

HB

950





Official Business

# Alaska State Legislature

## Senate

### Committee on State Affairs

Pouch V  
State Capitol  
Juneau, Alaska 99811

HB 950 am - An Act making a special appropriation to the Department of Revenue to provide partial interest payments on municipal bonds as a general fund subsidy to local government; and providing for an effective date.

BY: House Finance Committee

Section 1 of this bill appropriates \$4,500,000 to the Department of Revenue, Alaska Municipal Bond Bank Authority, for the purpose of debt service and bond reserves.

Section 2 appropriates \$1,500,000 to the Dept. of Revenue to pay the difference between the purchase price of bonds of the municipality of Anchorage, at 8% interest, and the initial reoffering price. If the city decides to sell its bonds to the Bond Bank, the appropriation will go directly to the Bond Bank for debt service and bond reserves.

Because of recent increases in rates of interest charged for municipal bonds, seven Alaska municipalities have been rendered incapable of issuing bonds, totaling \$49,500,000, for projects slated to begin this construction season. They are as follows:

	<u>Amount of Bonds</u>	<u>Purpose</u>
Ketchikan	\$ 400,000	Airports
Kodiak	12,100,000	Schools
*Anchorage	19,000,000	Sewer/Roads/ Library
+Seward	1,700,000	Elec. Dist. Lines
*Sitka	5,600,000	Hospital
Bristol Bay Borough	4,000,000	Schools
Kenai Penin. Bor.	6,700,000	Hospital

\*Mandated cap which can't exceed 8%.

+Mandated cap which can't exceed 7%.

Three of these municipalities have voter mandated "caps" or limits on the rate of interest they can pay on their bonds. There is not enough time for them to call special elections to raise their caps and still catch the summer construction season. The other four places are being treated by the Municipal Bond Bank as if they had caps of 8%. The Municipal Bond Bank has scheduled a bond sale for March 25, 1980 and urges immediate and favorable action on this bill.



Official Business

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State Capitol  
Juneau, Alaska 99811

HB 950 am - (cont.)

Attached please find House Finance Committee Letter of Intent.

The House Finance Committee, the original sponsor of the bill, has amended it by additional language in the title only, as highlighted on the bill.



# Alaska State Legislature

## House of Representatives

### Committee on Finance

Pouch V  
State Capitol  
Juneau, Alaska 99811

#### HOUSE FINANCE COMMITTEE

#### Letter of Intent

HB 950

This appropriation is necessitated by recent, rapid and unprecedented increases in the rate of interest charged for municipal bonds. This increase has been caused by federal monetary policy designed to shrink the national debt market. As a result of this policy, the Bond Buyer Index, which shows the average rate charged for municipal bonds on a weekly basis, has increased from 7.71 per cent on February 14 to 8.94 per cent on March 6.

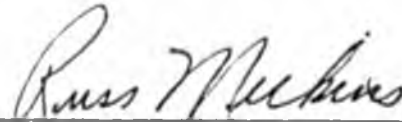
This increase has rendered seven Alaska municipalities (Anchorage, Sitka, the Bristol Bay Borough, the Kenai Peninsula Borough, Seward, the Ketchikan Gateway Borough and the Kodiak Island Borough) incapable of issuing bonds for projects slated to begin this construction season.

These municipalities are legally barred from issuing these bonds because their bond authorizations have "caps" --- voter approved limits on the rate of interest they can pay on their bonds. In all cases, these "caps" are 8 per cent or below. At the time in late February that three of these municipalities (Anchorage, Sitka and the Bristol Bay Borough) attempted to issue bonds, they received no bids acceptable under their "caps". Given current market conditions, it is a virtual certainty that the other four municipalities will likewise receive no acceptable bids.

If it weren't for the necessity of capturing this construction season, the affected municipalities could raise their "caps" through the election process. But, so that the projects could go to bid and help stimulate the state's sagging economy, the committee decided not to wait for these municipalities to go through that process.

