

A Bi-Monthly Report on Government Finance Issues in the States



# THE FISCAL LETTER

An Information Service of the National Conference of State Legislatures — Earl S. Mackey, Executive Director

EDITORS: Nancy Hauswald  
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## State Debt Management

To meet the capital construction needs of their constituents, states must finance capital facilities either by expenditures from current revenue or by borrowing in the bond market. A policy of financing capital investments out of current taxes and charges can hinder states from using their limited fiscal resources for other essential purposes. Because most capital investments have useful lives that exceed more than one budget period and may in fact benefit future generations of taxpayers, a large proportion of capital financing is done through long-term borrowing.

Long-term financing of capital projects can, however, lead to consequences that necessitate states developing debt management policies. Any debt sold to finance a project will result in liabilities which must be repaid, with interest, in future years. These repayments create a fixed obligation or annual debt service in the states' future year budgets. No new expenditure commitments can be made that would result in a state's inability to retire its bonds. In addition to retiring their debts, states must recognize that any new facility will generate future additional operating costs that will have to be met. Therefore, debt management policies must include long-term capital planning and budgeting that examines the state's future fiscal and economic capacity to pay.

The two major classifications of bonded indebtedness at the state level are guaranteed, or general obligation, which carries with it the full faith and credit of the state and is secured by the state's general revenues, and nonguaranteed, or revenue, which is secured by the revenues of the activity for which the debt is sold.

The volume of the nonguaranteed debt has been growing much more rapidly than general obligation debt. State debt management policies should recognize that the growing use of revenue bonds to support a variety of programs such as industrial development, housing finance and pollution control has added to the size and complexity of the tax-exempt bond market.

To protect taxpayers and the credit condition of the state against overborrowing, most states place limitations on the state legislature's borrowing authority. A survey of constitutional limits on long-term state debt indicates that:

- 13 states require a voter-approved referendum for the issuance of all debt;
- 12 states have imposed dollar limitations on the amount of debt that can be issued ranging from \$50,000 to \$2,000,000, and require an approved referendum to exceed these limits;
- 6 states limit debt on a percentage of assessed valuation ranging from 1 percent to 5 percent;
- 6 states limit debt on a percentage of state revenues; and,
- 13 states limit debt only by approved legislative authorization, ranging from a simple majority to a three-fourths majority.

These debt limitations usually apply to general obligation debt and not to nonguaranteed debt.

The securities market is primarily concerned with the state's capacity to support debt-service payments along with its other expenditures, and its overall economic-fiscal condition. The security of the revenue base supporting a bond issue and the state's long-term economic future are probably the most important determinants of the state's wealth and tax base.

Because states compete in the municipal bond market it may be worthwhile to survey the states' ranking in some debt burden statistics. Such statistics are a basic part of agency rankings of the credit quality of bond issues. (These statistics were updated from a study on "Bonded Indebtedness in Kentucky" by the Kentucky Legislative Research Commission. Data for these updates came from State Government Finances in 1979, published by the U.S. Bureau of the Census.)

The table lists the states by region with four debt-burden statistics. The number in parentheses is the ranking from one to fifty by that statistic. Several interesting patterns emerge from this table. New England and Mideastern states rank much higher on all four indicators than other regions, with no state lower than twentieth on any of the statistics. The Great Plains and Southeastern states have the lowest debt levels, with the exceptions of South Dakota, Kentucky and West Virginia. The Southwestern and Rocky Mountain states also have low debt levels. In the Far West, the pattern is mixed with California, Nevada and Washington all having low debt levels, but Alaska, Hawaii and Oregon having some of the highest debt levels in the nation. Oregon's rating comes from its veterans home loan program, the largest of its kind in the country. Although their debt level is high, much of it is secured by first mortgages. This table incorporates all state general obligation and state-guaranteed debt, but does not reflect the total volume of public authority or moral obligation bonding.

It must be emphasized that bond rating agencies do not base their opinions solely on the level of debt burden of the states. There are a variety of other factors that are involved, including the state's overall fiscal and economic trends. Thus, a state displaying high debt burden statistics but experiencing favorable economic growth can receive a high credit quality rating. Factors that can adversely affect a state's rating include mismanagement, improper use of debt financing, unusually high short-term borrowing, vulnerability to national economic fluctuations and changes in tax structure.

