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STATE OF ALASKA THE LEGISLATURE

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May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Judiciary	4/3/86	8AM
" "	4/8/86	8AM

James
4/4/86 ✓

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE JUDICIARY COMMITTEE

2 CS FOR HOUSE BILL NO. 519 (Judiciary)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the financing, leasing, or acqui-
7 sition of facilities, goods, services, or projects;
8 and providing for an effective date."

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

10 * Section 1. AS 14.40.040 is amended to read:

11 Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is
12 created and established a corporation to be called the University of
13 Alaska. It may in that name

14 (1) sue and be sued;

15 (2) receive and hold real and personal property;

16 (3) contract and be contracted with;

17 (4) adopt, use and alter a corporate seal;

18 (5) borrow money, issue debt, or enter into long-term
19 obligations for the purchase of facilities, goods, or services, which
20 obligations secure, in whole or in part, debt issued by another party,
21 as approved by the state bond committee under AS 37.15.770 and ap-
22 proved by law; an appropriation does not constitute approval by law
23 for purposes of this paragraph;

24 (6) do and have done all matters necessary for the purpose
25 of any function set out [FORTH] in this chapter.

26 * Sec. 2. AS 14.40 is amended by adding a new section to read:

27 Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter
28 into lease-financing agreements only with the Alaska State Housing
29 Authority acting as the Alaska State Building Authority. A lease-

1 financing agreement must provide that lease payments are subject to
2 annual appropriation. If the board intends to enter into an agreement
3 under this subsection, the board shall provide notice to the legisla-
4 ture and to the state bond committee. The notice must include the
5 anticipated annual lease payment, the anticipated principal amount of
6 the debt to be issued by the Alaska State Housing Authority acting as
7 the Alaska State Building Authority, and the anticipated total con-
8 struction or acquisition cost of the project. The board may not enter
9 into an agreement under this section unless the public building to be
10 provided has been approved by law. An appropriation for the project
11 does not constitute approval by law for purposes of this section.

12 * Sec. 3. AS 18.55.100(a)(15) is amended to read:

13 (15) acting as the Alaska State Building Authority arrange
14 or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisi-
15 tion of public buildings designed by, constructed by, or whose acqui-
16 sition has been approved by the Department of Transportation and
17 Public Facilities for lease to the state in accordance with AS 18.55.-
18 010 - 18.55.290 and AS 37.15.770.

19 * Sec. 4. AS 18.55.140 is amended to read:

20 Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS.
21 The authority may issue bonds and notes from time to time in its
22 discretion for any of its corporate purposes and may issue refunding
23 bonds for the purpose of paying or retiring bonds previously issued by
24 it. The authority may not issue bonds for public buildings until the
25 state bond committee has approved the proposal for the issuance of
26 debt under AS 37.15.770 and the building has been approved by law. An
27 appropriation for the building does not constitute approval by law for
28 purposes of this section.

29 * Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

1 (b) Bonds issued by the authority for public buildings must be
2 issued in the name of the Alaska State Building Authority and are
3 subject to AS 18.55.010 - 18.55.290.

4 * Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

5 (4) "bond" means any bond, note, interim certificate,
6 debenture, or other obligation issued by the authority or the author-
7 ity acting as the Alaska State Building Authority under AS 18.55.010 -
8 18.55.290.

9 * Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

10 (c) The supreme court may enter into lease-financing agreements
11 only with the Alaska State Housing Authority acting as the Alaska
12 State Building Authority. A lease-financing agreement must provide
13 that lease payments are subject to annual appropriation. If the
14 supreme court intends to enter into an agreement under this subsec-
15 tion, the supreme court shall provide notice to the legislature and to
16 the state bond committee. The notice must include the anticipated
17 annual lease payment, the anticipated principal amount of the debt to
18 be issued by the Alaska State Housing Authority acting as the Alaska
19 State Building Authority, and the anticipated total construction or
20 acquisition cost of the project. The supreme court may not enter into
21 an agreement under this subsection unless the public building to be
22 provided has been approved by law. An appropriation for the project
23 does not constitute approval by law for purposes of this section.

24 * Sec. 8. AS 24.23 is amended by adding new sections to read:

25 ARTICLE 2. LEASE AGREEMENTS.

26 Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency
27 may lease necessary office space, and contract for the lease of space,
28 for the use of the Alaska legislature and its employees.

29 Sec. 24.23.110. The Legislative Affairs Agency may enter into

1 lease-financing agreements only with the Alaska State Housing Author-
2 ity acting as the Alaska State Building Authority. A lease-financing
3 agreement must provide that lease payments are subject to annual
4 appropriation. If the agency intends to enter into an agreement under
5 this subsection, the agency shall provide notice to the legislature
6 and to the state bond committee. The notice must include the antici-
7 pated annual lease payment, the anticipated principal amount of the
8 debt to be issued by the Alaska State Housing Authority acting as the
9 Alaska State Building Authority, and the anticipated total construc-
10 tion or acquisition cost of the project. The agency may not enter
11 into an agreement under this section unless the public building to be
12 provided has been approved by law. An appropriation for the project
13 does not constitute approval by law for purposes of this section.

14 * Sec. 9. AS 37.05.280 is amended to read:

15 Sec. 37.05.280. LEASES. The department shall lease necessary
16 space, and contract for the lease of space, for the use of the state
17 or an agency of the state, wherever it is necessary and feasible,
18 subject to compliance with the requirements of AS 37.05.220 - 37.05.-
19 280. A [NO] lease or contract for a lease may not provide for a
20 period of occupancy greater than 40 years. A lease agreement must
21 provide that lease payments are subject to annual appropriation. An
22 agency of the state requiring office, warehouse, or other space shall
23 lease the space through the department. [NO CONTRACT OR LEASE EX-
24 ECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS
25 BY THE STATE IN EXCESS OF \$12,000 ANNUALLY IS VALID UNLESS THE USE OF
26 THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EX-
27 PRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

28 * Sec. 10. AS 37.05 is amended by adding a new section to read:

29 Sec. 37.05.285. LEASE FINANCING. The department may enter into

1 lease-financing agreements only with the Alaska State Housing Author-
2 ity acting as the Alaska State Building Authority. A lease-financing
3 agreement must provide that lease payments are subject to annual
4 appropriation. If the department intends to enter into an agreement
5 under this subsection, the department shall provide notice to the
6 legislature and to the state bond committee. The notice must include
7 the anticipated annual lease payment, the anticipated principal amount
8 of the debt to be issued by the Alaska State Housing Authority acting
9 as the Alaska State Building Authority, and the anticipated total
10 construction or acquisition cost of the project. The department may
11 not enter into an agreement under this subsection unless the public
12 building to be provided has been approved by law. An appropriation
13 for the project does not constitute approval by law for purposes of
14 this section.

15 * Sec. 11. AS 37.15.040 is amended to read:

16 Sec. 37.15.040. SALE OF BONDS. Before selling an issue or
17 series of bonds, the state bond committee shall give notice inviting
18 sealed bids in the [SUCH] manner [AS] it may prescribe. If satisfac-
19 tory bids are received, the bonds offered for sale shall be awarded to
20 the highest responsible bidder or bidders. If the state bond commit-
21 tee determines that the bids received are not satisfactory as to price
22 or responsibility of the bidders, it may reject all bids received.

23 * Sec. 12. AS 37.15.110 is amended to read:

24 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.
25 There is created within the Department of Revenue a committee known as
26 the "state bond committee," the members of which are the commissioner
27 of commerce and economic development, the commissioner of administra-
28 tion, and the commissioner of revenue. If a member of the committee
29 is absent or otherwise unable to act, the member's designee in the

1 department shall act as a member of the committee in the member's
2 place.

3 * Sec. 13. AS 37.15.130 is amended to read:

4 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commis-
5 sioner of commerce and economic development is the chairman of the
6 state bond committee and the commissioner of revenue is the secretary.
7 A majority of the members of the committee constitute a quorum. The
8 committee shall keep a full, complete, and permanent record of its
9 proceedings. All records and correspondence of the committee shall
10 be kept in the office of the commissioner of revenue. For the purpose
11 of this chapter and AS 44.62.310, public notice of 24 hours or more is
12 adequate notice of a meeting of the committee at which the issuance of
13 bonds is authorized.

14 * Sec. 14. AS 37.15.140 is amended to read:

15 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond
16 committee shall adopt the resolution and prepare the documents neces-
17 sary for the issuance, sale, and delivery of state general obligation
18 bonds.

19 * Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

20 (b) The state bond committee shall prepare an annual report to
21 be submitted to the governor and legislature before March 31 of each
22 year. The report must show

23 (1) all outstanding debt of debt-issuing entities of the
24 state;

25 (2) the anticipated effect on the finances and credit of
26 the state, including the effect on long-term debt capacity and credit-
27 worthiness, resulting from that debt;

28 (3) which long-term debt is state supported and which is
29 supported only by revenue attributable to the project being financed

1 by the debt;

2 (4) all long-term capital lease obligations of the state;

3 (5) the volume of short-term debt issued and retired during
4 the year by debt-issuing entities of the state;

5 (6) specific identification of each issue for which the
6 state has pledged some form of indirect support for the debt, includ-
7 ing any moral obligation of the state to support the debt;

8 (7) future bonding and debt capacity implications of legis-
9 lation enacted in the previous legislative session; and

10 (8) the recommended debt issuance capacity of the state for
11 the next two years following the year of the report.

12 (c) The state bond committee may develop written policies con-
13 cerning debt of the state.

14 * Sec. 16. AS 37.15.150 is amended to read:

15 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
16 VICES. The state bond committee may appoint an executive director who
17 may, with approval of the committee, select and employ additional
18 staff as necessary. Employees of the committee are in the partially
19 exempt service under AS 39.25.120. If the [STATE BOND] committee
20 considers it necessary and advisable, it may procure architectural or
21 engineering, fiscal agent or municipal investment, legal, and other
22 expert or specialized services at reasonable and customary fees to
23 assist it in accomplishing the most advantageous sale of the bonds.
24 The fees may be paid from the proceeds of the sale or advanced from
25 the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR]
26 or otherwise.

27 * Sec. 17. AS 37.15.450(a) is amended to read:

28 (a) The bonds shall be sold in the manner, price or prices,
29 [SUCH] amounts or series, and at the [SUCH] time or times [AS]

1 determined by the committee at either public or private sale. [BEFORE
2 SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING
3 SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS
4 ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE
5 HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS
6 RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
7 BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series
8 of them, shall be sold at such a price so that the effective interest
9 rate over the life of the bonds does not exceed 11 percent per year or
10 that rate of interest which is 125 percent of the rate of the Bond
11 Buyer Index of 20 Municipal Bond Average Yields for the week previous
12 to the date of sale of the bonds, whichever is higher. Interest shall
13 be payable annually or semiannually.

14 * Sec. 18. AS 37.15.460 is amended to read:

15 Sec. 37.15.460. BOND RESOLUTION. The committee is authorized
16 and directed to adopt the bond resolution and prepare all other docu-
17 ments and proceedings necessary for the issuance, sale and delivery of
18 the bonds or any part or series of them. The bond resolution shall
19 fix the principal amount, denomination, date, maturities, place or
20 places of payment, rights of redemption, if any, terms, form, condi-
21 tions and covenants of the bonds or each series of them. The commit-
22 tee shall also determine and provide for the date and manner of sale
23 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
24 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
25 REQUIRED BY AS 37.15.450].

26 * Sec. 19. AS 37.15.650(a) is amended to read:

27 (a) The toll facilities bonds are sold in the manner, price or
28 prices, amounts or series, and at the time as determined by the com-
29 mittee, at either public or private sale. [BEFORE SELLING A SERIES OF

1 BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF
2 SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED
3 TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A
4 BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
5 BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a
6 series of bonds, may not be sold if the effective interest rate over
7 the life of the bonds exceeds 11 percent per year or that rate of
8 interest that is 125 percent of the rate of the Bond Buyer Index of 20
9 Municipal Bond Average Yields for the week previous to the date of
10 sale of the bonds, whichever is higher. Interest is payable annually
11 or semiannually.

12 * Sec. 20. AS 37.15.660 is amended to read:

13 Sec. 37.15.660. BOND RESOLUTION. The committee is authorized
14 and directed to adopt the bond resolution and prepare all other docu-
15 ments and proceedings necessary for the issuance, sale, and delivery
16 of the bonds or any part or series of them. The bond resolution shall
17 fix the principal amount, denomination, date, maturities, place or
18 places of payment, rights of redemption, if any, terms, form, condi-
19 tions, and covenants of the bonds or each series of them. The commit-
20 tee shall also determine and provide for the date and manner of sale
21 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
22 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
23 REQUIRED BY AS 37.15.650].

24 * Sec. 21. AS 37.15 is amended by adding new sections to read:

25 ARTICLE 5. STATE-SUPPORTED DEBT.

26 Sec. 37.15. . . . STATE AGENCY DEBT. (a) The state bond commit-
27 tee shall review proposals for the issuance of debt by or on behalf of
28 (1) the Alaska State Housing Authority acting as the Alaska
29 State Building Authority for the purpose of providing public

1 buildings; and

2 (2) the University of Alaska.