Legal constraints prevented the committee from making this appropriation in the form of a loan to the affected municipalities. Had this been possible, the consensus of the committee was that it would be done.

Thus, although there is a question of equity involved in providing a subsidy for only seven of the state's municipalities, the committee passed out the appropriation. But it is the committee's intent not to provide an on-going subsidy for all municipal bonds. In this regard, I intend to request the commissioner of revenue to notify all municipalities that, if they wish to issue bonds, they must deal with their "caps" in a manner that reflects current market conditions.



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Representative Russ Meekins  
Chairman, House Finance Committee

CHAIRMAN:  
NORMAN J. LEVESQUE

BOARD MEMBERS:  
THOMAS K. WILLIAMS  
LEE MCANERNEY  
LANCE ANDERSON  
CARROLL FADER



601 WEST FIFTH AVENUE  
SUITE 325  
ANCHORAGE, ALASKA 99501  
(907) 274-7366

EXECUTIVE DIRECTOR:  
DAVID A. ROSE

## ALASKA MUNICIPAL BOND BANK AUTHORITY

March 17, 1980

Senator Bob Mulcahy  
Senate State Affairs Committee  
Pouch V  
Juneau, Alaska 99811

Dear Senator Mulcahy:

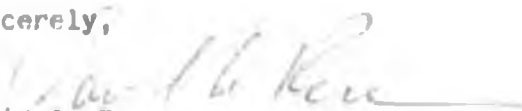
The Board of Directors has asked me to request that you and the Committee calendar debate and action on HB 950 as soon as possible.

This Bill will assist the cities of Anchorage, Kodiak, Ketchikan, Seward, Sitka, Bristol Bay Borough, and the Kenai Peninsula Borough in the marketing of bonds. These seven municipalities all have bond sales scheduled in order to secure funds for use during the summer construction season.

As you know the bond market is in major disarray and interest costs are increasing on a daily basis. Some of these cities cannot sell bonds above the 8% interest level (Anchorage and Sitka), another (Seward) cannot sell above the 7½% level. The others do not have voter mandated restrictions. When HB 950 becomes operative it will serve to provide a subsidy between the market rate of bonds and the mandated cap. For those cities that do not have caps, an 8% cap will be assumed for equity purposes.

If you or the Committee have any questions please do not hesitate to contact me. Please expedite action as much as possible as certain bond sales are scheduled for March 25th on the assumption that the Bill will pass both State Affairs and Finance in the form it left the House.

Sincerely,

  
David A. Rose  
Executive Director

CHAIRMAN:  
\* NORMAN J. LEVESQUE

BOARD MEMBERS:  
THOMAS K. WILLIAMS  
LEE MCANERNEY  
LANCE ANDERSON  
CARROLL FADER



601 WEST FIFTH AVENUE  
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EXECUTIVE DIRECTOR:  
DAVID A. ROSE

## ALASKA MUNICIPAL BOND BANK AUTHORITY

### FACTS:

Federal monetary policy directed at contraction of the national money supply has had an adverse effect on the bond market.

The 20 Bond Index, the national standard which indicates the interest rate level of bonds purchased, is presently 8.46. This is the highest level in the history of the country.

Alaska credits are rated by national bond rating services (Moody's and Standard & Poor's) at "A" or below. Many municipalities are unrated. With these ratings interest rates will approximate the 20 Bond Index or will exceed it.

Most Alaskan municipalities, as part of the voter approval process, set a limit on the interest rates they are willing to pay on bonds issued. Some cities set a "capper" of 7 1/2 percent while some others have a "capper" of 8.0 percent.

### PROBLEM:

Alaskan cities cannot issue their debt because the current market price of bonds exceeds the "capper" limits.

The Alaskan summer construction season depends on raising funds now. Without sufficient funds, we will lose the season.