The most important aspect of the quality rating is its impact on interest costs. While differences among the quality grades fluctuate depending on market conditions, the highest rated bonds sell at interest rates lower than the lowest rated. This difference can be a percentage point or more of interest and can result in large savings to states over the full life of the bonds.

## STATE DEBT: AN OVERVIEW (FY 1979)

	Debt Per Capita	Total Debt Outstanding as a Percentage of Own-Source Revenues	Debt Interest as a Percentage of State Expenditures	Debt Per \$1000 of Personal Income
<b>NEW ENGLAND</b>				
Connecticut	\$1153 (7)	169.8% (3)	8.9% (3)	\$130 (9)
Maine	634 (17)	99.0% (16)	5.2% (15)	101 (15)
Massachusetts	939 (9)	116.1% (11)	6.6% (8)	118 (12)
New Hampshire	833 (13)	187.6% (2)	6.9% (6)	115 (13)
Rhode Island	1268 (6)	160.9% (5)	5.9% (11)	169 (5)
Vermont	1036 (8)	140.7% (8)	5.9% (10)	160 (6)
<b>MIDEAST</b>				
Delaware	\$1469 (4)	134.2% (9)	7.1% (4)	\$172 (4)
Maryland	890 (10)	107.6% (15)	5.5% (14)	106 (14)
New Jersey	734 (15)	115.0% (12)	5.9% (9)	84 (18)
New York	1302 (5)	165.4% (4)	16.2% (1)	158 (7)
Pennsylvania	550 (18)	81.0% (19)	5.5% (12)	71 (20)
<b>GREAT LAKES</b>				
Illinois	\$ 509 (22)	77.9% (20)	4.7% (17)	\$ 57 (27)
Indiana	108 (48)	16.3% (48)	1.2% (44)	14 (48)
Michigan	272 (36)	33.5% (37)	2.6% (29)	32 (38)
Ohio	349 (28)	65.5% (23)	3.9% (23)	44 (32)
Wisconsin	473 (24)	57.2% (26)	3.9% (21)	63 (23)
<b>PLAINS</b>				
Iowa	\$ 128 (46)	19.4% (47)	0.8% (46)	16 (47)
Kansas	194 (41)	31.3% (40)	1.5% (42)	25 (42)
Minnesota	462 (25)	50.5% (28)	4.1% (20)	59 (25)
Missouri	146 (45)	28.9% (42)	1.8% (40)	20 (44)
Nebraska	33 (50)	5.7% (49)	0.3% (50)	4 (40)
North Dakota	199 (39)	24.7% (44)	0.7% (48)	28 (40)
South Dakota	842 (12)	152.3% (6)	4.6% (18)	122 (10)
<b>SOUTHEAST</b>				
Alabama	\$ 279 (35)	47.9% (30)	2.5% (32)	\$ 45 (31)
Arkansas	112 (47)	21.2% (46)	0.8% (47)	19 (46)
Florida	301 (33)	55.1% (27)	3.9% (22)	41 (34)
Georgia	268 (37)	48.8% (49)	2.3% (34)	40 (35)
Kentucky	797 (14)	112.6% (13)	5.4% (13)	122 (11)
Louisiana	656 (16)	89.4% (17)	4.1% (19)	99 (16)
Mississippi	347 (29)	58.2% (25)	3.1% (25)	63 (22)
North Carolina	198 (40)	33.5% (38)	2.2% (35)	30 (39)
South Carolina	542 (19)	85.6% (18)	1.6% (41)	87 (17)
Tennessee	317 (32)	59.6% (24)	3.3% (24)	49 (28)
Virginia	320 (31)	44.7% (33)	2.5% (31)	42 (33)
West Virginia	872 (11)	119.6% (10)	4.7% (16)	133 (8)
<b>SOUTHWEST</b>				
Arizona	39 (49)	5.4% (50)	0.5% (49)	6 (49)
New Mexico	414 (26)	41.3% (34)	2.2% (36)	64 (21)
Oklahoma	522 (21)	76.4% (21)	2.8% (26)	74 (19)
Texas	173 (43)	30.7% (41)	1.9% (39)	23 (43)
<b>ROCKY MOUNTAIN</b>				
Colorado	\$ 154 (44)	22.5% (45)	1.2% (45)	\$ 20 (45)
Idaho	244 (38)	37.1% (36)	2.1% (37)	36 (37)
Montana	187 (42)	28.8% (48)	1.3% (43)	28 (41)
Utah	288 (34)	32.1% (39)	2.0% (38)	46 (30)
Wyoming	480 (23)	47.3% (31)	2.4% (33)	59 (26)
<b>FAR WEST</b>				
California	\$ 338 (30)	40.1% (35)	2.8% (27)	\$ 39 (36)
Nevada	533 (20)	69.5% (22)	2.8% (27)	60 (24)
Oregon	1507 (3)	199.9% (1)	10.4% (2)	193 (3)
Washington	386 (29)	46.6% (32)	2.5% (30)	48 (29)
Alaska	3356 (1)	109.2% (14)	6.9% (5)	309 (1)
Hawaii	1854 (2)	150.6% (7)	6.7% (7)	227 (2)