3 (b) The committee shall review the general programs and financ-
4 ing plans of the agency that proposes to issue the debt as well as the
5 specific aspects of the proposed debt issue, including

6 (1) amounts;

7 (2) times;

8 (3) maturities;

9 (4) debt structure and security features;

10 (5) credit enhancements;

11 (6) use of proceeds;

12 (7) official documents;

13 (8) planned rating agency presentations; and

14 (9) selection, retention, or compensation of financial
15 advisors, bond counsel, trustees, underwriters, and other profession-
16 als.

17 (c) The state bond committee shall consider approval of the
18 amount and time of sale of the debt. The committee shall approve the
19 issuance of the debt if, in its judgment, the debt management aspects
20 of the issue reviewed under (b) of this section are in the best inter-
21 ests of the state. The committee may limit approval of the issuance
22 of debt upon compliance with terms established by the committee.

23 (d) At the time of sale of the debt, the state bond committee
24 shall review the bids or pricing of the debt, including discounts,
25 underwriting spreads, and interest rates. If the committee determines
26 that the bids or prices are not satisfactory or that the bidders are
27 not responsible, the agency may not sell the debt.

28 Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the
29 state bond committee, in its judgment, determines that the amount or

1 retirement of debt issued by municipalities and subject to reimburse-
2 ment by the state under AS 14.11.100 is not in the best interest of
3 the state, the committee may

4 (1) establish an amount or amounts, for any or all years
5 before the maturity of all of that municipal debt, that may not be
6 exceeded by the Department of Education in approving requests under
7 AS 14.11.103; or

8 (2) establish, under AS 14.11.100(j)(3), a term required
9 for the maturities of municipal debt authorized by local voters after
10 March 31, 1986.

11 * Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to
12 read:

13 (19) employees of the state bond committee.

14 * Sec. 23. Projects approved by law before January 1, 1986, are exempt
15 from this Act.

16 * Sec. 24. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

DEPARTMENT OF PUBLIC SAFETY

POSITION PAPER - HB 554

February 20, 1986

HB 554 "An Act relating to sentencing."

The Council on Domestic Violence and Sexual Assault would like to add some concerns, comments and questions about certain sections of HB 554 to the discussion of these very important issues.

Sec. 5. AS 12.55.125(i). This section proposes to abolish presumptive terms for first felony convictions of sexual assault in the first degree and sexual abuse of a minor in the first degree. This section also reduces presumptive sentences for second and third felony convictions.

The Council on Domestic Violence and Sexual Assault would like to insure that serious discussion occurs prior to abolishing presumptive terms for first felony convictions of sexual assault in the first degree and sexual abuse of a minor in the first degree. When the Legislature classified first degree sexual assaults as unclassified felonies, they recognized the seriousness of these crimes. Except for homicide, rape is the most serious violation of a person's body because it deprives the victim of both physical and emotional privacy and autonomy. When rape occurs, the victim's ego or sense of self as well as her body is penetrated and used without consent. She has lost a basic human need and right: control of physical and emotional self. Although in many cases of child sexual assault physical force is not an issue, the damage to the victim is as serious and can be longer lasting because emotional damage is not as easily repaired as broken bones or bruises. Victims of child molestation are affected more severely by the crime than are victims of most crimes as supported by statistics relating to these victims. Studies have revealed that a majority of prostitutes were molested as children. Female molestation victims often become abusers of alcohol or drugs and a large proportion of female patients in mental hospitals were molested as children. One researcher has estimated that "upwards of 80% of kids at juvenile hall had been sexually molested regardless of the reasons that placed them there". Also of great concern is the probability that an overwhelming majority (75% according to one study) of child molesters and most rapists reported they were molested during childhood. The consequences of child sexual assault plus the ongoing trauma suffered by victims confirm the seriousness of the crime.

Research has shown that molestation by a parent or step parent is more traumatic to the child than cases involving non-family members because the child has been harmed repeatedly by a person whom he or she loves, trusts and regards as a protector. Treatment experts find little difference in the behavioral characteristics and patterns of offending behavior of an incest offender and a non-family child molester. In one of the few

empirical studies of child molesters, it was shown that incest offenders often commit sexual assault upon other individuals. Forty-four per cent of the incestuous males studied reported molesting non-family female children as well as their daughters; 11% of these incestuous men reported sexually abusing their sons as well as their daughters; 11% of these incestuous men reported molesting non-family boys as well as their daughters; and 18%, or nearly one out of five, of incest offenders also reported that they were violent rapists of adult women. Another stunning piece of information from this study was that the 411 non-incarcerated offenders studied reported committing 219,000 completed crimes involving thousands of victims over many years.

Besides the seriousness of these crimes, and the need to protect victims from further harm, other important aspects of this issue need to be scrutinized. A rationale has been presented that first time offenses should not be subject to presumptive sentences because first time offenders are more amenable to treatment. A study conducted at Atascadero State Hospital in California revealed that almost 85% of the hospitalized child molesters admitted to prior separate undetected molestations. Two thirds of these molesters were officially considered to be first time offenders. It is highly unlikely that someone convicted for the first time is really a first time offender.

Although a great deal of discussion has centered around the conflict of long prison terms versus the need for treatment of offenders to assure rehabilitation, there is little empirical evidence that treatment is effective. Reputable sex offender therapists admit that there is no guarantee for cures and, in fact, they recommend long term monitoring of known sex offenders to prevent reoffending. Also, most treatment specialists recognize that imprisonment is necessary so offenders recognize the severity of the crime and society's sanction against it.

There is a need to appreciate the chronicity and dangerousness of this population, the damage that is done by their offenses and have some knowledge of victims and victimology. Discussion of this complicated issue must weigh all factors before actions are taken. The most important factor is our responsibility to protect the community and prevent future victims.

Sec. 7.AS 12.55.155(d). This section adds mitigating factors to presumptive terms. The Council on Domestic Violence and Sexual Assault has serious questions and concerns about the following mitigating factors in the HB 554:

(17) "the defendant is under the age of 25"

Why is the fact that the defendant is under age 25 seen as a mitigating factor?

(18) "the defendant has demonstrated good potential for rehabilitation"

Who would judge that the defendant has demonstrated good potential for rehabilitation? How would someone "demonstrate potential"? It is recognized that sex offender treatment is a highly specialized area of

psychology with few experts. Although there are therapists without a sex offender speciality who may feel they can assess rehabilitation potential, the consequences are too serious to be left to non-specialists. Mental health professionals without specialized expertise are more prone to errors such as undercalling risk, inattention or oversimplification of the variables that are relevant and making unrealistic or dangerous recommendations. This issue is particularly important in Alaska where there is a dearth of sex offender specialists.

Even specialized sex offender therapists have not developed and tested a treatment model for minority cultures. Assessment and treatment would therefore be biased and could add to the over-representation of Alaskan Natives in prisons and denial of appropriate treatment services.

- (19) "the defendant has no record of criminal law violations"

If the presumptive terms in HB 554 are only for defendants with prior convictions, how is this factor relevant?

- (20) "the defendant has demonstrated sincere remorse for the offense"

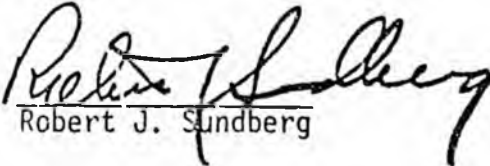
It is difficult to judge remorse. Even if there is remorse, it is not sufficient to assure that the offender will not reoffend. In the case of sex offenders, frequently after the offender has sexually abused a child, he will go through a period of feeling depressed and terrible about what he has done. He will swear to himself that he will never repeat the behavior again. This will eventually be overcome again by the rationalizations he used in the behavior and once again, the behavior will occur. Also, it would be possible and, in fact, very likely for skilled manipulators to appear remorseful. Therapists who have been working in the field for many years assert that very few sex offenders are sincerely remorseful.

- (22) "the defendant's capacity to formulate the requisite culpable mental state for the offense was diminished to a degree insufficient to constitute a complete offense"

It is not clear what factors diminish a defendant's culpable mental state. Does this include being under the influence of alcohol or drugs? If this is true, is this sufficient justification to mitigate a serious crime? What about the offender who purposefully uses alcohol and drugs to lower inhibitions against committing sexual and other violent crimes?

Sec. 11. AS 33.15.180(a). This section makes prisoners who are given presumptive terms eligible for parole. Because of the severity of the crimes addressed by presumptive sentencing, issues and concerns listed for Section 5 in this position paper should be considered for this section of HB 554 also.

The Council recognizes the serious fiscal questions facing Alaska because of the increased and costly demands placed upon the criminal justice system. However, we understand that other reforms of the correctional system could be implemented that are less controversial and that would also have a negative fiscal impact. All these issues should be considered before actions are taken. We also know that solutions to these problems are complex and may not be to everyone's satisfaction. There is a great deal that is unknown about sex offenders and less that is understood. As the primary state agency representing victims of domestic violence and sexual assault, the Council thinks it is imperative that actions taken consider the protection of victims and that the State do all it reasonably can to prevent further victimization.


Robert J. Sundberg

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

April 2, 1986

The Honorable Mike M. Miller
Chairman
House Judiciary Committee
P.O. Box V
Juneau, AK 99811

Dear Representative Miller:

Committee Substitute for House Bill 519 (Loans) is an essential ingredient in the debt management package of legislation introduced by Governor Sheffield. The legislation, for the first time, would provide an orderly, structured process for the issuance of lease-financing obligations of the State and would institute control over the authorization of such debt through approval by law as well as control over debt management aspects of such financings through the State Bond Committee.

Given the downturn in State petroleum revenues, it has become imperative that the State get a firm grasp on all debt that is paid from the General Fund. One of these types of debt is lease-financing. Control of lease-financing, along with all other debt supported by the State's General Fund, is necessary to preserve the State's credit rating as well as budgetary flexibility.

The bill designates a single agency, the Alaska State Housing Authority (ASHA) acting under the name of the Alaska State Building Authority, as the issuer of debt and lessor for State buildings. ASHA was selected to perform this function due to its experience and existing expertise with this role. Utilization of a single agency will improve accountability, efficiency, and control.

The bill also makes debt issued by or on behalf of the University of Alaska subject to approval by law and the State Bond Committee. This is another category of debt that is paid, in part, from the State General Fund.

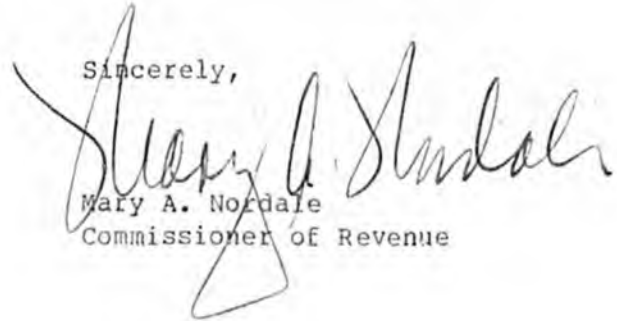
Finally, the bill includes several changes affecting the State Bond Committee. One is to require an annual State debt report which should assist the Legislature in considering approval of State-supported debt and generally provide for more informed decision-making in the management of State and municipal debt. Another provision would authorize negotiated sales for the issuance of international airports or toll facilities revenue bonds. Under certain circumstances, such as use of a different

The Honorable Mike M. Miller
April 2, 1986
Page 2

security structure or under uncertainty of impending Congressional tax reform legislation, a negotiated sale would prove more advantageous to the State than public sale.

Thank you for your consideration of this bill. I urge your prompt approval of this important legislation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary A. Nordale". The signature is written in dark ink and is positioned above the typed name and title.

Mary A. Nordale
Commissioner of Revenue

MAN/MB/gb
86-78

CS HB 519

CSHB 519 makes the following changes with respect to the original bill:

1. requires approval by law of University of Alaska bond issues in Sec. 1 of CS HB 519 and ASHA bond issues for public buildings in Sec. 4 of CS HB 519;
2. deletes the requirement for State Bond Committee approval of ASHA debt issuance before lease-financing agreements may be entered into (sections 2, 7, 8, and 10 of CS HB 519); however, the State Bond Committee still must approve ASHA debt before it can be issued (section 4 of CS HB 519);
3. requires approval of public buildings by law before lease-financing agreements may be entered into (sections 2, 7, 8, and 10 of CS HB 519);
4. includes construction or acquisition cost in addition to lease payment and bond amount, in notice to legislature and bond committee (sections 2, 7, 8, and 10);
5. deletes the requirement in Sec. 7 of HB 519 that the Legislative Affairs Agency adopt regulations for space leasing;
6. makes new subsection (b) in Sec. 8 of HB 519 of the bill into a separate section, Sec. 10 of CS HB 519, so that it is not repealed in the event SB 341, the procurement bill, passes; amendments have been prepared for SB 341 which would delete all authority in that bill for lease-purchase financing, so that the subject is dealt with only in HB 519; this is to avoid enactment of conflicting provisions;
7. amends international airports and toll facilities statutes to permit negotiated bond sales in addition to public bid (sections 17, 18, 19, and 20).

BILL SHEFFIELD
GOVERNOR

cc 1/27



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

~~HB 518~~
HB 519
+
HB 520

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting two bills that provide for improved state debt management. One relates to control of state-supported school debt, the other to lease-financing transactions by the various branches of government.

These two bills are each cornerstones of a comprehensive proposal designed to monitor and control more effectively the issuance of debt instruments that harbor substantial credit implications for the state. (Some citations in each bill are to provisions in the other bill. The two bills go together.) Alaska's remarkable wealth has facilitated tremendous economic growth in all areas of the state's economy and at all levels of government. Many of these worthy projects and programs have been funded directly by the state. In other instances, however, funding has been obtained through the issuance of debt instruments, either by the state or by local governments. Where government activities are funded through the issuance of debt, maintenance of a favorable credit rating for the state assumes critical importance. Simply stated, actions detrimental to the state's credit standing are injurious to the Alaska economy.