### Communities affected TODAY:

Anchorage	19.0 mm
Sitka	5.6 mm
Bristol Bay Borough	4.0 mm
TOTAL:	<u>28.6 mm</u>

### Communities affected in APRIL:

Kenai Peninsula Borough	6.7 mm
Seward	1.7 mm
Ketchikan Gateway Borough	.4 mm
Kodiak Island Borough	10-28 mm
TOTAL:	<u>18.8 mm</u>

TOTAL KNOWN BOND ISSUES:	47.4 mm
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ASSUMPTION:

The State wishes to assist its municipalities and avoid loss of the Statewide construction season as it pertains to locally funded capital projects.

ALTERNATIVE SOLUTIONS:

1. Fund all projects directly out of the General Fund as grants. (Cost: \$47,400,000).
2. State purchase of bonds issued by the Bond Bank or a municipality at the 7 1/2 - 8 percent level. Hold the bonds in the State portfolio for resale when the market improves. (Cost: \$47,400,000).
3. Direct the Bond Bank to sell its bonds at market and have the Bond Bank purchase municipal debt at the 7 1/2 - 8 percent level. Appropriate the differential to the Bond Bank along with necessary reserve funds to leverage the unexpected increase in bonds sold this fiscal year. (Cost: \$6,000,000).

DISCUSSION:

1. Alternate 1 is rejected as too costly to the State. Municipalities have the debt capacity and their citizens have indicated a willingness to bear the debt burden.
2. Alternate 2 is rejected as a poor investment of State funds. Emergency subsidy can be provided without either temporary or long-term use of \$47,400,000.
3. Alternate 3 is preferred as it uses the least amount of State funds and fully solves the problem. The Bond Bank would utilize approximately \$2,765,000 to increase its leveraging reserves to handle the unanticipated increase in bond sale volume. Approximately \$3,235,000 would be utilized to provide the full subsidy required for the life of the bonds.
4. Funds not utilized for subsidy (dependent on market improvement) would be available to use as leveraging reserves in FY 81.
5. Municipal Bonds would be purchased at the "capper" rate previously approved by municipal voters in each respective political subdivision. In cases where a "capper" has not been prescribed, the 8 percent figure will be used.
6. Action in this matter, in a timely manner, is essential as the inability to raise funds for construction will delay projects and result in further inflated costs. The sagging construction industry cannot afford a further decline in activity. While bonded costs are \$47,400,000, total construction is much higher as other State and Federal funds are being used -- contingent on the availability of local funds.

RECOMMENDATION:

1. That the sum of \$6,000,000 be added to the Bond Bank Statutory Reserve Fund through supplemental appropriation.
2. That the Bond Bank sell its bonds at prevailing market rates. That proceeds be used to purchase municipal bonds in the approximate amount of \$47,400,000; and the above appropriation be utilized for leverage reserves and subsidy.
3. That the sale of bonds on behalf of Anchorage, Bristol Bay Borough and Sitka, take place on or about March 12, 1980, dependent upon date of passage of supplemental funding. Sale of bonds on behalf of the other cities will take place in late April as presently scheduled or at another date as specified by the cities involved.

V Rose  
2/26/80

# 20 BOND INDEX

2/14	7.71
2/21	8.46
2/28	8.71
3/6	8.94
3/13	9.10

ALASKA MUNICIPAL BOND BANK  
NOTICE OF MEETING

TIME: 9:00 A.M. Alaska Standard Time  
DATE: Tuesday, February 25, 1980  
PLACE: Bond Bank Offices  
601 West 5th Avenue, Suite 325  
Anchorage, Alaska 99501

PURPOSE: Approval of a General Bond Resolution-Special Issue

Approval of a Series Resolution providing for the issuance of \$10,080,000 Alaska Municipal Bond Bank, General Obligation Bonds, 1980 First Special Issue (Bristol Bay Borough-City and Borough of Sitka).