In developing debt management policies it is not possible to determine a specific limit on debt which may be applicable to all states, nor is it possible to determine an exact amount of debt which all states would be able to issue and manage efficiently. However, debt management policies that include debt limits, analyses of the state's capacity to retire their debt and pay for operating costs associated with it in future years, and overall capital planning and budgeting can benefit the state by improving and strengthening its position in the bond market with the result being greater savings to the state.

## Taxing Nongovernmental Exempt Property

Taxing exempt property does not appear to be an idea whose time has come--yet. Despite recurring calls to tighten the granting of exemptions or place user charges on exempt property, states and cities have done very little to significantly increase the taxes or charges on presently-exempt nongovernmental property. But, if governments continue to undergo fiscal strains, it is possible that during the next decade major changes will occur in the treatment of exempt property.

A widely-used estimate is that one-third of all U.S. property is tax exempt; but, the great majority of this property is government-owned. Thus, the potential revenue that could be obtained from nongovernmental exempt property is far less than the one-third figure would suggest.

This generalization must be qualified in several respects. The amount of tax exempt property varies widely from place to place. The largest concentration of exempt property is usually found in the central cities of metropolitan areas; therefore, exempt property may be much greater in certain places than in others. Moreover, substantial evidence exists showing that the value of exempt property is growing faster than that of taxable property, so exempt property may become an increasingly attractive source of revenue for financially hard-pressed cities.

States differ widely in their definitions of tax-exempt property. The best recent survey of state laws in this regard is a report published by the Greater Hartford Chamber of Commerce, Property Tax Exemptions for Non-Profit Institutions: Problems and Proposals. This study describes how all 50 states treat each of the major types of totally-exempt property (schools, churches, hospitals, and cemeteries), and many of the minor types, such as YMCAs, Chambers of Commerce, camps, lodges, fraternal organizations, and so forth.

Several years ago, Connecticut broke new ground by providing payments in lieu of taxes from the state government to local governments in areas where private institutions of higher education and private hospitals are located. Approximately 38 states compensate localities for certain types of exempt government property, but Connecticut initiated the first program to provide payments for nongovernmental property. While some localities support such programs because of the additional aid received, these programs must be compared with other mechanisms of providing state aid, and the presence of exempt property may not be the most appropriate indicator to use in distributing aid. With many states suffering from extreme budgetary pressures, funds for payment in lieu of taxes programs are often scarce. Ruling out state payments, states must find ways to obtain money from tax exempt organizations themselves.

Recent experiences in Virginia and New York suggest that the forces in favor of obtaining revenue from exempt organizations are usually not sufficient to overcome resistance from the organizations themselves. For at least five years, Virginia has allowed localities to levy service charges on state governmental property and some types of nongovernmental property. Among the types of nongovernmental property that may be subject to service charges are cemeteries, colleges and other schools, and certain properties of benevolent or charitable associations. While many local governments have levied service charges on state property to reflect the cost of police and fire protection and refuse collection, hardly any localities have assessed such charges on nongovernmental exempt property.