Unlike past years, we approach an era where the state's vast wealth is not, in and of itself, sufficient to support a favorable credit rating. In my discussions with representatives of the national financial community, the constant theme stated was the need for Alaska to demonstrate its ability to effectively manage its resources. One critical

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attribute of responsible state management is an effective debt management program.

Any discussion of maintenance of a favorable credit rating for the state must reflect the broad array of financial obligations encompassed within the term "state-supported debt." It is critical to bear in mind that state general obligation bonds are but one type of debt instrument that affects the state's credit standing. The financial community also looks to other recurring, long-term financial obligations which are paid from the general fund, such as those which arise under a lease-financing agreement. In a similar vein, the state's commitment to support school debt issued by municipalities is a type of long-term financial commitment with substantial credit implications.

Debt management concerns must further reflect the impact of excessive or improvident municipal debt issuance on the state's credit standing. I initially observe that responsible state debt management policies must necessarily include a degree of state supervision of municipal debt issuance. While I am, of course, cognizant and supportive of the prerogatives of local government, problems with municipal debt issuance inevitably burden the state as well. For that reason, I previously introduced a bill that relates directly to the issuance of municipal debt. Last session I proposed the establishment of a Municipal Financial Emergency Commission to assist municipalities that have defaulted in bonded indebtedness (HB 293). I am also proposing legislation that imposes reasonable limitations on a municipality's authority to issue general obligation debt. As noted in the transmittal letters accompanying each of those bills, responsible state management of municipal debt is necessary to assure the continued investment community support of and confidence in municipal and state debt issues.

The two bills attached to this letter today are intended to assure proper state oversight before the state enters into the type of recurring, long-term financial commitments that might have an impact on the state's credit standing. Where the state issues general obligation bonds, the constitutional requirement of voter approval offers an appropriate opportunity for the electorate and for elected officials to gauge any adverse effect that issuance of the debt may have on the state. Under present law, however, neither the statutory reimbursement formula for school debt nor the unrestricted authority to enter lease-financing agreements

offers comparable mechanisms to assure that state credit implications are adequately addressed. As the decline of available revenues further exacerbates the sensitivity of the state's credit standing, it is of critical importance to assure that each project is viewed not only on its own merits but also with consideration of how the issuance of additional state-supported debt will affect broader state interests. I believe that these two bills offer a responsible way of meeting the needs of the state to obtain office facilities and of municipalities to provide necessary educational facilities -- a way that best preserves the state's favorable credit standing.

I.

The shorter bill implements the recommendations of the State Office Complex Financing Task Force, a body whose membership brought together the views of executive-branch officials, two legislators, and several members of the public with substantial financing expertise. The task force conducted extensive hearings to consider the most appropriate method to provide state office facilities in the most cost-efficient manner possible. After review of the available financing alternatives, the task force recommended the enactment of legislation to facilitate the acquisition of state office facilities through lease-financing agreements. The bill designates the Alaska State Housing Authority as the appropriate financing entity, but provides that when the authority issues debt for this purpose, it do so as the Alaska State Building Authority. The name change is intended to prevent confusion in national financing markets.

Sections 1, 6, 7 and 8 provide that the university and each branch of government, respectively, have legal authority to enter into lease-financing agreements with the Alaska State Housing Authority acting as the Alaska State Building Authority. The state has previously executed lease-financing agreements under existing lease authority, and these sections are thus intended to remove any ambiguities regarding the legal authority to enter into lease-financing agreements. The cost of building acquisition or development would be provided by the sale of revenue bonds by the Alaska State Building Authority. In all instances, a lease-financing agreement preserves legislative prerogatives through the requirement that lease payments be subject to annual appropriation.

While the bill recognizes the desirability of the lease-financing technique, the bill also imposes effective debt

management controls. First, lease-financing agreements may only be executed with the Alaska State Building Authority, a limitation that ensures uniformity and continuity in the state's lease-financing programs.

More importantly, secs. 9 -- 16 expand the responsibilities of the state bond committee (AS 37.15) to ensure that the broader credit implications are adequately assessed before the state enters into a lease-financing agreement. Under sec. 15, for example, proposed AS 37.15.770 authorizes the state bond committee to review any proposed lease-financing agreement in detail and to prohibit or condition the sale of the debt instruments if it is in the best interests of the state to do so.

I observe that sec. 8 of this bill is similar to legislation that I proposed last session in the wake of the controversy surrounding the Anchorage Office Complex. The bill proposed last session (HB 392 and the identical SB 293) provided for project-specific legislative approval before execution of a lease-financing agreement. In the transmittal letter accompanying the initial bill, dated April 19, 1985 (1985 H.J., p. 1001, and 1985 S.J., p. 856), I noted that the provision of project-specific legislative approval posed substantial constitutional problems. Both the constitutional doctrine of separation of powers and the constitutional prohibition against special and local legislation place in serious legal doubt any statutory requirement to seek project-specific approval. And public finance is the worst forum to interject such a substantial legal uncertainty. Accordingly, the present bill does not propose project-specific approval. To do so, in my view, would impermissibly intrude upon the constitutional prerogatives of future governors. Although I believe it inappropriate to require project-specific approval as a matter of law, I reaffirm my personal commitment to seek legislative approval before the executive branch enters into any lease-financing agreement.

II.

The longer of these two bills that I am transmitting makes several changes to the state's support of public school construction. Most notable of the significant changes proposed under this bill is a cap is placed upon the amount of municipal debt obligations for which the state will provide reimbursement. Municipalities issuing debt to finance school construction will pay the interest costs, while the state will pay the principal in equal payments up

to an aggregate amount of \$10,000,000 in any year for debt approved by local voters after March 31, 1986.

The state presently provides, in addition to its municipal grant program, three forms of aid for school construction. Under AS 14.11.010 all school districts may apply to the Department of Education for an appropriation for school construction projects for which the department may request, in order of priority, appropriations from the legislature. If an appropriation for a school construction project is made, the school district may, under AS 14.11.020, request the assumption of the state's responsibility to plan, design, and construct the particular project. The department provides for the assumption of the responsibility by executing a grant agreement with the school district.

AS 14.11.100 provides two additional forms of state aid for public school construction which are only available to municipal school districts. The state reimburses municipal debt service payments in varying percentages which, because of amendments made in ch. 78, SLA 1985, are at least 80 percent. The state also reimburses a municipality for at least 80 percent of its cash payments used for school construction. To receive reimbursement of either debt service or cash payments, the municipality must first quantify the need for the project and provide a description of the project and an estimate of its cost. The Department of Education reviews the project and its justification, and, when appropriate, grants its approval of the project and its estimated costs. The next step is approval of the municipality's voters to sell the bonds. If the local voters approve the sale of the bonds, the state will reimburse the costs of debt service by requesting money in each year's budget.

There are several weaknesses in the state's present programs of financing school construction.

First, there are inadequate procedures to ensure that the estimates of project costs are reasonable. Before 1982, the administration of the school construction grant program was shared by the Department of Education and the Department of Transportation and Public Facilities. Chapter 92, SLA 1982 transferred all responsibility for the state's construction grant program to the Department of Education. This same weakness exists under AS 14.11.100.

The second major failing is that there is no ceiling for the amount of money which the state will be requested to reim-

burse under AS 14.11.100. In the proposed FY 1987 state budget, approximately \$106,000,000 in municipal debt service payments is requested to continue existing level of debt.

During the last session of this legislature, the percentage of reimbursement for debt service costs was increased to 80 percent, although allowable projects were limited to facilities necessary for increased enrollment or to correct health and safety problems. The result of last session's amendments to AS 14.11.100 has been an identification of required projects with approval of the projects closely followed by local bond elections. These recent municipal elections have authorized approximately \$312,500,000 of new municipal debt for which local communities will seek reimbursement from the state for debt service costs. I anticipate, if all of this newly authorized debt is incurred in the near term, that the impact on the debt retirement program could be as much as an additional \$45,000,000 in requested reimbursements in FY 1987. I intend to support this additional funding as soon as the amount is determined and necessary debt management legislation is passed.

I, of course, recognize that there are municipalities in the state which have experienced significant population increases, and which therefore need the construction of new schools. I believe that these existing needs should be met at the current levels of state support. However, the future of state revenues and the need for new schools are uncertain. Consequently, I believe that different approaches need to be applied to the way the state considers all school construction in the state.

With discipline and altered approaches to the school construction, I believe that the state and its municipalities can contain state-supported debt and still allow for adequate state support of school construction.

This bill changes procedures for reviewing and approving school projects.

Section 1 amends AS 14.08.151. These amendments are desirable to clarify the manner in which the state conveys title for school sites to regional education attendance areas.

Section 2 amends AS 14.11.010(b) by requiring the Department of Education to request cost estimates from the Department of Transportation and Public Facilities and to base its

project approval upon that cost estimate. This same requirement is found in sec. 11 in amendments to AS 14.11.102, which relates to project approval for the debt retirement program. Section 14 contains new authority for DOT/PF to estimate construction costs for all school projects financed by appropriations and debt retirement. Included within that authority is the responsibility to establish design standards.

Section 3 of the bill amends AS 14.11.010(c) by adding new criteria, relating to population trends and the condition of facilities, which the Department of Education will consider when approving projects for appropriation. These amendments are also applicable to the debt retirement program under language found in sec. 11.

Section 4 proposes new language that will require school districts requesting state aid to inventory and inspect the schools in their districts and to revise that inventory on a yearly basis. The provisions of this section also require that school districts provide information relating to maintenance and operation costs. This information regarding existing school facilities will enable the state to better analyze new projects that the state will be asked to finance by appropriation or by debt reimbursement.

Sections 5 and 6 limit the state's reimbursement of school debt to principal only for approved projects financed by new municipal debt authorized by local voters after March 30, 1986. If the debt was authorized by local voters before April 1, 1986, the state's reimbursement continues as before. The state's reimbursement of cash payments by municipalities ends for payments made after June 30, 1986.

Section 7 amends AS 14.11.100(b) by offsetting the amount that the municipality receives for debt reimbursement by the amount of interest earned on the proceeds of bonds sold for a particular project. This amendment parallels existing law found in AS 14.11.100(k), which is repealed in sec. 16.

Sections 8, 9, and 10 contain a number of amendments to AS 14.11.100(h), (i), and (j), respectively, which are necessary to reflect the new class of reimbursement under the language proposed in AS 14.11.100(a)(6) in sec. 6 of the bill. Section 10 has a fiscal impact. It amends AS 14.11.100(j)(2) to allow refunding of bonds only in those situations where there is at least a five percent saving in debt service costs. It also amends AS 14.11.100(j)(3) by requiring that the principal on bonds be reimbursed in equal

annual payments over a period of 10 years or a term set by the state bond committee.

Under sec. 12, the Department of Education will continue to allocate money to reimburse municipal debt. However, a cap on reimbursement is placed upon debt authorized by local voters after April 1, 1986. The department may only allocate money for the reimbursement of principal paid on new debt if the new payments, when combined with all other reimbursements under this class of debt, do not exceed the \$10,000,000 or an amount set by the state bond committee. This mechanism will have two results. It puts a cap on state-supported debt, but, with discipline, it will enable municipalities to construct needed school projects in addition to those that are financed by bonds authorized by local voters before April 1, 1986.

Section 13 amends AS 14.11.135(3) by changing the definition of school construction costs. It excludes all financing costs for debt authorized by local voters after March 31, 1986.

Section 14 adds three new sections to AS 35.15. Under the proposed language, the Department of Transportation and Public Facilities will estimate the costs of all school construction projects under common design standards that it will develop.

Section 15 amends AS 37.15 to give the state bond committee the ability to manage state-supported school debt, which is accomplished under two different mechanisms. First, it may establish a higher or lower ceiling for allocations for reimbursement of new authorizations of school debt under AS 14.11.100(a)(6) (found in sec. 6), depending on the state's credit standing as well as on the needs for school construction. Second, it may control the term of the obligations to ensure that their maturity structure does not adversely affect the state's credit standing. While a 10-year term is allowed by the proposed provisions of AS 14.11.100(j)(2) (found in sec. 10), the committee is accorded the ability to set a different term when it is in the state's best interest.

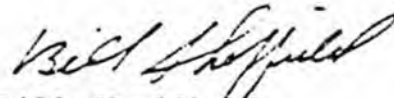
It is our intent with the language in sec. 17 to develop a long range plan for the state's school construction through the end of the century. The necessary components of this plan would include projected enrollments under reasonable population projections, construction costs, design parameters, and financing techniques. It is our hope that,

after the completion of the plan, a rational mechanism can be put in place to provide for the state's public school construction needs which is within the state's ability to pay.

III.

Continued economic prosperity for all sectors of the Alaska economy is in part inextricably tied to more rigorous state debt management. These two bills, as well as legislation relating to responsible limitation on municipal debt, promote more responsible state debt management. Alaska's credit standing is, of course, in part dependent on factors beyond our control. That the state cannot control all relevant factors is no excuse, however, for the inadequate management of those factors within our control. I believe that it is critical that the state become more sensitive to the long-term credit implications of each isolated funding decision. These two bills provide for responsible yet flexible state debt management, and I urge your prompt consideration and approval of these measures.