Consideration of amended loan agreements for the Sitka and Bristol Bay Boroughs.

Consideration of Underwriting Agreement, Contract of Purchase, approval and release of Official Statement.

Consideration of a resolution authorizing preparation, execution, and delivery of bonds.

Consideration of a Resolution appointing paying agents.

Actions regarding loans to Kenai Peninsula Borough (6.7 million) and City of Seward (1.7 million).

Approval of loan application from Ketchikan Gateway Borough. ( \$400,000 )

Other general business of the Authority

Note: Certain items on the agenda will be considered dependent upon passage of legislation pertaining to State subsidization of local government debt interest costs. If legislation has not been passed, the meeting may stand in recess pending enactment. The recessed meeting may be reconvened without further public notice. Those persons present at this meeting will be given notice of the time and place of the reconvening of the meeting.

/s/ David A. Rose  
Executive Director

# Municipal Newsletter

Foster & Mc...

February 25, 1980

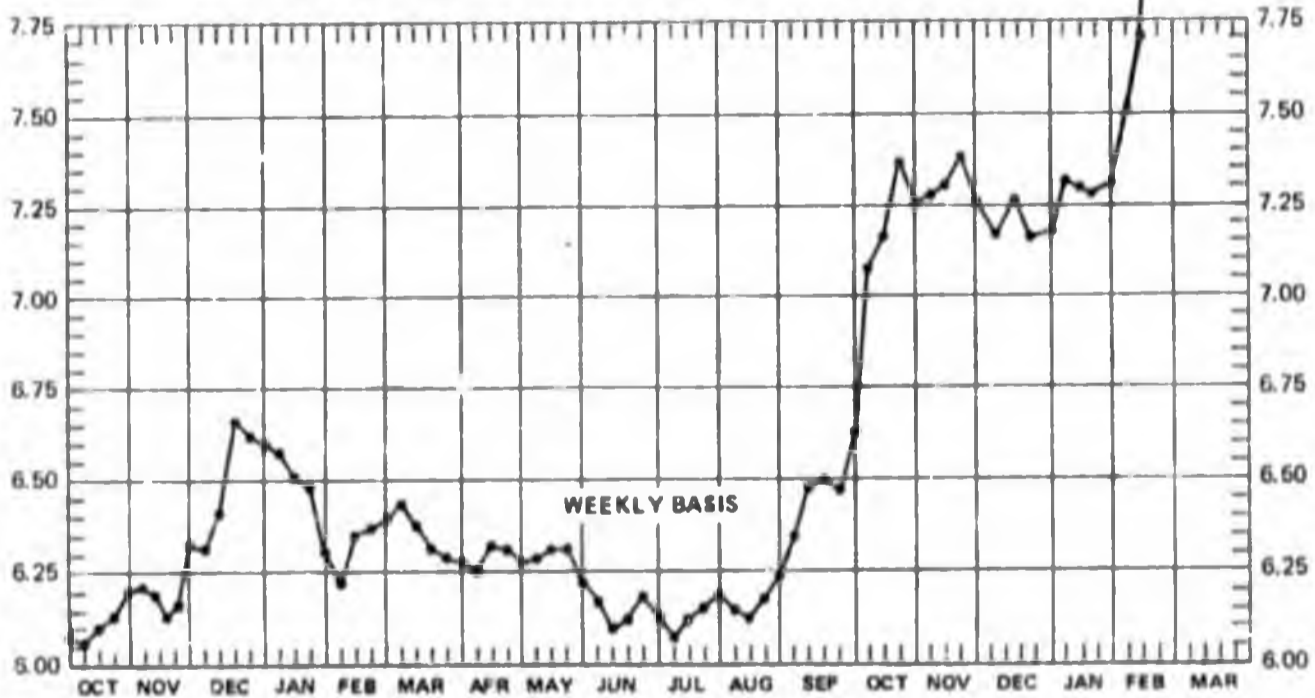
What municipal bond market? ..... Just when we thought things couldn't get worse, the bottom fell out. The Bond Buyer's Municipal Bond Index went off the scale with an unprecedented jump of 71 basis points in one week, to stand at 8.46%.