In New York, local governments may deny exemptions to certain types of organizations on a local option basis. While the largest holders of exempt property--schools and churches--are exempt from this law, many other types of property could have their exemptions removed. Nevertheless, relatively few localities have availed themselves of the opportunity to remove such exemptions.

Across the country there are many examples of exempt property for which service charges are being paid voluntarily. Private institutions of higher education frequently make such payments, although they are generally for much less than the tax they would pay if taxable. Mandatory service charges for private exempt property, however, are very rare.

Many other reforms can be implemented to obtain increased revenue. In certain states, it is reportedly common practice for assessors to grant more generous exemptions than are prescribed by law. Vigorous enforcement of existing statutes could pay off in such cases. Along similar lines, New York state has recently instituted a program requiring owners of exempt property to file applications to verify their qualifications for exemption.

Perhaps the day is not far off when large amounts of revenue will be obtained from tax exempt property. But that day has not yet arrived.

(NOTE: This article draws on materials presented at a workshop on tax exempt property sponsored by NCSL in Albany, New York in February 1981. For more information about tax exempt property, contact Steven Gold, NCSL-Denver, (303) 623-6600.)

## State Tax Trends

With the recession restraining revenue growth, only nine states had tax increases in excess of the inflation rate during fiscal 1980, according to a recent Census Bureau report. Except for North Dakota, all of the states with the fastest tax increases were in the rapidly-growing West and South.

These statistics do not, however, include local tax revenue, which rose more slowly than state taxes. Property taxes, which constitute the majority of local tax revenue, rose only 5.5 percent.

Total state tax revenue rose 9.6 percent, much less than the 12½ percent rise of consumer prices during this period. There was great variation among the states. As the attached table shows, Alaska and California had the largest increases, while Michigan and Vermont ranked at the bottom, with decreases in their tax revenue.

These findings may call into question one of the arguments for indexing state income taxes. While inflation causes disproportionate increases of income tax revenue when tax rates are progressive, yields from other taxes are much less responsive to inflation. Thus, state taxes claimed a smaller proportion of personal income in fiscal 1980 than previously. With federal aid other than grants for payments to individuals rising less than 6 percent, many state governments experienced serious budgetary problems.

Other significant trends in state taxes include the following:

- Five states--Alaska, Hawaii, Oklahoma, Utah and Wyoming--were among the fastest growers for the second consecutive year. At the other extreme, Indiana, Tennessee and Wisconsin repeated in the lowest quartile.
- Several states, such as Arkansas, California, North Dakota and Texas, swung from very low increases in 1979 to very large ones in 1980. Colorado, Nevada and Rhode Island moved in the other direction, experiencing abnormally small increases.