Sincerely,



Bill Sheffield
Governor

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1/27

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST HB 519

FISCAL DETAIL

Bill/Resolution No. : _____
 Title : An Act relating to Public Finance

Agency Affected : Revenue
 BRU : Treasury

Sponsor : Rules Committee at the request
 Requestor : of the Governor
 Date of Request : 1/27/86

Components : Operating

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Phil Barber Phone : 465-2350
 Division : Treasury Date : 1/27/86
 Approved by Commissioner : [Signature] Date : 1/27/86
 Agency : Dept. of Revenue

- Distribution (by Agency preparing fiscal note):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency (ies)

Briefing Materials

Debt Management Plan

February, 1986

State of Alaska
Office of the Governor

Back up for
HB 519 - 521
exp when available

February 1986

DEBT MANAGEMENT PLAN

Governor Bill Sheffield

Through careful management, the State of Alaska has maintained the best credit rating we've ever had. That AA rating, in turn, has allowed local governments across Alaska to keep their investment grade ratings as well. This good credit rating translates into lower property taxes for Alaskans.

With dropping world oil prices, however, Alaska's annual debt payments automatically become a larger part of our expenses.

So, I have asked the 14th Alaska Legislature to approve a package of new laws which, viewed as a whole, will give our young state a plan for comprehensive debt management for the first time. None of these proposed improvements in our laws is flashy or exciting, but as a package they are vital to the continued financial health of Alaska. I encourage you to read the enclosed information.

In short, the debt management plan I have placed before the Alaska Legislature will keep the commitments voters have made to our future, particularly in regards to local school construction. The plan also will guarantee we can continue to incur a reasonable amount of debt for school construction and other improvements in the future, while we preserve our good credit rating.

Debt Management Plan

"We've borrowed a considerable amount of money to help build Alaska. We can manage that debt, but it takes planning...lest that debt manage us in the future."

Governor Bill Sheffield

January 14, 1986

DEBT MANAGEMENT PLAN

An Overview

Without firm control of public debt the credit rating of all debt issuers in Alaska could be in jeopardy. Right now the State has an AA rating, the highest it's ever had, and all issuers within the State are rated as investment grade. But as oil prices decline, the share of revenues devoted to debt service will become an increasingly heavier burden. The State of Alaska cannot control the price of oil. What we can and must control is the amount of public debt.

Proper stewardship of public debt in Alaska can be accomplished through enactment of legislation covering four distinct needs. Taken separately, each of the four bills brings reasonableness to a different aspect of public debt. But viewed as a whole, this legislation provides a plan for comprehensive debt management for the first time. It assures that all State-supported debt, which is any debt paid from the State general fund, is subject to the control of the State Bond Committee. It is this total of State supported debt which the rating agencies look to in establishing the State's credit rating.

The first bill, House Bill 293, provides for orderly financial management in the event of a default by a municipality of its debt obligations. This legislation protects both issuers of public debt in Alaska and creditors.

House Bill 519 provides for the lease financing of public buildings through the Alaska State Housing Authority, acting as

the Alaska State Building Authority. The bill gives the State Bond Committee control over issuance of this debt as well as debt of the University of Alaska.

House Bill 520 gives the State Bond Committee control over the total amount and maturity of municipal school debt to be reimbursed by the State. The investment community needs to see some control on this fast-growing part of State supported debt.

The fourth bill, House Bill 521 places a limit on the issuance of general obligation debt by municipalities. Even with this limit some municipalities in Alaska will have some of the highest debt ratios in the United States. This legislation does not limit the ability to issue revenue bonds.

As background, Alaska's combined debt (State, municipal and school district) through the issuance of general obligation bonds was \$2.9 billion as of June 30, 1985. That amounts to about \$5,500 per Alaskan. When the amount of G.O. Bond debt for veterans' housing is included in the total, Alaska's per capita debt load is \$7,000.

That debt is manageable, but it takes planning. The State of Alaska has not had a bond authorization since 1980. Yet, the per capita interest on the State's general obligation bond debt is 20 times the national average. State policy limits debt service to five percent of unrestricted revenues, but that ratio is about 10 percent now and could climb to 16 percent by fiscal year 1989.

Again, this is a result of a combination of factors. World oil markets have seriously eroded the revenue Alaska receives from oil and gas production. At the same time, Alaska voters have authorized new debts, including \$325.0 million in school construction bonds so far in fiscal year 1985 alone. That translates into a possible 30 percent increase in State

reimbursement for local school debt--added costs which show up in the State operating budget.

These and other construction commitments are viewed by the nation's financial markets in different ways. On one hand, Alaska's rating agencies know this is a unique state, with enormous potential for generating public revenues and a young, dynamic workforce; on the other hand, the rating agencies look at all of Alaska's debt together, and while they are concerned about how much we borrow, they are more concerned that Alaska have controls on the growth of debt statewide.

To tackle that issue, Governor Sheffield is asking the Legislature to take the following initiatives:

- ° For school construction, honor all existing debt (as of March 31, 1986) under the current 80 percent reimbursement law, and limit the growth of future State reimbursement to \$10 million per year for school construction in the future.
- ° Set standards for school construction to guarantee more schools can be built with the funds available.
- ° Reimburse 100 percent of principal only for bonds authorized after April 1, 1986. This will encourage local districts to shop for the lowest interest rates.
- ° For local governments, limit debt to seven percent of assessed property values.
- ° Designate the Alaska State Housing Authority, acting as the Alaska State Building Authority, as the issuer of lease revenue bonds to finance public buildings. This

change was recommended by a citizens task force appointed by the Governor to study the issue in 1985.

• Designate the State Bond Committee as overseer of lease revenue bond issues and the total of State reimbursement for school debt (after March 31, 1987).

DEBT MANAGEMENT PLAN

Questions and Answers

QUESTION: Why do we need a debt management package?

ANSWER: The State has achieved a AA rating for its general obligation debt. However, the burden of paying the State's debt becomes heavier as revenues shrink. Now, with oil prices falling, the State must demonstrate to the rating agencies that it has the procedures, checks, and balances necessary to manage its debt obligations, if the State is to retain its high credit rating.

QUESTION: Why does the State have to be concerned about lease-purchase financing, University of Alaska, and municipal school debt? (HB 519, HB 520)

ANSWER: All or a major portion of the payments on this debt come from the State's general fund. These types of debt obligations are referred to as State supported debt. The total of State supported debt and State general obligation debt is the figure that Moody's and Standard and Poor's uses as the measure of the State's debt burden. As of June 30, 1985, this total was \$1,610.3 million, of which less than half, \$752.7 million, was State general obligation debt. Even the State's share of school debt alone, \$753.6 million, exceeded State general obligation debt.

QUESTION: Why should the State seek to limit municipal debt generally? (HB 521)

ANSWER: Because of high levels of State support to municipalities, they may be tempted to issue more debt than they could reasonably expect tax payers to support without the State aid. With State revenues declining, State support for municipalities eventually may suffer budget cuts along with other programs. The State needs to insure that such developments do not create avoidable financial difficulties for municipalities.

QUESTION: Is one reason for the State's concern with municipal debt levels that municipal credit ratings affect the State's ratings? (HB 521)

ANSWER: No. The State's rating is not affected by the rating of any or all municipalities. Even a municipal financial emergency or default would not ordinarily affect the State's rating. However, an emergency or default would be likely to tarnish all Alaska issuers somewhat, much as the New York City default affected all municipal debt issuers and the WPPSS (Whoops) default affected Northwestern U.S. and public power supply issues. This could significantly raise, for some period of time, the interest rates the State and other municipalities have to pay on bonds.

QUESTION: Is the WPPSS (Whoops) syndrome the reason for the introduction of the Municipal Financial Emergency Commission legislation? (HB 293)

ANSWER: It's one reason. However, a more important reason is to establish a mechanism that ensures satisfactory and early resolution of a municipal financial crisis so that provision of public services is impeded. Unlike nuclear power plants, municipalities cannot be mothballed. A mechanism for

satisfactory and early resolution also provides a valuable assurance to bond buyers.

QUESTION: What is the State's debt capacity and how is it determined?

ANSWER: In recent years, the State's debt policy has been that the State had capacity to issue additional general obligation debt if the debt service on the new bonds, combined with the debt service on outstanding bonds, would not exceed 5 percent of the State's unrestricted revenues. 5 percent is a level which few states with a AA credit rating exceed.

QUESTION: What is the current level of debt service relative to unrestricted revenues?

ANSWER: Considering only State general obligation bonds, the level for fiscal year 1987 is 5.7%. However, inclusion of all State supported debt which the rating agencies look at boosts the percentage to 11.5%. Falling State revenues will push the debt service to a level of 16.4% of revenues in fiscal year 1989.

QUESTION: Does this mean the State can't issue any more debt in the near future?

ANSWER: No. In the first place, the State could issue additional debt if it were willing to sacrifice its credit rating and that of State agencies and municipalities, whose ratings generally are tied to the State's. More to the point, additional issuance in modest amounts with a AA rating might be possible if the rating agencies were assured total debt obligations will remain limited. The limits and controls in Governor Sheffield's debt management package are an essential step in providing these assurances.

QUESTION: What happens to the State's reimbursement of municipal school debt that was authorized last fall? (HB 520)

ANSWER: That debt and all municipal school debt authorized before April 1, 1986, will be grandfathered under current law. This means State reimbursement for that debt will be under the current formula of 80% of principal and interest.

QUESTION: Does the Governor's budget contain the funds necessary for the State to reimburse the grandfathered bonds? (HB 520)

ANSWER: The amount required is contained in the Department of Education's fiscal note for HB 520. The estimated amount required for fiscal year 1987 is \$43 million. The Governor plans to support the \$43 million appropriation if the legislation is passed.

QUESTION: How much additional school debt could be reimbursed by the State under HB 520?

ANSWER: HB 520 would permit State reimbursement of \$10 million per year for debt authorized after March 31, 1986. Since the legislation establishes reimbursement at 100% of principal and requires the debt to have a 10 year term and constant principal payments, the \$10 million State reimbursement could support as much as \$100 million initially.

QUESTION: How does 100% of principal compare to 80% of principal and interest? (HB 520)

ANSWER: It depends on how much the interest is in relation to principal, which depends on the interest rates at the time the bonds are sold. At current interest rates, 100% of principal is approximately 89% of the current formula for reimbursement (80% of principal and interest). Thus, the new formula would provide

reimbursement at a level about 11% less than current reimbursement. 100% of principal would represent approximately 71% of total principal and interest.

QUESTION: How will it be decided what municipal school debt receives reimbursement if the \$10 million limit otherwise would be exceeded? (HB 520)

ANSWER: The Department of Education will establish a priority list based on criteria specified by law. Portions of school construction project costs also may be deemed ineligible for reimbursement based on design standards and regional cost differentials determined by the Department of Transportation and Public Facilities. Financing costs will not be eligible for reimbursement. State reimbursement will be reduced further by the interest earned on bond proceeds, except arbitrage which would have to be paid to the federal government under pending congressional legislation. These limitations will spread increasingly scarce State dollars further and enable the State to support more schools under the \$10 million limit.

QUESTION: Why is the limit set at only \$10 million? (HB 520)

ANSWER: There has been an explosion of authorization of municipal school debt. Between October 1, 1985, and March 31, 1986, total municipal school debt receiving voter approval is expected to exceed \$250 million. This would represent an increase of almost 50% in six months over the \$739 million school debt outstanding as of June 30, 1985. It is this explosion which will propel State payments for debt service to over 16% of State revenues by fiscal year 1989.

QUESTION: Can the limit be revised? (HB 520)

ANSWER: Certainly the limit could be amended by law in future legislative sessions. A report to the 1988 session of the legislature by the Department of Education on school construction needs is required in section 17 of HB 520. This would be an appropriate time to consider a revision. As an alternative, the State bond committee may revise the limit at any time in light of State credit conditions, school requirements, or any other reason.

QUESTION: Will the State Bond Committee decide which schools receive funding? (HE 520)

ANSWER: No. This will be determined solely by the Department of Education in establishing the priority list. The State Bond Committee will be concerned only with the credit implications for the State of the total amount of reimbursement to be paid.

QUESTION: What is lease-purchase financing? (HB 519)

ANSWER: Lease-purchase financing consists of debt obligations issued by a private developer or State agency to finance the construction or acquisition of facilities which are leased to the State. The lease payments made by the State are in an amount and duration which is equal to the principal and interest payments on the debt obligation. The debt obligation may take the form of a revenue bond or a certificate of participation in rent (CP or CCF as they are sometimes called). At the conclusion of the lease, title to the facility generally passes to the State.

QUESTION: Why is the Alaska State Housing Authority (ASHA) designated as the issuer of all lease-purchase financing for State facilities? (HE 519)

ANSWER: ASHA has previously issued lease revenue bonds for State facilities and is the current lessor of these facilities to the State. The designation of a single agency which has experience

and technical expertise in this area will improve accountability, efficiency, and control of these types of financing.

QUESTION: Why would ASHA be issuing debt under the name of the Alaska State Building Authority? (HB 519)

ANSWER: This name change, applicable only to the financing of public buildings, will improve the marketability of the debt. The alternate name avoids confusion about the issuer and debt since most state housing authorities issue debt only for the provision of low and moderate income housing. The name change helps recognize the higher credit standing accorded debt which is secured by payments from a state government for leases rather than from private individuals for rent.