The chaotic money market situation is a result of the failure of the Carter Administration to recognize the problem, let alone the solutions. The current annualized inflation rate of 20% is a result of continuing federal deficits and the very rapid rise in petroleum prices. These problems aren't going to be solved by high interest rates; in fact, the record high interest rates of today are in themselves inflationary.

Unless the government takes immediate, decisive action to come to grips with the problem, it will get worse before it gets better. High interest rates may be with us through the balance of this year, and as long as inflation continues at the present rate, we will simply have to get used to tax-exempt bond rates at current high levels. Expect to see tax-exempt revenue bond interest rates in excess of 10%. Buyers will be interested mostly in higher quality bonds and in staying with shorter term maturities. It may be difficult or impossible to find a market for some of the lesser quality issues that only a few months ago would have been well received by the market.

It is a time for careful planning of capital improvement financing.

BOND BUYER'S INDEX OF MUNICIPAL INTEREST RATES



An Informational Bulletin of our MUNICIPAL FINANCE DEPARTMENT -- a part of our full range of municipal financing services.

R. O. Yeasting, Senior Vice President  
Municipal Finance Department

THE STATEMENTS CONTAINED HEREIN, ALTHOUGH OBTAINED FROM RELIABLE SOURCES, ARE NOT GUARANTEED BY US.

SEATTLE 205 Columbia Street Seattle, Washington 98104 (206) 344-3500

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|---|---|---|--|---|---|---|
| <p><b>Abingdon</b><br/>Post Office Box 201<br/>120 South Broadway<br/>Abingdon, Washington 98201<br/>360-524-5900</p> <p><b>Anchorage</b><br/>P.O. Box 1000<br/>1400 North 4th Street<br/>Anchorage, Alaska 99501<br/>907-561-6212</p> <p><b>Baltimore</b><br/>100 Riverside Center Building<br/>1717 North Avenue North East<br/>Post Office Box 2240<br/>Baltimore, Washington 20827<br/>301-774-5700</p> <p><b>Bellingham</b><br/>100 West Washington Building<br/>1717 North 4th Street<br/>Bellingham, Washington 98227<br/>360-734-5700</p> <p><b>Bend</b><br/>100 West 1st Street<br/>Post Office Box 1248<br/>Bend, Oregon 97701<br/>503-325-1248</p> | <p><b>Billings</b><br/>Post Office Box 1014<br/>200 N. Park Street<br/>Billings, Montana 59101<br/>406-242-2800</p> <p><b>Boise</b><br/>Post Office Box 1000<br/>200 North 4th Street<br/>Boise, Idaho 83720<br/>208-333-0000</p> <p><b>Bozeman</b><br/>Post Office Box 1001<br/>121 East University<br/>Bozeman, Montana 59717<br/>406-551-1111</p> <p><b>Bramerton</b><br/>Post Office Box 301<br/>840 East Center Street<br/>Bramerton, Washington 98604<br/>509-837-4400</p> <p><b>Butte</b><br/>Post Office Box 1001<br/>121 East University<br/>Butte, Montana 59717<br/>406-551-1111</p> <p><b>Butte</b><br/>Post Office Box 1001<br/>121 East University<br/>Butte, Montana 59717<br/>406-551-1111</p> <p><b>Butte</b><br/>Post Office Box 1001<br/>121 East University<br/>Butte, Montana 59717<br/>406-551-1111</p> | <p><b>Corvallis</b><br/>Post Office Box 1001<br/>121 East University<br/>Corvallis, Oregon 97331<br/>503-757-1111</p> <p><b> Eugene</b><br/>Post Office Box 1001<br/>121 East University<br/>Eugene, Oregon 97401<br/>503-325-1248</p> <p><b> Everett</b><br/>Post Office Box 1001<br/>121 East University<br/>Everett, Washington 98201<br/>360-734-5700</p> <p><b> Fairbanks</b><br/>Post Office Box 1001<br/>121 East University<br/>Fairbanks, Alaska 99701<br/>907-452-1111</p> <p><b> Federal Way</b><br/>Post Office Box 1001<br/>121 East University<br/>Federal Way, Washington 98003<br/>206-472-1111</p> <p><b> Gresham</b><br/>Post Office Box 1001<br/>121 East University<br/>Gresham, Oregon 97030<br/>503-325-1248</p> <p><b> Grays Harbor</b><br/>Post Office Box 1001<br/>121 East University<br/>Grays Harbor, Washington 98554<br/>509-672-1111</p> | <p><b> Haines</b><br/>Post Office Box 1001<br/>121 East University<br/>Haines, Alaska 99828<br/>907-452-1111</p> <p><b> Hingham</b><br/>Post Office Box 1001<br/>121 East University<br/>Hingham, Massachusetts 01904<br/>617-542-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> | <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> | <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> | <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> <p><b> Hiram</b><br/>Post Office Box 1001<br/>121 East University<br/>Hiram, Georgia 30143<br/>404-382-1111</p> |
|---|---|---|--|---|---|---|