GROWTH OF STATE TAX REVENUE, 1978-79 AND 1979-80

State	Percentage change 1979-80		Percentage change 1978-79		Per Capita 1980	
	Level	Rank	Level	Rank	Level	Rank
Alaska	76.0%	1	44.9%	1	\$3,540.90	1
California	18.4	2	8.9	38	853.31	5
Texas	17.8	3	6.5	45	504.95	43
Oklahoma	17.2	4	15.2	11	614.12	19
Arkansas	16.5	5	7.5	44	532.46	39
North Dakota	14.5	6	4.9	50	566.00	29
Hawaii	14.0	7	16.1	9	1,091.13	2
Wyoming	13.2	8	18.4	5	862.50	4
Utah	13.1	9	14.7	12	574.80	26
New Mexico	12.0	10	8.7	40	746.21	7
Florida	12.0	11	14.0	14	542.25	33
Illinois	11.9	12	9.5	35	629.84	17
Maine	11.7	13	5.1	49	564.41	30
Georgia	11.5	14	12.1	20	533.31	38
Arizona	11.1	15	15.9	10	687.51	11
North Carolina	10.3	16	11.8	21	573.55	27
South Carolina	10.2	17	11.6	23	572.32	28
South Dakota	10.2	18	9.8	32	392.62	49
New Jersey	10.1	19	8.4	41	559.78	31
Nebraska	10.0	20	9.2	37	518.91	41
New York	9.3	21	6.4	46	720.54	9
Montana	9.1	22	18.1	6	554.39	32
Louisiana	9.1	23	11.0	25	594.34	22
Pennsylvania	8.8	24	8.2	42	617.24	18
Mississippi	8.7	25	5.8	47	517.88	42
Massachusetts	8.5	26	9.6	34	680.76	12
Washington	7.3	27	11.0	24	743.11	8
Connecticut	7.1	28	10.8	26	590.59	24
Virginia	7.0	29	9.8	33	527.87	40
Kansas	6.9	30	13.0	16	535.95	27
Alabama	6.3	31	10.0	30	492.65	45
Iowa	6.2	32	12.8	18	601.73	21
West Virginia	6.0	33	17.3	8	649.36	15
Oregon	5.2	34	19.5	2	575.92	25
Idaho	5.1	35	10.8	27	541.82	34
Delaware	4.8	36	9.4	36	886.11	3
Maryland	4.3	37	10.1	29	665.42	14
Missouri	4.1	38	12.8	17	430.28	48
Colorado	3.5	39	18.9	3	537.83	36
Kentucky	3.3	40	12.7	19	608.15	20
Wisconsin	3.2	41	5.5	48	713.20	10
Ohio	3.2	42	11.7	22	444.20	46
Nevada	3.0	43	18.5	4	678.92	13
Rhode Island	2.4	44	17.4	7	592.88	23
Tennessee	2.3	45	8.2	43	430.82	47
Minnesota	2.2	46	13.6	15	788.81	6
New Hampshire	1.3	47	9.9	31	301.57	50
Indiana	1.0	48	8.7	39	499.21	44
Vermont	-0.4	49	14.4	13	540.20	35
Michigan	-1.3	50	10.6	23	645.92	16
United States	9.6		10.2		623.91	

SOURCE: U.S. Census Bureau, State Government Tax Collections in 1980.

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

CSHB 311 (C&RA)

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS FOR HOUSE BILL NO. 311 (C&RA)

Title Making an appropriation for advance funding to retire in due course outstanding  
Requested by municipal general obligation bonds for schools. Date 4-14-81

Requested by House Finance Committee

II. FISCAL DETAIL

Agency Affected Department of Revenue

Program Category Affected Revenue Collection and Management

BRU, Program, or Subprogram(s) Affected Treasury Management

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

→ MILLIONS ←  
FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
(1) Defeasance Savings		(57.3)				
(2) Debt Service Cost Reduction		(44.6)	(50.6)	(51.4)	(45.8)	(30.7)

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

HB 416 gives the Commissioner of Revenue powers to provide for advance funding (defeasance) of outstanding school debt. CSHB 311 (C&RA) appropriates 287.3 million to accomplish this (debt outstanding as of 6/1/81) and \$354,000 for related fees.

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

Monies to be appropriated in the current FY 82 budget for the current 80% debt service coverage program would have to remain as they are related to debt service already paid and not covered in this bill.

- (1) The savings in principal due to investments allowed in escrow set aside.
- (2) This is the annual debt service related to the outstanding (6/1/81) in bonds that would be due in the years indicated. The cash flow of the escrow set aside makes these payments as they become due.

THE APPROPRIATION AMOUNT IS BASED ON INTEREST RATES IN EFFECT DURING THE FIRST WEEK OF APRIL 1981. THE ACTUAL AMOUNT FOR DEFEASANCE IS BASED UPON RATES IN EFFECT AT THE TIME THE TRANSACTION CLOSES. ACCORDINGLY, FOR EACH 10% DROP IN INTEREST RATES THE AMOUNT NECESSARY FOR FULL DEFEASANCE GOES UP APPROX. 6.7%.

*Anselm C. Stzack*

IV. DATE April 21, 1981 PREPARED BY Anselm C. Stzack, Treasury Comptroller  
AGENCY Dept. of Revenue/Treasury Division  
PHONE 465-2351

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

Funding Information  
 General Fund \$266,411,000  
 Other Funds -0-  
 \$266,411,000

Introduced: 3/10/81  
 Referred: Health, Education &  
 Social Services and Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
 REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 311

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-  
 7 ment of Revenue for the retirement of general obliga-  
 8 tion school bonds and related expenses; and providing  
 9 for an effective date."

