the higher the interest rates.
Gallagher: That's why there's a reserve. Aimed at communities who have some economic problems and that's why there's a funded reserve behind it.
- 1622-Hackney: What is the amount of funded reserve or would reserve be general fund of State? Gallagher: no. Funded reserve in HB 73 is one years annual debt service. We don't want to finance everybody, only those who are truly in need. In order to finance those: 1) annual appropriation of money we think can finance us next year; 2) lid on financing that can be done by Authority. There are 2 lids- amount appropriated and total lid of \$150,000,000.
- 1639-Freeman: What is the ratio of percentage of reserve? Gallagher: Minimum of annual debt service.
- 1662-Bradley: Why not pledge the full faith and credit of State. Gallagher: Can't without having everyone in State vote on each particular issue provided by constitutional provision.
Bradley: Are there any instances of municipal bonds going into default?
Gallagher: 30 issues since 1932. Alaska has had 1 (Dillingham).
- 1713- Cotten: Are many other states in same need? Gallagher: 20 or 30 have municipal bond banks. Vermont and Maine have been successful, probably because of small towns.
- 1727-Cotten: question about base rates figures charged by bonding house to assess whether or not bonds are saleable. Gallagher: Expensive because they have to bring in consultants etc.
- 1754-Hackney: Asked about expansion of hospital in Fairbanks. Gallagher: The focus of the bill is on urgent needs. Public health would be one of them.

Tape #3 side 2

- 51-Hackney: But you would still have to have voters approval?
- 127-Freeman: Larger communities wouldn't probably ever use it? Gallagher: no, except for small projects.
- 148-Ose: Would any municipality be refused? Mark: Bill geared towards credit worthy municipalities. They have not excluded 2nd class cities with limited debt but they still have to be credit worthy.

end 335. Meeting adjourned at 5:00.



- ① Municipalities want to raise money to build projects & can't easily float a bond issues
- ② ^{Municipalities} Applies to State Bond Bank
- ③ Bond Bank issues bonds in its own name
- ④ " takes the proceeds from that sale and buy up local bond issues
- ⑤ Municipalities build projects & ^{begin to} pay back debt + interest
- ? ⑥ Interest payments cover bond bank's overhead
- ⑦ Default — if the municipality cannot pay off its debt to the bond bank the loss will be covered by the debt service reserve fund
- ⑧ Bond Bank pays off its debts (whoever bought their bond issue) with what municipalities pay them

What is Net Interest Cost?

Bond Buyer Index?

Basis points? (BBI - NIC = 100 BP)

callable bonds? (p. 12)

ex - 5.24% - 4.74% = 50 basis pts.



2/19/75

This is about the
most uncomfortable
ouch

Municipal Bond Bank

Arch, Poles, etc - aren't forced to use this bond bank - they
can go directly to bond market

A ~~service district~~ ^{service district} can get bonds w/ the full faith ^{of credit} of the ^{total} borough
going behind.

Eric Wohlforth

Robt Yeastings, Bond Consultant

Stirling Gallagher

1971 - passed House & go through 1st committee & referred in Senate

2 technical pts - redrafts

① p. 21 l. 23 change "shall" to may

② HB 73 - enough to support \$50 million in Bonds

[\$2,665,000 - would support \$30 million in Bonds]

Wohlforth - supply background retnigs.

Very close to statutes in VT, Me, NY.

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
Valdez	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

Amendment proposed
by Wohlforth &
Gallagher 2/21/15

HB 72

p. 21

(g) In order to assure the maintenance of the required debt service reserve in the reserve fund, the legislature may appropriate annually to the bond bank authority for deposit in the fund, the sum certified by the chairman of the bond bank authority to the governor and to the chairmen of the House and Senate Finance Committees, that is necessary to restore the fund to an amount equal to the required debt service reserve. The chairman annually, before January 30, shall make and deliver to the governor and to the chairmen of the House and Senate Finance Committees his certificate stating the sum required to restore the fund to that amount, and the sum so certified may be appropriated and paid to the bond bank authority during the then current state fiscal year. Nothing in this subsection creates a debt or liability of the state.

(a) All amounts received on account of money appropriated to the reserve fund referred to in (a)(3) of this section shall be held and applied in accordance with (b) of this section; subject to the terms of any act appropriating money to the reserve fund.

p. 22

Alaska State Legislature



REPRESENTATIVE
SAM R. COTTEN
P.O. BOX 296
EAGLE RIVER, ALASKA 99577

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811

CHAIRMAN
COMMUNITY & REGIONAL
AFFAIRS COMMITTEE

MEMBER
JUDICIARY COMMITTEE

House of Representatives

February 5, 1975

Taylor Murphy Institute
Graduate School of Business Administration
University of Virginia
Charlottesville, Virginia 22903

Dear Ladies and Gentlemen:

The Alaska Legislature is presently considering legislation concerning a municipal bond bank. A copy of your October 1973 publication "Bond Banks: Their Role in Assisting Municipalities in Obtaining Funds for Public Improvement Purposes, with Particular Application to the Commonwealth of Virginia" by Eleanor G. May would be helpful in our study of this matter.

As our Legislature generally adjourns in May, your prompt attention to this matter will be greatly appreciated.

Sincerely,

Barbara Englert Thomas
Barbara Englert Thomas
Staff Assistant

BET:asg

STATEMENT ON HB 72
Submitted by Don M. Berry
Executor Director
Alaska Municipal League
February 20, 1975

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-Junitna and North Slope Borough 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 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

HB 72

		<u>Notified</u>	<u>Present</u>	<u>Testified</u>
2/19/75	Fran Ulmer, Gov's Legis. Assistant	X		
Information	Chenoweth, CRA	X	X	X
4pm	Comm. McAnerney, CRA	X		
	Comm. Stirling Gallagher, Revenue	X		X
	Larry Eppenbach, Dep. Comm. for Treasury	X		
	Eric Wohlforth, Arch			
	Mark Ertischek, Dept. of Law			
	Tony Motley			
	✓ Mike Schlosberg (Dep)			
	Mike Miller			
2/21/75	Ulmer	X	X	
2:30pm	✓ Chenoweth	X	X	X
	✓ Gallagher	X	X	X
	Wohlforth	X	X	X
	Ertischek	X		
	Motley	X		
	✓ Mike Miller	X	X	X
	Bob Yeastrey, Seattle Bond Counsel			
2/25/75	Garry Kline, President Al. Municipal League	X	X	
	Don Berry, Al. Municipal League	X		