# nuveen

John Nuveen & Co. Incorporated

127 North Franklin Street, Suite 222, Juneau, Alaska 99801

(907) 586-1636

(907) 586-1708

March 13, 1980

Senator Robert Mulcahy  
Chairman, State Affairs  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99801

Re: House Bill 950

Dear Bob:

Time is of the essence concerning House Bill 950. The bond market is continuing to deteriorate without strong federal action. In this market, the longer the State waits, the more it will cost in subsidies. Anchorage, Sitka and the Bristol Bay Borough are ready to go to market but are waiting for this bill to pass.

I would appreciate it if you could schedule this bill at your earliest possible convenience.

Thank you for your consideration.

Yours truly,

JOHN NUVEEN & CO. INCORPORATED



Sterling Gallacher  
Vice President

SG:jw

Dave Rose of the Alaska Municipal Bond Bank called 3/13/80. They have scheduled a bond sale for March 25, 1980 and would like to get this bill enacted as soon as possible, and he stressed the need to catch the summer construction season.

He said that seven cities have been caught short because of the rate increase. They are:

<u>CITY</u>	<u>AMOUNT OF BONDS</u>	<u>PURPOSE</u>
Ketchikan	\$ 400,000	Airports
Kodiak	12,100,000	Schools
*Anchorage	19,000,000	Sewer, Roads Library
+Seward	1,700,000	Electrical Dist. Lines
*Sitka	5,600,000	Hospital
Bristol Bay Borough	4,000,000	Schools
Kenai Peninsula Borough	6,700,000	Hospital

\*Mandated Cap which cant exceed 8%

+Mandated Cap which cant exceed 7½%

Mr. Rose said the letter of intent from the house is in error in that it states that all seven cities have a mandated cap of 8% or below. He said that they were not called to testify in house finance who got confused and didnt understand that only three of the cities have a mandated cap. However, they are treating all seven cities as if they did have a cap of 8%. ~~as the four other cities will not have~~ <sup>7½%</sup> time to call a special election and still catch the construction season.