QUESTION: What became of the State Office Complex Financing Task Force?

ANSWER: The Task Force, a body of executive branch officials, two legislators, and five members of the public with substantial financing experience, held hearings in the fall of 1985 and produced a report to the Governor which is available from the Treasury Division of the Department of Revenue. HB 519 implements the recommendations contained in that report.

QUESTION: Will ASHA be deciding what public buildings will be built or acquired? (HB 519)

ANSWER: No. Each branch of government and the University of Alaska would decide what facilities would be built or acquired. The facilities would have to meet the requirements and specifications of each branch or the University before the branch or University could be expected to execute the lease. No financing can occur without an executed lease.

QUESTION: Does this mean each branch of the University can enter into lease-purchase financings without legislative approval or approval by law? (HB 519)

ANSWER: Yes. However, the annual lease payments are subject to appropriation by the legislature as a matter of constitutional law. HB 519 requires lease-purchase agreements to state this fact so that it is clear to all parties. Because lease payments are subject to appropriation, lease-purchase financing is not debt from the standpoint of the State Constitution.

QUESTION: Could legislative approval or approval by law be required of lease-purchase financing by statute? (HB 519)

ANSWER: Alaska Supreme Court decisions indicate that this probably would violate the separation of powers doctrine and be unconstitutional. Legal questions of this caliber can easily derail debt financings because bond buyers will not purchase debt with such uncertainties about it. To achieve the same purpose, Governor Sheffield has pledged to seek legislative approval of any executive branch lease-purchase financings. The other branches and University might be expected to do the same.

QUESTION: Why does the State Bond Committee need to approve lease-purchase financings? (HB 519)

ANSWER: Lease-purchase financing is paid from the State general fund and, accordingly, is added into the State's debt burden by the credit rating agencies. Because of this, the State Bond Committee needs to control aspects of such financings which can affect the State's credit standing. This can include such things as the maturities of the debt, need for insurance, or the timing of the sale. The State Bond Committee will not be concerned with project justification or specification. This is the same manner

in which the Committee functions with respect to State general obligation debt.

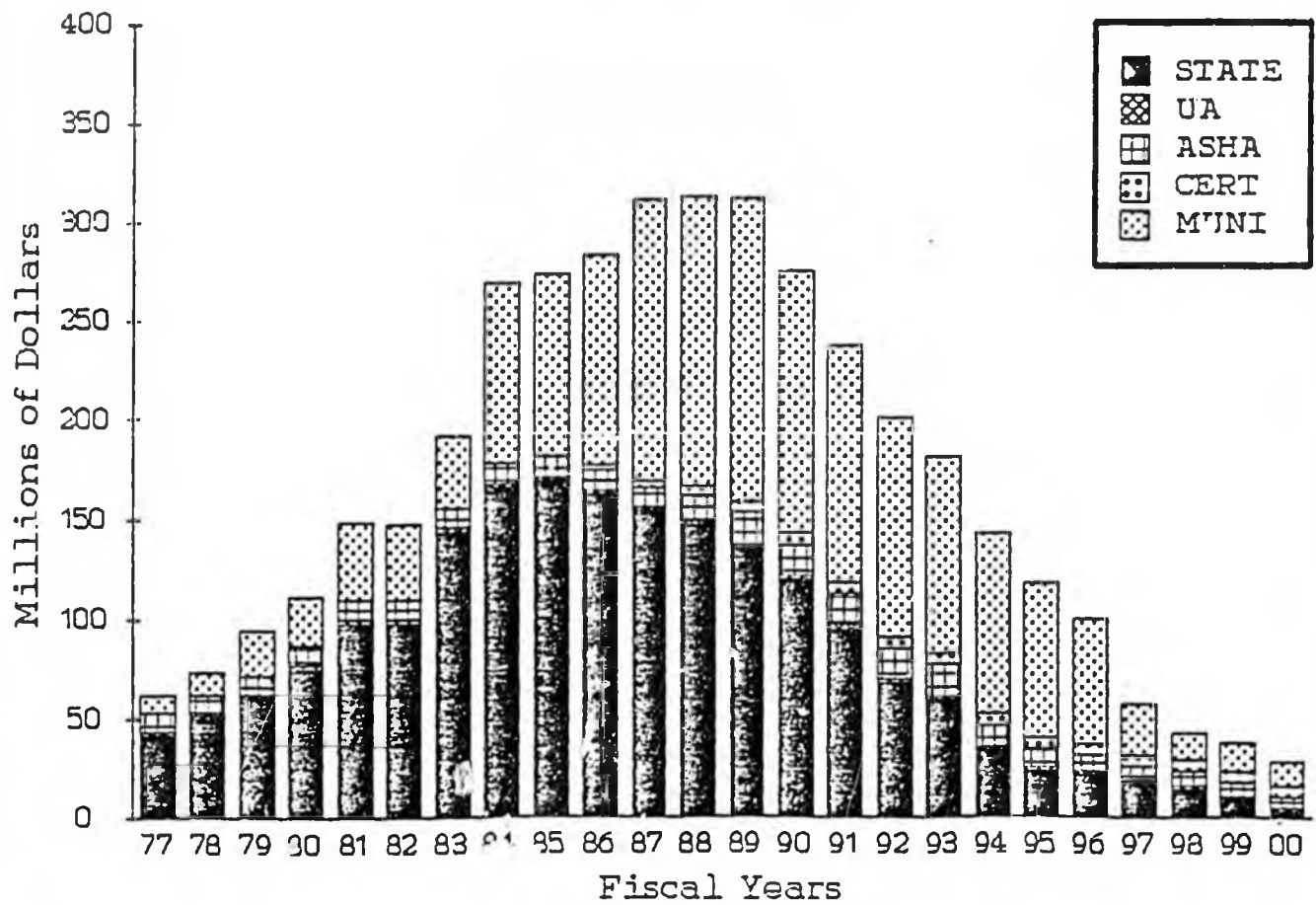
QUESTION: What municipalities would be forestalled from issuing additional debt under HB 521?

ANSWER: The North Slope Borough and the city of Wrangell currently have general obligation debt exceeding 7% of the full value of their property tax base. They would not be able to issue additional debt until their tax base has increased sufficiently or outstanding debt is paid down. The North Slope Borough should be able to issue additional debt again within two years. The city of Menana would not be limited by the cap due to the exemption in HB 521 for self-supporting debt which is issued as a general obligation bond. Issuance of revenue bonds and refunding bonds are not limited by HB 521.

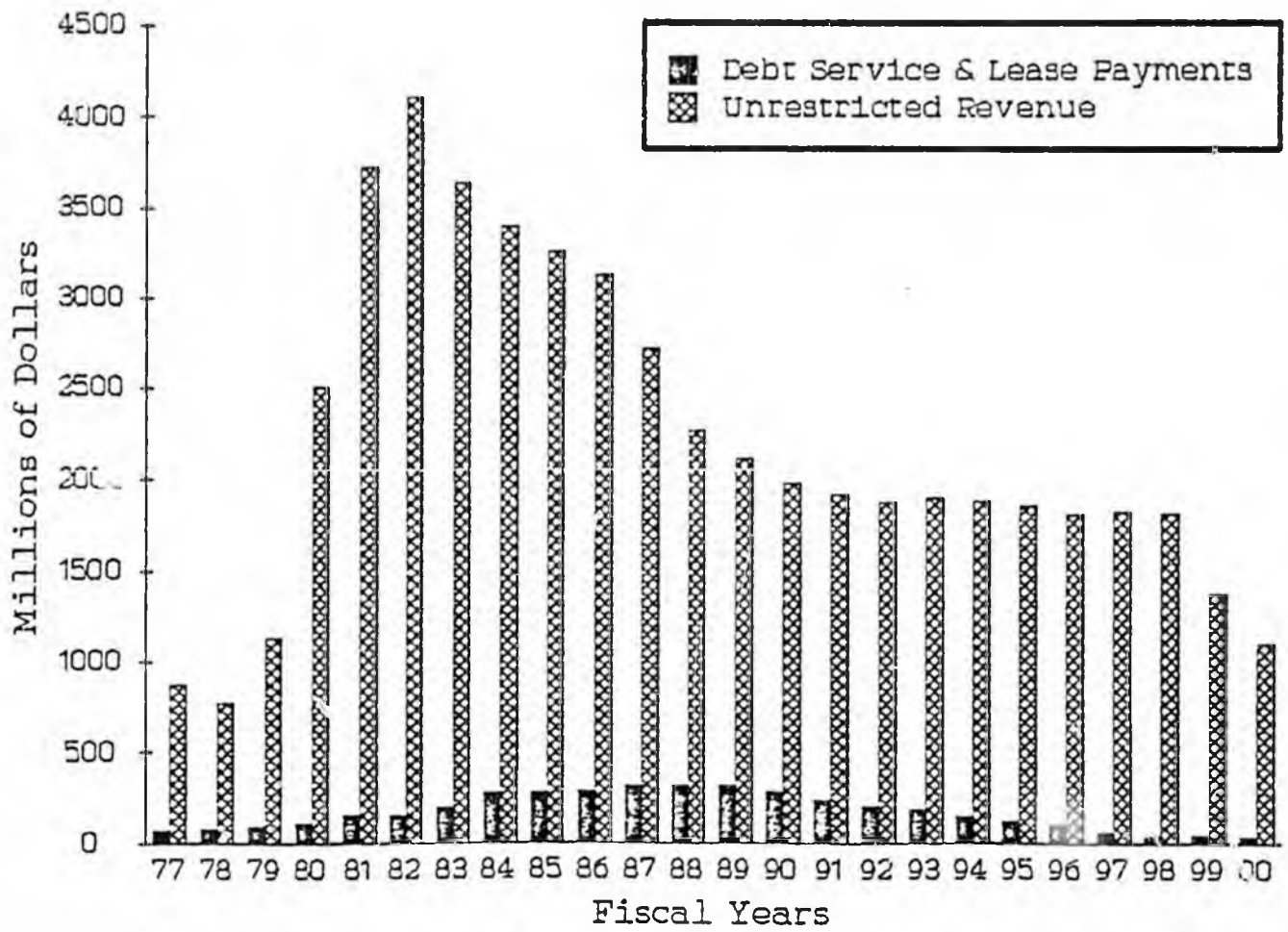
QUESTION: Why is the limit set at 7%? (HB 521)

ANSWER: National medians for municipal general obligation debt are in the range of 3% to 4% of full value. A higher level is appropriate for Alaska because the economy is still developing, with spurts of rapid growth in particular localities, if not statewide. However, a level significantly above 7% would not be an effective limit or provide the credit markets any comfort that Alaska is managing its debt.

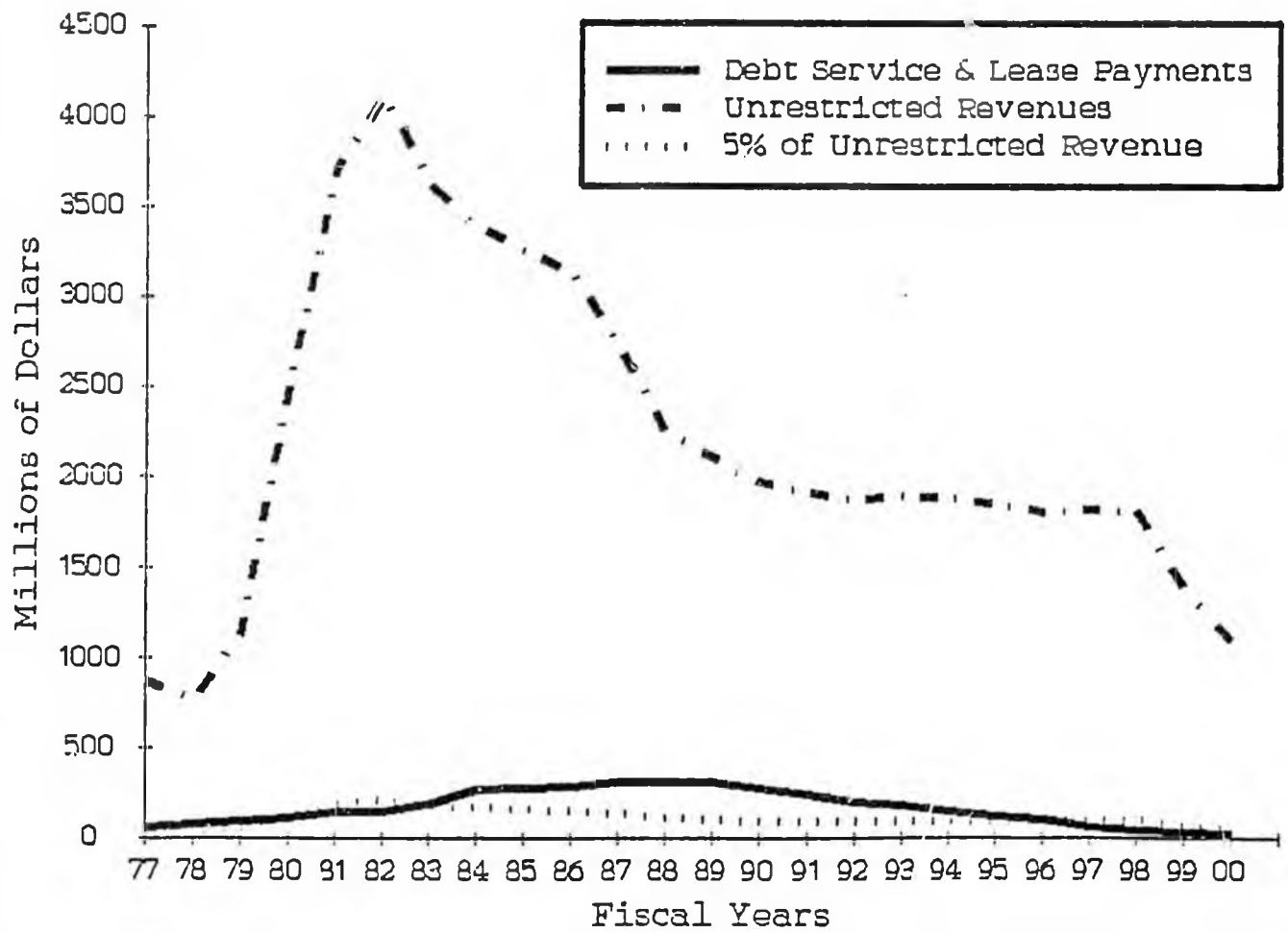
Total Debt Service & Lease Payments (January 28, 1986)



