

SB

430

CEIP ?

Hosp. funding - ?

Original sponsor: Croft

Offered: 2/30/78

Referred: Rules

Man. Tax limitation ?

1 IN THE SENATE

BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 430

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act extending the authority of the Alaska Municipal
7 Bond Bank; and providing for an effective date."

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

9 * Section 1. AS 44.58.170(b) is amended to read:

10 (b) Notwithstanding any provision of law, to the extent that any
11 department or agency of the state is the custodian of money payable to
12 a municipality, at any time after written notice to the department or
13 agency head from the bond bank authority that the municipality is in
14 default on the payment of principal or interest on municipal general
15 obligation bonds of the municipality then held or owned by the bond bank
16 authority, the department or agency shall withhold the payment of that
17 money from that municipality and pay over the money to the bond bank
18 authority for the purpose of paying principal of and interest on bonds
19 of the bond bank authority.

20 * Sec. 2. AS 44.58.180(c) is amended to read:

21 (c) Notwithstanding the provisions of (a) and (b) of this section,
22 the total amount of bond bank authority bonds and notes outstanding at
23 any one time, except bonds or notes issued to fund or refund bonds or
24 notes, may not exceed \$150,000,000 for the purchase of general obligation
25 bonds and \$150,000,000 for the purchase of revenue bonds.

26 * Sec. 3. AS 44.58.410(3) is amended to read:

27 (3) "municipal bond" means a bond or note or evidence of debt
28 which constitutes

29 (A) a general obligation bond which is a direct and

1 general obligation of a political subdivision of the state, all the
2 taxable property within which is subject to taxation to pay the
3 bond, note or evidence of debt, and the interest without limita-
4 tion, as to rate or amount generally to the extent permitted by
5 law or to avoid a default as provided for second class cities under
6 AS 29.53.410; or

7 (B) a revenue bond issued by a municipality which is a
8 pledge of the revenue of a revenue-producing capital improvement
9 payable solely from unpledged revenue of the public facility for
10 which the obligations are issued; or

11 (C) a general obligation bond or revenue bond combined
12 or additionally secured;

13 * Sec. 4. AS 44.58.420 is amended to read:

14 Sec. 44.58.420. SHORT TITLE. This chapter may be cited as the
15 Alaska Municipal Bond Bank Authority Act or the Alaska Municipal Bond
16 Bank Act. The Alaska Municipal Bond Bank Authority created by this
17 chapter may be referred to as the Alaska Municipal Bond Bank with the
18 same legal effect as if the reference were to Alaska Municipal Bond
19 Bank Authority.

20 * Sec. 5. This Act takes effect immediately in accordance with AS 01.10.-
21 070(c).

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23
24 use on revenue bonds
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CHAIRMAN:
NORMAN J. LEVESQUE

BOARD MEMBERS:
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LEE McANERNEY
LANCE ANDERSON
JAMES R. EIDE



THE FINANCIAL PLAZA
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SUITE 325
ANCHORAGE, ALASKA 99501
(907) 274-7366

EXECUTIVE DIRECTOR:
DAVID A. ROSE

ALASKA MUNICIPAL BOND BANK AUTHORITY

February 6, 1978

Senator Joe Orsini
Chairman, Community and Regional Affairs Committee
Pouch V, State Capitol
Juneau, Alaska 99811

Dear Joe:

Thank you for your recent letter requesting my comments on SB 430 which will be reviewed by your committee.

The Board of Directors, by resolution, fully supports the Bill provided a new Section is added as follows:

"#Sec 2. AS 44.58.420 is amended to read:

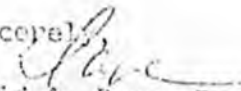
Section 44.58.420. SHORT TITLE. This chapter may be cited as the Alaska Municipal Bond Bank Authority Act or the Alaska Municipal Bond Bank Act. The Alaska Municipal Bond Bank Authority created by this chapter may be referred to as the Alaska Municipal Bond Bank with the same legal effect as if the reference were to Alaska Municipal Bond Bank Authority.

The above change will allow us to market bonds without the word "Authority" appearing in our name. We are advised that the word "Authority" infers that the bond is more of a revenue issue rather than general obligation. Also, some housing authorities and port authorities have recently fallen into market disfavor. If this amendment to title is passed, we plan to drop the word "Authority" on general obligation issues but would probably retain it for revenue issues. Dropping the word may provide market savings of as much as 20 basis points on G.O. issues.

Section 1 of SB 430 will enable us to meet the needs of smaller cities wishing to accomplish projects not properly classified as general obligation. These include utilities, docks, ports, etc. This change is extremely important if we are to be in a position to assist communities impacted by offshore energy exploration and development.

Hope you can schedule early action on the Bill. I'll be pleased to meet with the committee.

Sincerely,


David A. Rose, Executive Director

COPY

M E M O R A N D U M

TO: Lisa Rudd

FROM: Annette Smith

Summary of CSHB 430

CSSB 430, Extending the authority of the Alaska Municipal Bond Bank.