LA11 3445 17.19 JA01 0112 17.19 03/13/80

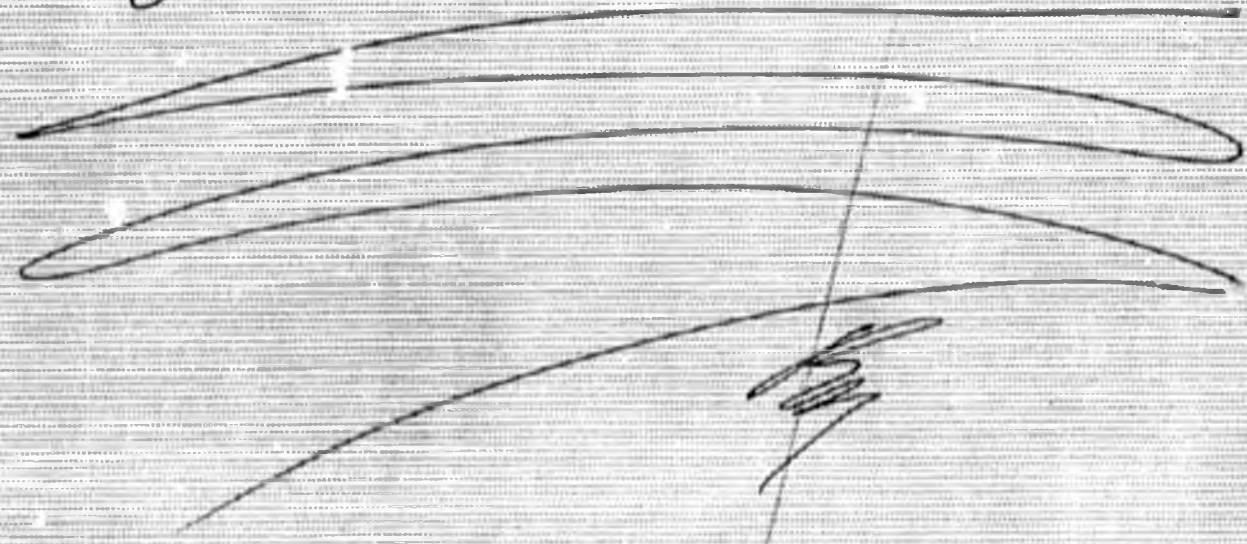
TO: SENATOR MULCAHY, CHAIRMAN SENATE STATE AFFAIRS COMMITTEE

FROM: DAVE ROSE, BOND BANK BOARD OF DIRECTORS  
601 W. 5TH AVE., ANC. 99501 274-7366

THE BOND BANK BOARD OF DIRECTORS URGES IMMEDIATE AND FAVORABLE ACTION  
ON  
**HB-950** TO SAVE THE CONSTRUCTION SEASON IN ALASKAN CITIES. PLEASE CALLEN  
DER  
AS SOON AS POSSIBLE.

#####  
####

*Passed on Board 2-17*



Funding Information  
General Fund \$6,000,000  
Other Funds -0-  
\$6,000,000

Introduced: 3/10/80  
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 HOUSE BILL NO. 950 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the Department  
7 of Revenue to provide partial interest payments on  
8 municipal bonds as a general fund subsidy to local  
9 government; and providing for an effective date."

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

11 \* Section 1. The sum of \$4,500,000 is appropriated from the general fund  
12 to the Department of Revenue, Alaska Municipal Bond Bank Authority, for the  
13 purpose of debt service and bond reserves.

14 \* Sec. 2. The sum of \$1,500,000 is appropriated from the general fund to  
15 the Department of Revenue to pay to the initial purchasers of bonds issued by  
16 the Municipality of Anchorage the difference between the price at which bonds  
17 of the municipality bearing interest at the rate of eight percent a year are  
18 purchased and the initial reoffering price, including the underwriting fee,  
19 as certified by the municipality. If the Municipality of Anchorage certifies  
20 to the commissioner of revenue that it has determined to sell its bonds to  
21 the Alaska Municipal Bond Bank, then the commissioner of revenue shall pay  
22 the amount appropriated by this section to the Alaska Municipal Bond Bank for  
23 debt service and bond reserves.

24 \* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-  
25 070(c).

27 PASSED HOUSE 3/11/80 36-1-3

28 SEE LETTER OF INTENT  
29 PAGE 690 House Journal