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

11 \* Section 1. The sum of \$266,411,000 is appropriated from the general  
 12 fund to the Department of Revenue to be allocated among the following muni-  
 13 cipalities in accordance with the following estimates and upon the determina-  
 14 tion of the commissioner of revenue of the precise amount needed by each  
 15 municipality, if satisfactory arrangements have been made to use the money  
 16 to provide advance funding to retire in due course the municipalities'  
 17 outstanding general obligation bonds for schools:

Municipality	Allocations
Municipality of Anchorage	\$67,800,000
Bristol Bay Borough	4,000,000
City of Cordova	560,000
Fairbanks North Star Borough	23,900,000
Haines Borough	530,000
City and Borough of Juneau	3,220,000
Kenai Peninsula Borough	28,000,000
Ketchikan Gateway Borough	3,010,000
Kodiak Island Borough	14,530,000
Matanuska-Susitna Borough	19,720,000
City of Nenana	146,000

1	North Slope Borough	69,055,000
2	City of Petersburg	2,420,000
3	City and Borough of Sitka	2,930,000
4	City of Skagway	90,000
5	City of Valdez	25,000,000
6	City of Wrangell	1,500,000

7 \* Sec. 2. The sum of \$345,000 is appropriated from the general fund to  
8 the Department of Revenue for fees and expenses related to the advance  
9 funding to retire in due course the municipalities' outstanding general  
10 obligation bonds for schools.

11 \* Sec. 3. The unexpended part of the appropriation made in sec. 1 of  
12 this Act lapses into the general fund only on the retirement in each muni-  
13 cipality of the general obligation bonds for schools for which money was  
14 allocated to the municipality in sec. 1 of this Act.

15 \* Sec. 4. The unexpended and unobligated part of the appropriation made  
16 in sec. 2 of this Act lapses into the general fund June 30, 1982.

17 \* Sec. 5. This Act takes effect July 1, 1981.

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Original sponsor: Rules/Governor

Offered: 4/14/81  
Referred: Finance

Funding Information

General Fund	\$287,616,000
Other Funds	-0-
	<u>\$287,616,000</u>

1 IN THE HOUSE

BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

2

CS FOR HOUSE BILL NO. 311 (C&RA)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TWELFTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act making special appropriations to the Department of Revenue for the retirement of general obligation school bonds and for related expenses; and providing for an effective date."

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

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\* Section 1. The sum of \$287,271,000 is appropriated from the general fund to the Department of Revenue to be allocated among the following municipalities in accordance with the following estimates and upon the determination of the commissioner of revenue of the precise amount needed by each municipality, if satisfactory arrangements have been made to use the money to provide advance funding to retire in due course the municipalities' outstanding general obligation bonds for schools:

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Municipality

Allocations

19

Municipality of Anchorage

\$67,800,000

20

Bristol Bay Borough

4,000,000

21

City of Cordova

560,000

22

Fairbanks North Star Borough

23,900,000

23

Haines Borough

530,000

24

City and Borough of Juneau

3,220,000

25

Kenai Peninsula Borough

28,000,000

26

Ketchikan Gateway Borough

3,010,000

27

Kodiak Island Borough

14,530,000

28

Matanuska-Susitna Borough

40,580,000

29

City of Nenana

146,000

1	North Slope Borough	69,055,000
2	City of Petersburg	2,420,000
3	City and Borough of Sitka	2,930,000
4	City of Skagway	90,000
5	City of Valdez	25,000,000
6	City of Wrangell	1,500,000

7 \* Sec. 2. The sum of \$345,000 is appropriated from the general fund to  
8 the Department of Revenue for fees and expenses related to the advance  
9 funding to retire in due course the municipalities' outstanding general  
10 obligation bonds for schools.

11 \* Sec. 3. The unexpended portion of the appropriation made by sec. 1 of  
12 this Act lapses into the general fund only on the retirement in each muni-  
13 cipality of the general obligation bonds for schools for which money was  
14 allocated to the municipality in sec. 1 of this Act.

15 \* Sec. 4. The unexpended and unobligated portion of the appropriation  
16 made by sec. 2 of this Act lapses into the general fund June 30, 1982.

17 \* Sec. 5. This Act takes effect July 1, 1981.