Debt Service vs. Unrestricted Revenue



Debt Service vs. 5% Revenue



Total Debt Service & Lease Payments
(\$ Millions)

<u>Fiscal Year</u>	<u>State</u>	<u>UA</u>	<u>ASHA</u>	<u>Certificates of Participation (Cert)</u>	<u>School Debt (Muni)</u>
77	41.9	1.5	9.9	0	9.0
78	50.0	1.7	10.1	0	11.4
79	60.0	1.7	10.1	0	22.3
80	75.1	1.8	10.1	0	24.1
81	97.6	2.2	10.0	0	38.4
82	97.5	2.3	10.0	0	38.3
83	143.6	2.3	9.9	0	36.2
84	166.3	2.0	9.9	0	91.2
85	169.5	2.0	9.9	.1	92.8
86	163.2	1.8	9.9	3.0	105.3
87	154.9	1.8	9.5	3.0	143.0
88	147.9	1.7	12.5	5.1	146.0
89	135.5	1.8	16.5	5.1	154.0
90	120.3	1.7	15.5	6.0	132.0
91	95.5	1.7	15.5	6.0	119.0
92	68.2	1.7	15.5	6.0	110.0
93	59.7	1.7	15.5	5.9	99.0
94	33.9	1.5	11.1	5.9	91.0
95	23.1	1.5	9.5	5.9	79.0
96	21.5	1.5	8.0	5.9	63.0
97	16.7	1.5	7.0	5.9	26.0
98	14.4	1.5	7.0	5.9	14.0
99	9.0	1.5	7.0	5.9	14.0
00	2.6	1.5	6.0	5.9	12.0

Debt Service vs. Unrestricted Revenue
(\$ Millions)

<u>Fiscal Year</u>	<u>Total Debt Service</u>	<u>Unrestricted Revenue</u>	<u>Percentage</u>
77	62.4	874.3	7.1%
78	73.3	764.9	9.6
79	94.1	1133.0	8.3
80	111.0	2501.2	4.4
81	148.2	3718.2	4.0
82	148.1	4108.4	3.6
83	192.0	3631.0	5.3
84	269.5	3390.1	7.9
85	274.3	3260.0	8.4
86	283.2	3124.6	9.1
87	312.0	2718.8	11.5
88	313.0	2257.4	13.9
89	313.0	2109.1	14.8
90	276.0	1980.4	13.9
91	238.0	1915.5	12.4
92	201.0	1874.6	10.7
93	182.0	1903.7	9.6
94	143.0	1881.8	7.6
95	119.0	1854.9	6.4
96	100.0	1808.2	5.5
97	57.0	1820.7	3.1
98	42.0	1812.5	2.3
99	37.0	1378.1	2.7
00	27.0	1106.0	2.4

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

SEVEN PERCENT CAP

Borough	FULL VALUE	G. O. DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	\$15,755,411,000.00	\$353,779,500.00	\$1,102,879,770.00	32.53%	2.29%
Bristol Bay	\$101,772,800.00	\$3,535,000.00	\$7,125,716.00	49.51%	3.47%
Fairbanks	\$4,210,997,700.00	\$90,929,500.00	\$294,739,839.00	30.85%	2.15%
Haines	\$93,945,500.00	\$1,300,000.00	\$6,576,155.00	19.77%	1.39%
Juneau	\$1,613,399,900.00	\$47,651,000.00	\$112,937,223.00	42.19%	2.95%
Kenai Peninsula	\$3,290,219,200.00	\$137,929,000.00	\$230,315,344.00	57.89%	4.19%
Ketchikan Gateway	\$675,955,100.00	\$31,920,000.00	\$47,319,957.00	67.42%	4.72%
Kodiak	\$572,370,700.00	\$28,270,000.00	\$40,065,949.00	70.56%	4.94%
Mat-Su	\$2,357,406,200.00	\$112,229,000.00	\$165,719,424.00	67.71%	4.74%
North Slope	\$12,376,795,000.00	\$1,155,800,000.00	\$901,375,093.00	128.21%	8.97%
Sitka	\$395,227,900.00	\$12,500,000.00	\$27,735,953.00	44.71%	3.13%
Total Boroughs	\$41,954,537,900.00	\$1,920,631,400.00	\$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	\$152,295,900.00	\$555,500.00	\$12,750,723.00	4.35%	0.31%
Cordova	\$129,673,000.00	\$0.00	\$9,447,119.00	0.00%	0.00%
Craig	\$34,797,400.00	\$0.00	\$2,429,518.00	0.00%	0.00%
Delta Junction	\$30,870,500	\$0	\$2,160,935.00	0.00%	0.00%
Dillingham	\$94,669,000.00	\$0.00	\$6,626,893.00	0.00%	0.00%
Eagle	\$9,104,500.00	\$0.00	\$637,315.00	0.00%	0.00%
Galena	\$19,149,500.00	\$700,000.00	\$1,340,465.00	67.11%	4.70%
Hoonah	\$27,245,200.00	\$0.00	\$1,949,164.00	0.00%	0.00%
Hycaburg	\$12,639,900.00	\$0.00	\$893,223.00	0.00%	0.00%
Kake	\$11,608,000.00	\$0.00	\$812,550.00	0.00%	0.00%
King Cove	\$23,230,800.00	\$0.00	\$1,626,156.00	0.00%	0.00%
Klawock	\$5,553,000.00	\$0.00	\$339,410.00	0.00%	0.00%
Kotzebue	\$93,245,100.00	\$0.00	\$6,527,157.00	0.00%	0.00%
Nenana	\$12,931,500.00	\$2,717,300.00	\$901,705.00	301.35%	21.09%
Noze	\$116,712,900.00	\$2,151,200.00	\$8,159,993.00	26.45%	1.35%
Pelican	\$10,155,400.00	\$0.00	\$710,275.00	0.00%	0.00%
Petersburg	\$161,219,300.00	\$6,195,000.00	\$11,235,351.00	54.31%	3.34%
Sand Point	\$71,096,800.00	\$0.00	\$4,976,076.00	0.00%	0.00%
Skagway	\$53,447,100.00	\$820,000.00	\$4,091,297.00	20.04%	1.40%
St. Mary's	\$4,239,400.00	\$0.00	\$296,759.00	0.00%	0.00%
Tanana	\$11,195,400.00	\$0.00	\$723,572.00	0.00%	0.00%
Unalakleet	\$19,714,500	\$0	\$1,330,015.00	0.00%	0.00%
Unalaska	\$105,309,400.00	\$3,299,000.00	\$7,371,658.00	44.75%	3.15%
Valdez	\$1,740,431,900.00	\$75,333,000.00	\$121,330,223.00	62.24%	4.36%
Whittier	\$19,419,200.00	\$0.00	\$1,359,344.00	0.00%	0.00%
Wrangell	\$111,757,000.00	\$10,750,000.00	\$7,822,990.00	137.42%	9.62%
Yakutat	\$17,679,400.00	\$235,250.00	\$1,237,559.00	19.01%	1.33%
TOTAL CITIES	\$3,125,901,900.00	\$103,467,200.00	\$218,313,133.00	47.29%	3.31%
STATE	\$48,915,237,900.00	\$816,100,000.00	\$3,424,066,653.00	23.63%	1.67%
Total Boroughs	\$41,954,537,900.00	\$1,920,631,400.00	\$2,936,817,653.00	67.44%	4.72%

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting two bills that provide for improved state debt management. One relates to control of state-supported school debt, the other to lease-financing transactions by the various branches of government.

These two bills are each cornerstones of a comprehensive proposal designed to monitor and control more effectively the issuance of debt instruments that harbor substantial credit implications for the state. (Some citations in each bill are to provisions in the other bill. The two work together.) Alaska's remarkable wealth has facilitated tremendous economic growth in all areas of the state's economy and at all levels of government. Many of these worthy projects and programs have been funded directly by the state. In other instances, however, funding has been obtained through the issuance of debt instruments, either by the state or by local governments. Where government activities are funded through the issuance of debt, maintenance of a favorable credit rating for the state assumes critical importance. Simply stated, actions detrimental to the state's credit standing are injurious to the Alaska economy.

Unlike past years, we approach an era where the state's vast wealth is not, in and of itself, sufficient to support a favorable credit rating. In my discussions with representatives of the national financial community, the constant theme stated was the need for Alaska to demonstrate its ability to effectively manage its resources. One critical

attribute of responsible state management is an effective debt management program.

Any discussion of maintenance of a favorable credit rating for the state must reflect the broad array of financial obligations encompassed within the term "state-supported debt." It is critical to bear in mind that state general obligation bonds are but one type of debt instrument that affects the state's credit standing. The financial community also looks to other recurring, long-term financial obligations which are paid from the general fund, such as those which arise under a lease-financing agreement. In a similar vein, the state's commitment to support school debt issued by municipalities is a type of long-term financial commitment with substantial credit implications.

Debt management concerns must further reflect the impact of excessive or improvident municipal debt issuance on the state's credit standing. I initially observe that responsible state debt management policies must necessarily include a degree of state supervision of municipal debt issuance. While I am, of course, cognizant and supportive of the prerogatives of local government, problems with municipal debt issuance inevitably burden the state as well. For that reason, I previously introduced a bill that relates directly to the issuance of municipal debt. Last session I proposed the establishment of a Municipal Financial Emergency Commission to assist municipalities that have defaulted in bonded indebtedness (HB 293). I am also proposing legislation that imposes reasonable limitations on a municipality's authority to issue general obligation debt. As noted in the transmittal letters accompanying each of those bills, responsible state management of municipal debt is necessary to assure the continued investment community support of and confidence in municipal and state debt issues.

The two bills attached to this letter today are intended to assure proper state oversight before the state enters into the type of recurring, long-term financial commitments that might have an impact on the state's credit standing. Where the state issues general obligation bonds, the constitutional requirement of voter approval offers an appropriate opportunity for the electorate and for elected officials to gauge any adverse effect that issuance of the debt may have on the state. Under present law, however, neither the statutory reimbursement formula for school debt nor the unrestricted authority to enter lease-financing agreements

offers comparable mechanisms to assure that state credit implications are adequately addressed. As the decline of available revenues further exacerbates the sensitivity of the state's credit standing, it is of critical importance to assure that each project is viewed not only on its own merits but also with consideration of how the issuance of additional state-supported debt will affect broader state interests. I believe that these two bills offer a responsible way of meeting the needs of the state to obtain office facilities and of municipalities to provide necessary educational facilities -- a way that best preserves the state's favorable credit standing.

I.

The shorter bill implements the recommendations of the State Office Complex Financing Task Force, a body whose membership brought together the views of executive-branch officials, two legislators, and several members of the public with substantial financing expertise. The task force conducted extensive hearings to consider the most appropriate method to provide state office facilities in the most cost-efficient manner possible. After review of the available financing alternatives, the task force recommended the enactment of legislation to facilitate the acquisition of state office facilities through lease-financing agreements. The bill designates the Alaska State Housing Authority as the appropriate financing entity, but provides that when the authority issues debt for this purpose, it do so as the Alaska State Building Authority. The name change is intended to prevent confusion in national financing markets.

Sections 1, 6, 7 and 8 provide that the university and each branch of government, respectively, have legal authority to enter into lease-financing agreements with the Alaska State Housing Authority acting as the Alaska State Building Authority. The state has previously executed lease-financing agreements under existing lease authority, and these sections are thus intended to remove any ambiguities regarding the legal authority to enter into lease-financing agreements. The cost of building acquisition or development would be provided by the sale of revenue bonds by the Alaska State Building Authority. In all instances, a lease-financing agreement preserves legislative prerogatives through the requirement that lease payments be subject to annual appropriation.

While the bill recognizes the desirability of the lease-financing technique, the bill also imposes effective debt

management controls. First, lease-financing agreements may only be executed with the Alaska State Building Authority, a limitation that ensures uniformity and continuity in the state's lease-financing programs.

More importantly, secs. 9 -- 16 expand the responsibilities of the state bond committee (AS 37.15) to ensure that the broader credit implications are adequately assessed before the state enters into a lease-financing agreement. Under sec. 15, for example, proposed AS 37.15.770 authorizes the state bond committee to review any proposed lease-financing in detail and to prohibit or condition the sale of the debt instruments if it is in the best interests of the state to do so.