By expanding the definition of municipal bonds in Section 3, SB 430 extends the authority of the Municipal Bond Bank to include revenue bonds as well as general obligation bonds of municipalities. Revenue debt was not included in the original bond bank authority because it was felt the Bond Bank needed to establish a "track record" before it expanded into the area of revenue debt. The broadening of the definition of municipal bonds will permit the Bond Bank to assist smaller cities in financing projects such as utility and port development and will enable it to use CEIP Federal money to leverage debt rather than State funds.

Mr. Rose can elaborate on the proposal to use CEIP funds to back up municipal revenue bonds, but basically it consists of a method to use a portion of the \$69 million available to the state under CEIP which is designated for Credit Assistance, i.e., loans to municipalities for the construction of facilities in response to coastal energy impact. The loan money is now available at 8% from the Federal government. The Bond Bank proposes to borrow up to \$50 million of these funds from the Feds at 8%, reinvest the money at 8% and use that money to back up its municipal revenue bonds with a 100% guarantee, thereby securing a lower rate for the municipalities. This idea was conceived by the DC&RA and the Bond Bank and has been well received by all parties concerned. In order for the program to work effectively, however, the Bond Bank needs this extra authority in the field of revenue bonds.

Section 2 is part of the committee substitute. It establishes a ceiling (\$150 million) on the amount of revenue bonds outstanding at any one time. This is the same ceiling as for general obligation bonds. This ceiling on bonds is considered desirable for the first few years of operation of the program.

Section 1 inserts the distinction of the type of municipal bonds referred to in that section since there are now two types of municipal bonds in the Authority.

Section 4 is inserted at the request of the Bond Bank. The change will allow them to market general obligation debt without the stigma of the word "Authority" which frequently has the connotation of risk, and thus may result in higher interest rates.

The insertion of the words "to the extent permitted by law" (Sec. 3, p. 2, line 4) was at the request of Lee Sharp of Juneau and is designed to clear up a gray area created by the Kalamarides decision on municipal tax limitation. Apparently, in order for the Bond Bank to buy a city's bonds, the city has to promise to levy taxes without limitation as to rate or amount. The Kalamarides decision declares that a municipality may not make that promise. As a result, the bond bank cannot buy the city's bonds because it has no authority to. There is a Supreme Court ruling pending on this decision. The amendment language would allow the city to make whatever pledge the court finally determines the law to be. The new language also has the blessings of Eric Wolforth, bond counsel.



THE CITY AND BOROUGH OF JUNEAU

CAPITAL OF ALASKA

155 SOUTH SEWARD ST. JUNEAU, ALASKA 99801

DATE: March 16, 1978

FILE NO. Legislature - 1978 Session

SUBJECT: SB 430, AMBBA Authority

Honorable Joe Orsini, Chairman
Senate Community and Affairs Committee
Pouch "V"
Juneau, Alaska 99811

Dear Senator Orsini,

As you and the committee are no doubt aware, litigation involving the oil companies and the North Slope Borough have cast doubts on the meaning of sections of Title 29 which relate to the extent of the authority of municipalities to pledge taxes to secure debt. The decision in the Superior Court placed certain limitations on the language which municipalities and bond counsel had not previously believed existed. The definition of "municipal bond" as it appears in the Alaska Municipal Bond Bank Act reflects the commonly held view that there was no limitation on the authority of the municipality to levy taxes for the purposes of securing and paying debt and interest. The bond bank is authorized by the Act to buy only municipal bonds which are defined as bonds which have an unlimited tax pledge. Unfortunately, the decision in the North Slope case prohibits the municipality from making an unlimited pledge of taxes. Therein lies the problem. The AMBBA is authorized by law to buy bonds which boroughs, first class and home rule municipalities are unable to issue under the North Slope decision. To overcome this dilemma, we suggest that the following amendment be made to Senate Bill 430:

In line 16, after the word "generally" add the phrase "to the extent permitted by law".

This amendment would authorize the AMBBA to purchase municipal bonds where the municipality had made a pledge of its taxes to the extent authorized by law. The law being what the court says it is (until the legislature changes it), this amendment would authorize the purchase by the AMBBA of municipal bonds which it cannot now purchase under the North Slope ruling.

I believe that the proposed amendment is in keeping with the original purpose of defining a municipal bond in the

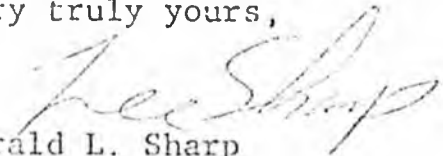
Joe Orsini
March 16, 1978
Page Two

manner it presently appears; that is, that the bond be backed by the maximum full faith and credit pledge which the municipality could lawfully make.

Today, I discussed this proposed amendment with Eric Wolforth, who is bond counsel for the AMBBA. He concurred that the proposed amendment would alleviate the problem created by the North Slope decision as it relates to the authority of the bond bank to purchase bonds.

We urge the committee to include the proposed language in a committee substitute for Senate Bill 430.

Very truly yours,



Gerald L. Sharp
City/Borough Attorney

GLS/sm

cc: Senators Willis, Ferguson, Hackney and Sumner