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148 311

March 10, 1981

The Honorable Jim Duncan  
Speaker of the House  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which would make a special appropriation to the Department of Revenue to provide for the retirement of the general obligation bonds issued by Alaska's local governments for public schools. Financial experts refer to the process as "defeasing" the bonds.

Providing money to handle the retirement of school bonds would significantly reduce the local governments' expenses and thereby their taxes, and would also improve their financial standing to borrow money for other capital improvements which they might determine to be necessary. It would eliminate a cash-flow problem for the local governments which arises from their having to pay debt service each year and to wait for reimbursement of 80 percent from the state.

The commissioner of revenue would work with each municipality to set up an account, which is in the nature of an escrow, into which the allocation for that municipality would be deposited. The exact amount for each would be the amount required to retire a given municipality's school bonds in due course as of the date of the deposit. The retirement of the bonds would not be accelerated. Rather, the appropriated money would be invested to earn more money, and the principal and interest would be used to retire the debts in due course over the life of the several bond issues. Because the interest earned would be used to help retire the bonds, the amount required to be appropriated is estimated to be less than would be appropriated over the life of the several issues to reimburse municipal debt service under existing law.

It is anticipated that arrangements would be completed and the money turned over to the several municipalities before July 1, 1981, and therefore, no problem with the money's lapsing should arise. Nevertheless, to avoid any question on that subject, the bill includes a specific provision that the appropriation would not lapse until the bonds are retired. The bill also would include a separate appropriation to the Department of Revenue for fees and expenses it would have to incur in setting up the program.

Sincerely,

*S/SSH*

Jay S. Hammond  
Governor

# COMMITTEE REPORT

## HOUSE

4/14/81

FURTHER:

(11)

Date: \_\_\_\_\_

Mr. Speaker:

The Committee on FINANCE has had HB 311

"An Act making a special appropriation to the Department of Revenue for the retirement of general obligation school bonds and related expenses; and providing for an effective date."

under consideration and reports it back as follows:

- [ ] do pass [ ] do not pass  
[ ] do pass with attached amendments(s) [ ] same title  
[ ] replace with CS for \_\_\_\_\_ [ ] new title  
and recommends \_\_\_\_\_  
[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note  
[ ] reports it back without recommendation  
[ ] referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

\_\_\_\_\_  
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\_\_\_\_\_  
CHAIRMAN

COMMITTEE REPORT

HOUSE

4/14

4/7/81

FURTHER: FINANCE

(7)

Date: April 10, 1981

Mr. Speaker: (HESS referral waived 4/7/81)

The Committee on COMMUNITY & REGIONAL AFFAIRS has had HB 311

"An Act making a special appropriation to the Department of Revenue for the retirement of general obligation school bonds and related expenses; and providing for an effective date."

under consideration and reports it back as follows:

do pass [ ] do not pass

[ ] do pass with attached amendments(s)

replace with CS for HB 311 (C+RA)  same title  new title  
and recommends do pass

[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note

[ ] reports it back without recommendation

[ ] referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

[Signature]  
[Signature]  
[Signature]  
[Signature]  
\_\_\_\_\_  
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\_\_\_\_\_

[Signature]  
CHAIRMAN

*Regue  
Gov*

Original sponsor: Rules/Governor

Offered: 4/14/81  
Referred: Finance

Funding Information

General Fund \$287,616,,000  
Other Funds -0-  
\$287,616,000

1 IN THE HOUSE

BY THE COMMUNITY AND  
REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 311 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the Depart-  
7 ment of Revenue for the retirement of general obliga-  
8 tion school bonds and for related expenses; and provid-  
9 ing for an effective date."