I observe that sec. 8 of this bill is similar to legislation that I proposed last session in the wake of the controversy surrounding the Anchorage Office Complex. The bill proposed last session (HB 392 and the identical SB 293) provided for project-specific legislative approval before execution of a lease-financing agreement. In the transmittal letter accompanying the initial bill, dated April 19, 1985 (1985 H.J., p. 1001, and 1985 S.J., p. 356), I noted that the provision of project-specific legislative approval posed substantial constitutional problems. Both the constitutional doctrine of separation of powers and the constitutional prohibition against special and local legislation place in serious legal doubt any statutory requirement to seek project-specific approval. And public finance is the worst forum to interject such a substantial legal uncertainty. Accordingly, the present bill does not propose project-specific approval. To do so, in my view, would impermissibly intrude upon the constitutional prerogatives of future governors. Although I believe it inappropriate to require project-specific approval as a matter of law, I reaffirm my personal commitment to seek legislative approval before the executive branch enters into any lease-financing agreement.

II.

The longer of these two bills that I am transmitting makes several changes to the state's support of public school construction. Most notable of the significant changes proposed under this bill is a cap is placed upon the amount of municipal debt obligations for which the state will provide reimbursement. Municipalities issuing debt to finance school construction will pay the interest costs, while the state will pay the principal in equal payments up

to an aggregate amount of \$10,000,000 in any year for debt approved by local voters after March 31, 1986.

The state presently provides, in addition to its municipal grant program, three forms of aid for school construction. Under AS 14.11.010 all school districts may apply to the Department of Education for an appropriation for school construction projects for which the department may request, in order of priority, appropriations from the legislature. If an appropriation for a school construction project is made, the school district may, under AS 14.11.020, request the assumption of the state's responsibility to plan, design, and construct the particular project. The department provides for the assumption of the responsibility by executing a grant agreement with the school district.

AS 14.11.100 provides two additional forms of state aid for public school construction which are only available to municipal school districts. The state reimburses municipal debt service payments in varying percentages which, because of amendments made in ch. 78, SLA 1985, are at least 80 percent. The state also reimburses a municipality for at least 80 percent of its cash payments used for school construction. To receive reimbursement of either debt service or cash payments, the municipality must first quantify the need for the project and provide a description of the project and an estimate of its cost. The Department of Education reviews the project and its justification, and, when appropriate, grants its approval of the project and its estimated costs. The next step is approval of the municipality's voters to sell the bonds. If the local voters approve the sale of the bonds, the state will reimburse the costs of debt service by requesting money in each year's budget.

There are several weaknesses in the state's present programs of financing school construction.

First, there are inadequate procedures to ensure that the estimates of project costs are reasonable. Before 1982, the administration of the school construction grant program was shared by the Department of Education and the Department of Transportation and Public Facilities. Chapter 92, SLA 1982 transferred all responsibility for the state's construction grant program to the Department of Education. This same weakness exists under AS 14.11.100.

The second major failing is that there is no ceiling for the amount of money which the state will be requested to reim-

burse under AS 14.11.100. In the proposed FY 1987 state budget, approximately \$106,000,000 in municipal debt service payments is requested to continue existing level of debt.

During the last session of this legislature, the percentage of reimbursement for debt service costs was increased to 80 percent, although allowable projects were limited to facilities necessary for increased enrollment or to correct health and safety problems. The result of last session's amendments to AS 14.11.100 has been an identification of required projects with approval of the projects closely followed by local bond elections. These recent municipal elections have authorized approximately \$312,500,000 of new municipal debt for which local communities will seek reimbursement from the state for debt service costs. I anticipate, if all of this newly authorized debt is incurred in the near term, that the impact on the debt retirement program could be as much as an additional \$45,000,000 in requested reimbursements in FY 1987. I intend to support this additional funding as soon as the amount is determined and necessary debt management legislation is passed.

I, of course, recognize that there are municipalities in the state which have experienced significant population increases, and which therefore need the construction of new schools. I believe that these existing needs should be met at the current levels of state support. However, the future of state revenues and the need for new schools are uncertain. Consequently, I believe that different approaches need to be applied to the way the state considers all school construction in the state.

With discipline and altered approaches to the school construction, I believe that the state and its municipalities can contain state-supported debt and still allow for adequate state support of school construction.

This bill changes procedures for reviewing and approving school projects.

Section 1 amends AS 14.09.151. These amendments are desirable to clarify the manner in which the state conveys title for school sites to regional education attendance areas.

Section 2 amends AS 14.11.010(b) by requiring the Department of Education to request cost estimates from the Department of Transportation and Public Facilities and to base its

project approval upon that cost estimate. This same requirement is found in sec. 11 in amendments to AS 14.11.102, which relates to project approval for the debt retirement program. Section 14 contains new authority for DOT/PF to estimate construction costs for all school projects financed by appropriations and debt retirement. Included within that authority is the responsibility to establish design standards.

Section 3 of the bill amends AS 14.11.010(c) by adding new criteria, relating to population trends and the condition of facilities, which the Department of Education will consider when approving projects for appropriation. These amendments are also applicable to the debt retirement program under language found in sec. 11.

Section 4 proposes new language that will require school districts requesting state aid to inventory and inspect the schools in their districts and to revise that inventory on a yearly basis. The provisions of this section also require that school districts provide information relating to maintenance and operation costs. This information regarding existing school facilities will enable the state to better analyze new projects that the state will be asked to finance by appropriation or by debt reimbursement.

Sections 5 and 6 limit the state's reimbursement of school debt to principal only for approved projects financed by new municipal debt authorized by local voters after March 30, 1986. If the debt was authorized by local voters before April 1, 1986, the state's reimbursement continues as before. The state's reimbursement of cash payments by municipalities ends for payments made after June 30, 1986.

Section 7 amends AS 14.11.100(b) by offsetting the amount that the municipality receives for debt reimbursement by the amount of interest earned on the proceeds of bonds sold for a particular project. This amendment parallels existing law found in AS 14.11.100(k), which is repealed in sec. 16.

Sections 8, 9, and 10 contain a number of amendments to AS 14.11.100(h), (i), and (j), respectively, which are necessary to reflect the new class of reimbursement under the language proposed in AS 14.11.100(a)(6) in sec. 6 of the bill. Section 10 has a fiscal impact. It amends AS 14.11.100(j)(2) to allow refunding of bonds only in those situations where there is at least a five percent saving in debt service costs. It also amends AS 14.11.100(j)(2) by requiring that the principal on bonds be reimbursed in equal

annual payments over a period of 10 years or a term set by the state bond committee.

Under sec. 12, the Department of Education will continue to allocate money to reimburse municipal debt. However, a cap on reimbursement is placed upon debt authorized by local voters after April 1, 1986. The department may only allocate money for the reimbursement of principal paid on new debt if the new payments, when combined with all other reimbursements under this class of debt, do not exceed the \$10,000,000 or an amount set by the state bond committee. This mechanism will have two results. It puts a cap on state-supported debt, but, with discipline, it will enable municipalities to construct needed school projects in addition to those that are financed by bonds authorized by local voters before April 1, 1986.

Section 13 amends AS 14.11.135(3) by changing the definition of school construction costs. It excludes all financing costs for debt authorized by local voters after March 31, 1986.

Section 14 adds three new sections to AS 35.15. Under the proposed language, the Department of Transportation and Public Facilities will estimate the costs of all school construction projects under common design standards that it will develop.

Section 15 amends AS 37.15 to give the state bond committee the ability to manage state-supported school debt, which is accomplished under two different mechanisms. First, it may establish a higher or lower ceiling for allocations for reimbursement of new authorizations of school debt under AS 14.11.100(a)(6) (found in sec. 6), depending on the state's credit standing as well as on the needs for school construction. Second, it may control the term of the obligations to ensure that their maturity structure does not adversely affect the state's credit standing. While a 10-year term is allowed by the proposed provisions of AS 14.11.100(j)(2) (found in sec. 10), the committee is accorded the ability to set a different term when it is in the state's best interest.

It is our intent with the language in sec. 17 to develop a long range plan for the state's school construction through the end of the century. The necessary components of this plan would include projected enrollments under reasonable population projections, construction costs, design parameters, and financing techniques. It is our hope that,

after the completion of the plan, a rational mechanism can be put in place to provide for the state's public school construction needs which is within the state's ability to pay.

III.

Continued economic prosperity for all sectors of the Alaska economy is in part inextricably tied to more rigorous state debt management. These two bills, as well as legislation relating to responsible limitation on municipal debt, promote more responsible state debt management. Alaska's credit standing is, of course, in part dependent on factors beyond our control. That the state cannot control all relevant factors is no excuse, however, for the inadequate management of those factors within our control. I believe that it is critical that the state become more sensitive to the long-term credit implications of each isolated funding decision. These two bills provide for responsible yet flexible state debt management, and I urge your prompt consideration and approval of these measures.

Sincerely,



Bill Sheffield
Governor



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 15, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to establish a Municipal Financial Emergency Commission that will provide assistance to municipalities that are in default on bonded indebtedness.

Recent controversy surrounding the financial practices of the North Slope Borough has led to a greater sensitivity to the consequences of local financial disorder. While there is absolutely no indication that the present problems of the North Slope Borough will have any effect on the borough's ability to satisfy all debt service obligations, the controversy has led to concern that current law does not provide a role for the state in the event of a municipal default. It bears noting that a municipal default will inevitably affect the state and other municipalities as well. While each municipality's general obligation debt is of course a direct financial burden of only the issuing municipality, the practical fact is that all governmental entities in the state share, to one degree or another, in the consequences of a municipal default. While I reiterate that there is no present prospect of municipal default, it is imperative to establish a procedure to deal with that event before a financial crisis occurs -- not in response to one.

The bill proposes the establishment of the Municipal Financial Emergency Commission which consists of the commissioners of the Departments of Community and Regional Affairs, Revenue, and Administration. Under proposed AS 29.58.420, a municipality must provide notice of a default to the commission, or the municipality may request the assistance of the commission in anticipation of financial distress. Once the commission receives notice of a municipality in financial disarray, the commission must

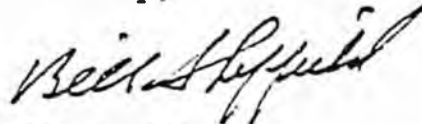
promptly convene and assess the municipality's financial affairs.

Under proposed AS 29.58.410, the commission enjoys extraordinarily broad powers to assure, to the extent possible, the resolution of the financial crisis. The fundamental objective of the commission is to adopt a plan that satisfies debt service obligations in a manner acceptable to municipal creditors. The commission enjoys the power to issue subpoenas and orders as are necessary to undertake this task.

I certainly anticipate that a municipality will act to implement the plan adopted by the commission. However, the bill provides that, in the unlikely event that a municipality fails to implement the plan, or if the commission determines that the municipality remains in financial disarray, the commission may assume full control of the defaulting municipality's financial affairs. This extraordinary intrusion upon local governmental prerogatives can only be exercised in narrowly prescribed instances and, as do all of the commission's powers, the authority of the commission expires upon the successful satisfaction of the default. While certain of these broad powers may approach the legal limit of the state's authority to impair local government powers, I believe that the overwhelming public concern for the financial stability of all Alaskan communities offers a compelling justification for this possible intrusion.

I again emphasize that this bill does not foretell any municipal default. In the area of municipal finance, however, it is not sufficient to act only in response to events. Instead, it is far preferable to establish a mechanism before any default, so that if a municipality does default on a debt service obligation, the repercussions to the state and to other municipalities are limited to the extent possible. With due respect for the prerogatives of local governments, I believe that this bill provides a needed mechanism for state involvement. I urge your prompt consideration and passage of this bill.

Sincerely,



Bill Sheffield
Governor

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will establish a reasonable limit on the authority of a municipality or borough to issue general obligation bond debt.

At present, there is no limit as to the amount of general obligation debt that municipalities may incur. And, while taxing limits are generally prescribed by statute, current law specifically exempts from the taxing limitation any assessments necessary to satisfy debt service obligations. The potential for excessive municipal debt burdens -- a burden that both directly and indirectly affects the state and other municipalities -- is one which simply must be controlled.

I believe that reasonable general obligation bond debt limitations are essential to preserve the financial stability of Alaska municipalities. We are all aware that the level of per capita municipal debt in Alaska far exceeds the national average. To be sure, the lack of basic public services in many areas of the state contributes to the current level of debt. While I am certainly sensitive to the extreme, and at times costly, needs of rural communities, I am equally concerned that excessive municipal debt will only undermine the substantial economic progress enjoyed by all Alaska communities in the last several years.

The problems associated with excessive debt requirements will increase in the future. As state revenues decline,

municipalities will increasingly be responsible for the cost of governmental services, and this inevitable burden will only be further compounded if municipalities are saddled with excessive debt service obligations.

The bill proposes that a municipality may not incur additional general obligation debt if, upon issuance, the municipality's general obligation debt would exceed seven percent of the market value of property which is taxable under state law. The Department of Community and Regional Affairs is currently required by statute to ascertain annually the property value necessary for this limit. That only three communities -- the North Slope Borough, the cities of Nenana and Wrangell -- exceed the seven percent standard is indicative that the limit is reasonable, and will not unfairly limit the prerogatives of local governments.

