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THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

SB 38

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SENATE BILL NO. 38  
Title "An Act providing for the assumption of municipal bonded indebtedness by the state  
~~Requesting~~ establishing a municipal debt redemption fund." Date 1/13/81

Requested by Senate Community and Regional Affairs 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	-0-	526.0	76.0	82.0	88.0	96.0
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>	<b>-0-</b>	<b>526.0</b>	<b>76.0</b>	<b>82.0</b>	<b>88.0</b>	<b>96.0</b>

FUNDING (Thousands of Dollars)

GENERAL FUND	-0-	526.0	76.0	82.0	88.0	96.0
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART TIME						
TEMPORARY						

This Fiscal Note includes Dept. of Revenue/Treasury administrative costs only and does not include amounts to assume the debt.

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

The bill attempts to approximate a defeasance (pay off) of municipal debt. The approach of this cost estimate is that the Treasury would have to invest the Municipal Debt Redemption Fund as a separately invested fund in order to approximate a defeasance, i.e., structure a set of securities which are timed to liquidate in the proper amounts and rates to pay the debt during the remaining life of the debt.

Contractual services cost include financial advisory fees in the year of enactment to structure the portfolio to mirror the debt payoff cycle. Safekeeping fees for the portfolio due to necessary segregation also included.

Based on 6/30/80 gross outstanding municipal debt of \$911.5 million. Amount shown in FY 82 assumes actual implementation takes place soon after FY starts. Any future restructuring due to new debt would be handled in separate bill in new year (i.e. the fund would not handle new issues.)

IV. DATE January 26, 1981 PREPARED BY Anselm C. Staack, Treasury Comptroller  
AGENCY Department of Revenue, Treasury Division  
PHONE 465-2351

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

BILL ANALYSIS  
Senate Bill No. 38(1/13/81)

Program Effects:

1. Establishes a municipal debt redemption fund (MBRF) in Department of Administration.
2. When appropriated, general obligation bonded indebtedness of municipalities is assumed.
3. If appropriation deemed inadequate, Department of Administration to request additional amounts. If additional appropriation not granted in 60 days, original appropriation lapses.
4. Department of Administration is to make all debt service payments on assumed municipal debt; provides for storage and destruction of bonds/coupons paid; prepares an annual report of activities for legislature.
5. Department of Revenue is to manage and invest money in the fund in accordance with general fund investment authority.
6. Municipality must furnish various data to Department of Administration.
7. If municipality does not send data within 60 days, municipality pays debt service and can later be reimbursed.
8. Municipality may elect to receive an entitlement from the fund for debt service payments which would normally be made by the fund. The bonded indebtedness in that case is not considered assumed.
9. When the municipal debt is assumed it is not to be considered an obligation of the municipality and the municipality is not authorized to levy taxes to pay the debt assumed. However, if a municipality does not receive notice of debt assumed by May 1 of the year, the municipality may levy taxes for the debt service.
10. Effective July 1, 1981.

BILL ANALYSIS, SB 38, Cont'd

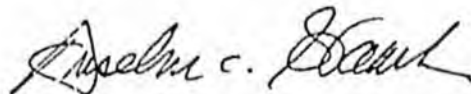
Comments:

1. In the form presented, the bill appears to have constitutional problems which should be researched. Article IX, Section 8 requires voter approval of State contracted debt. In this bill the State would be assuming ("contracting") the debt without a vote of the public. Some restructuring as to who receives the appropriation to pay off the debt may be necessary. (See also 1959 Opinion of the Attorney General).
2. The bill should perhaps include language, especially in the entitlements section, which limits the amount of draw to only what is necessary to accomplish the effect of the debt having been removed and limits the use of the entitlement draw.
3. Total issued and outstanding general obligation municipal debt at June 30, 1980 is as follows: (Anchorage includes 7/1/80 issue)

School related	\$355,794,100
Other projects	555,675,500
Total	<u>\$911,469,600</u>

If the attempt is to remove or make "the indebtedness is not an obligation of the municipality" the actual appropriated future amounts could be less than the above to accomplish an actual defeasance.

4. Normally such transactions are accomplished by setting aside the funds with a third party trustee who invests the funds and makes the payments.
5. It appears that the question of future municipal debt issuance will have to be addressed. The municipalities may be locked out of future markets for a period of time due to IRS rulings. This must be researched by bond counsel.
6. This fiscal note includes only those costs applicable to Department of Revenue investment of funds necessary for payoff.



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Department of Revenue/Treasury  
465-2351  
1/26/81