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

11 \* Section 1. The sum of \$287,271,000 is appropriated from the general  
12 fund to the Department of Revenue to be allocated among the following muni-  
13 cipalities in accordance with the following estimates and upon the deter-  
14 mination of the commissioner of revenue of the precise amount needed by each  
15 municipality, if satisfactory arrangements have been made to use the money  
16 to provide advance funding to retire in due course the municipalities'  
17 outstanding general obligation bonds for schools:

Municipality	Allocations
Municipality of Anchorage	\$67,800,000
Bristol Bay Borough	4,000,000
City of Cordova	560,000
Fairbanks North Star Borough	23,900,000
Haines Borough	530,000
City and Borough of Juneau	3,220,000
Kenai Peninsula Borough	28,000,000
Ketchikan Gateway Borough	3,010,000
Kodiak Island Borough	14,530,000
Matanuska-Susitna Borough	40,580,000
City of Nenana	146,000

29 COMMITTEE COPY

1	North Slope Borough	69,055,000
2	City of Petersburg	2,420,000
3	City and Borough of Sitka	2,930,000
4	City of Skagway	90,000
5	City of Valdez	25,000,000
6	City of Wrangell	1,500,000

7 \* Sec. 2. The sum of \$345,000 is appropriated from the general fund to  
8 the Department of Revenue for fees and expenses related to the advance  
9 funding to retire in due course the municipalities' outstanding general  
10 obligation bonds for schools.

11 \* Sec. 3. The unexpended portion of the appropriation made by sec. 1 of  
12 this Act lapses into the general fund only on the retirement in each muni-  
13 cipality of the general obligation bonds for schools for which money was  
14 allocated to the municipality in sec. 1 of this Act.

15 \* Sec. 4. The unexpended and unobligated portion of the appropriation  
16 made by sec. 2 of this Act lapses into the general fund June 30, 1982.

17 \* Sec. 5. This Act takes effect July 1, 1981.

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*Letter*

Funding Information  
General Fund \$266,411,000  
Other Funds -0-  
\$266,411,000

Introduced: 3/10/81  
Referred: Health, Education &  
Social Services and Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 311

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-  
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25 Kenai Peninsula Borough	28,000,000
26 Ketchikan Gateway Borough	3,010,000
27 Kodiak Island Borough	14,530,000
28 Matanuska-Susitna Borough	19,720,000
29 City of Nenana	146,000

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HB 311

March 10, 1981

The Honorable Jim Duncan  
Speaker of the House  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which would make a special appropriation to the Department of Revenue to provide for the retirement of the general obligation bonds issued by Alaska's local governments for public schools. Financial experts refer to the process as "defeasing" the bonds.

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Sincerely,

*S/SSH*

Jay S. Hammond  
Governor

ALASKA STATE LEGISLATURE

TWELFTH Legislature FIRST Session

HOUSE BILL NO. 311

By THE RULES COMMITTEE  
BY REQUEST OF THE GOVERNOR

"An Act making a special appropriation to the Department of Revenue for the retirement of general obligation school bonds and related expenses; and providing for an effective date."

Spec. appro, retirement of gen. oblig. school bonds & related expenses

Introduced in the House 3/10, 1981

HISTORY IN THE HOUSE

1981	Read first time and referred to Committee on																		
Mar. 10	HESS and Finance Reported back with recommendation that																		
	Read second time and																		
	Read third time and																		
	<table border="0"> <tr><td>PASS</td><td>Effective Date</td></tr> <tr><td>Yeas</td><td>Yeas</td></tr> <tr><td>Nays</td><td>Nays</td></tr> <tr><td>Absent</td><td>Absent</td></tr> <tr><td>Excused</td><td>Excused</td></tr> </table>	PASS	Effective Date	Yeas	Yeas	Nays	Nays	Absent	Absent	Excused	Excused								
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Reported correctly engrossed																			
Signed by Speaker																			
Sent to Senate																			
	CHIEF CLERK OF THE HOUSE																		

HISTORY IN THE SENATE

19	Read first time and referred to Committee on																		
	Reported back with recommendation that																		
	Read second time and																		
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Signed by President																			
Returned to House																			
	SECRETARY OF THE SENATE																		

HISTORY IN THE HOUSE

19	Received from Senate
	Concurred in Senate amendment thus adopting: VOTE
	Failed to concur in Senate amendment; asked Senate to recede VOTE
	Senate receded from amendment VOTE
	Senate failed to recede from amendment VOTE
	CC appointed by House
	CC appointed by Senate
	CC adopted by House VOTE
	CC adopted by Senate VOTE
	To enrolling Reported correctly enrolled Sent to Governor  ..... by Governor
	Filed with Lt. Governor
	Chapter No. ....