It is equally important to note what the bill does not do. The bill does not limit in any manner a municipality's authority to levy taxes in order to satisfy debt service obligations. The bill does not limit a municipality's authority to issue revenue or refunding bonds. And finally, the bill does not penalize those municipalities that have issued debt in excess of the seven percent standard.

I believe that the bill provides a needed assurance that municipalities will not incur an unsupportable debt burden. Establishment of a debt ceiling greatly diminishes the prospect of a municipal default. It also prevents a decline in state revenues as municipal assessments are increased to support an ever-increasing debt burden. I urge your prompt passage of this legislation.

Sincerely,

Bill Sheffield
Governor

Cape May County, New Jersey

\$19 million general improvement bonds due 1987-1996
Competitive, March 5
Rated 'A -'

Rationale: S&P affirms Cape May County, N.J.'s 'A -' rating on outstanding general obligation general improvement bonds and assigns an 'A -' rating to the current \$19 million offering. The rating reflects strong financial performance and rapid bond retirement, coupled with the tourist-based economy and below-average wealth and income levels. Because of the developments in the casino industry in nearby Atlantic City, building permit activity is very strong. The casino industry also benefits from the county's commercial fishing industry because of increased tourism and year-round populations.

Economy: Cape May County forms the southernmost tip of New Jersey. The county is a peninsula, 454 square miles in total area, and has had steady population growth since the 1960s. The county's major industry is tourism, with the summer tourist industry the strongest economic factor for over 50 years. Population in the summer months increases to 593,856 from 95,724. Unemployment rates are seasonal in nature, during the summer of 1985, unemployment dropped to a low of 6% and reached 15% during the winter. Recent developments in the casino industry in nearby Atlantic City have significantly impacted the county's economy. Building permit activity has been very strong over the past few years with the construction of new hotels and motels, townhouses, and condominiums. The commercial fishing industry continues to be influenced favorably by Atlantic City as the larger tourist and permanent populations create greater seafood consumption.

Debt: Proceeds from this issue will be used for various municipal buildings, road, bridge, and storm sewer construction. With this issue, the county will have outstanding net debt of \$29.8 million. Per capita debt is high at \$1,007, but low as a percent of true value at 3.9%. Bond retirement is rapid, retiring 87% of the debt in 10 years. The S&P index, measure of per capita debt to per capita effective buying income, is moderate at 9.1%. The county's capital improvement program for the next five years amounts to approximately \$16.2 million, with 68% expected to be funded from bond proceeds.

Finances: Financial operations are sound. Revenues are derived primarily from property taxes, which account for approximately 70% of current fund revenues. The largest expenditures item is health and welfare, accounting for 24% of operating expenses. Debt service expense will increase with this sale to approximately 10% of budget. Unaudited results for year ended Dec. 31, 1985 show a 1985 ending fund balance net of deferred charges of \$6.1 million, or 14% of current fund revenues, a slight decrease from year-end 1984's \$6.4 million fund balance. The budget outlook for fiscal 1986 is expected to continue on a favorable basis, with revenues projected to be in line with budget expectations.

Dominick J. Truglio
(212) 208-1769

Alaska

Reviewed: rating affirmed

Rationale: S&P affirms Alaska's 'AA -' rating on all outstanding general obligation bonds. With the continued "softening" of the world oil market, a new approach to revenue forecasting known as the "30th percentile" has been implemented. The 30th percentile method means that, in the estimation of the state financial forecasters, there is a 70% chance that revenues will actually be greater than the amounts forecasted, and only a 30% chance that they will be less. Current projections reflect an average annual decline in petroleum revenues of approximately 10% for 1986-1988. Indications are that at current levels the projected decline will not adversely affect state revenues in the short run. However, in the long run, an absence of sustained exploratory activity, smaller discoveries, enhanced recovery, and production of heavy oil, at least at current levels, can adversely affect state revenues. Financially, the state continues to perform in a manner commensurate with its rating, as evidenced by a good cash and fund balance position, and a strong permanent fund. The fishing and timber industries, important contributors to the Alaskan economy, are still somewhat depressed, but continue to show signs of gains. Debt remains manageable and is declining as the state continues to meet some of its capital needs through pay-as-you-go financing. Overall, the state's economy continued to show growth in population, employment and personal income, and maturation in the trade and services sectors.

Economy: The state's economic base is primarily extractive, with major dependence upon oil and gas production, and to a somewhat lesser extent, the supportive industries of fishing, timber, minerals, and tourism. Approximately 86% of state revenues are derived from royalties and taxes paid on state-owned oil and gas leases. Indications are that the production level of several Cook Inlet fields is declining and production from the

Prudhoe Bay field will substantially decline in the 1990s. As of Jan. 1, 1986, the Alaska Oil and Gas Conservation Commission estimated the state's remaining recoverable reserves to be 7.995 billion barrels of oil and 34.23 trillion cubic feet of gas. Approximately one-third of Prudhoe Bay's estimated 9.6 billion barrels had been produced by year-end 1984. Some encouragement may be gained from the fact that there have been varied successes in oil and gas exploration in North Slope, totaling an estimated 2.5 billion barrels of recoverable oil. This new exploration bolstered a relatively strong employment picture. Arco Alaska and Standard Oil Co. of Ohio, two major petroleum operators, are cutting their construction budgets by 43% and 17%, respectively. The combined exploration spending still represents a large sum for 1986 at \$1.25 billion. State revenue forecasters believe that in the short run, the current decline in world oil prices will be offset at the wellhead by the reduction in the Trans Alaska Pipeline System tariffs, by approximately \$1.20 per barrel. A partial settlement was reached in a long outstanding tariff litigation between the state and pipeline owners. The state will receive a total of \$285 million, including refunds from 1982-1985, as a result of this settlement. However, the settlement will have an adverse effect on local communities who depend on the pipeline for a portion of their property taxes. North Slope Borough will lose approximately \$2.0 million annually, while Valdez and Fairbanks North Star will lose approximately \$1.8 million and \$500,000 annually, respectively. In fiscal 1986, the state will receive an added \$2.27 million from this settlement.

The fishing and timber industries continue to be important contributors to the state's economy. Total revenues to fishermen from fish catch sold in Alaska for fiscal 1985 was \$700 million, compared to \$602.3 million in 1984. Since 1977, salmon catches have been improving, however, the shell fish industry, which includes king crab and shrimp, the major revenue contrib-

(continued on next page)

utors, remains somewhat depressed. However, it is anticipated that harvests will continue to improve, and the future of the industry enhanced by the priority given to U.S. fisheries over foreign fleets to harvest within the 200-mile fisheries conservation zone. Alaska forests are expected to remain a major source of timber, despite restrictions imposed by the Alaska National Interest Lands Conservation Act of 1979. As part of the settlement act passed by Congress, the industry has been guaranteed 450 million board feet per year, a quantity capable of sustaining traditional harvest levels. The industry has been declining since 1980, as export of forest products have declined at an average annual rate of 10% due to competition and a strong U.S. dollar. In 1984, forest product exports totaled \$219 million, or 21% of all Alaska exports.

Anticipated depletion of oil reserves in the future resulted in attention to minerals and mineral deposits. Shipments of coal to Korea from the Usibelli Mine, which began in 1984 and now totals 560,000 tons yearly, may be increased to 800,000 tons in 1986. Development of a world-class molybdenum mine by U.S. Borax & Chemical Co. is continuing with expectations of 900 new jobs on completion. Also under development are the Red Dog and Greens Creek zinc and lead mines. The Red Dog deposit is estimated at 29% of U.S. deposits and is the second largest zinc deposit in the world. Tourism continues to contribute significantly to the economy. Its importance is underlined by the size of the marketing budget of \$8.1 million in 1985, and a projected \$7.2 million in 1986. In 1984, 700,000 visitors spent a total of \$620 million. Approximately 715,000 visited in 1985.

Following completion of Trans-Alaska Pipeline System construction in mid-1977, population which totaled 411,000 in 1978, declined to 402,000 in 1980. Since this decline, major gains have been realized, particularly in the early 1980s resulting in an approximate total increase of 25% for 1980-1984. Current estimated 1985 population is 566,600. For 1980-1984, all sectors of employment continued to experience growth with the exception of mining and manufacturing which had 11% and 1% declines, respectively. Government employment, historically high in Alaska, accounts for 29% of total employment for 1980-1984. Per capita money income experienced modest gains, with the 1981 level at \$11,722. This represents 134.8% of the U.S. average; at \$12,900 in 1983, it was the equivalent of 135.8% of the U.S. average. Total personal income for 1980-1984 increased from \$5,238 million to \$8,739 million, or 66.8%.

Finances: The state continues to portray a strong financial posture. Fiscal 1985 unrestricted revenues for the general fund totaled approximately \$3.2 billion, excluding amounts which go directly to the permanent fund. Petroleum revenues accounted for approximately 85% of total unrestricted revenues, down from a peak of 90% in 1980. Projected unrestricted general fund revenue for fiscal 1986 is \$3.1 billion, of which \$2.1 billion, or 66%, will be from petroleum revenues. As of Dec. 31, 1985, the permanent fund balance was \$7.0 billion. The fund is expected to total \$8.5 billion by 1990 and \$16.6 billion by 2000. The amount of fund income available for dividends in 1985 was \$217.3 million, with 521,323 eligible applicants receiving \$404.

An amendment to limit state appropriations to \$2.5 billion, approved by voters at the November 1982 general elections, will be placed on the ballot for reconsideration in the 1986 general election. Under the amendment, state appropriations cannot exceed \$2.5 billion for any fiscal year by more than the cumulative change, based on federal indices in population and inflation after July 1, 1981. If rejected, it will be repealed. If approved, the amendment would become permanent, and appropriations may be subjected to impoundment powers of the governor, who may withhold or reduce appropriations during a budget year if revenues are less than appropriations. The amendment has not been operative, and has exceeded any revenues or accrued surpluses available for appropriation.

Debt: Historically, the issuance of state debt has been significant due to the state's commitment to capital improvement programs. The state is currently studying the implementation of a debt management policy, which may have been influenced by declining oil revenues and the need to meet unfilled infrastructure requirements while maintaining a conservative debt position. The policy will include all debt that relies on state general fund appropriations, in particular all nonself-supporting state debt, including G.O. debt, lease revenue debt, and similar obligations paid by the state. The state's last debt issuance was in fiscal 1983. Maximum annual debt service on all bonds is \$175.7 million, due in 1986. As currently structured, debt service requirements will decrease substantially through 2000.

Anthony H. Arthur
(212) 208-1777

Alaska Municipal Bond Bank

Reviewed: ratings affirmed

Rationale: S&P affirms the 'A' rating on all outstanding Alaska Municipal Bond Bank's general obligation bonds and the 'A-' rating on all outstanding bond bank revenue bonds. About \$168.5 million of debt is affected. The basis of the rating is the moral obligation of the state. S&P policy establishes this rating at one full category below the existing rating of the state. In this case, the rating would be 'A-' based upon the state's 'AA-' rating. However, the G.O.s of the bond bank where the state has the authority to withhold aid to participating units, in lieu of debt service payments upon the request of the bank, are rated 'A'. The revenue bonds remain at 'A-', where no withholding provisions exist.

The bank: The Municipal Bond Bank Act established the bank as a public corporation and instrumentality of the state of Alaska within the department of revenue, but separate from and independent of the state. The bank, which began operations in August 1975, was created for the purpose of lending money to government units within the state of Alaska by purchasing municipal bonds issued by such governmental units. Under the act and the bank's general resolution, the bank initially was authorized to purchase only G.O. bonds. Effective May 16, 1978, the Alaska state legislature authorized the bank to purchase municipal

revenue bonds, and provided that the bank shall be called the Alaska Municipal Bond Bank Authority when issuing revenue bonds, and the Alaska Municipal Bond Bank when issuing G.O. bonds. The purchase of bonds is dependent upon bond counsel's opinion, stating that the bonds are valid obligations of the governmental unit as required by the act and that a loan agreement has been authorized and executed between the bank and the governmental unit, which constitutes a valid and binding obligation of the governmental unit. The powers of the bank are vested in a five-member board of directors, three of whom are public members appointed by the governor and confirmed by the state legislature. The three appointees serve four-year staggered terms. The remaining two members, the Commissioner of Revenue and the Commissioner of Community and Regional Affairs, are permanent.

Finances: Ongoing operations of the bank are not funded by the state's general fund appropriations, but by fees and charges and interest earned on investments. The bank is not allowed to carry surpluses, which must be returned to the state. Since its inception, the bank has returned \$7.6 million. In fiscal 1985, \$1.8 million was returned. The reserve fund, which receives capital appropriations from the state's general fund for

funds leveraging, is maintained at an amount equal to the maximum annual debt service requirement. As of June 30, 1985, the Alaska legislature has appropriated \$17.9 million to the bank for the statutory reserve fund, of which approximately \$5.4 million is available to meet statutory reserve fund requirements for future bank bond issues. The bank is annually required to deliver a statement to the governor and state legislature, stating the sum, if any, necessary to restore the reserve fund to the required debt service reserve level. The state is not legally obligated to make such an appropriation and, to date, it has never been necessary.

Debt: The bank has issued \$192.8 million in bonds with \$168.5 million currently outstanding. The outstanding debt is comprised of G.O. revenue, coastal energy reserve, and coastal energy loan program bonds. There is a statutory debt limit of \$300 million, of which \$131.5 million remains available. During 1982-1985, the bank's debt issuance has been \$48.5 million, \$30.6 million, \$7.0 million, and \$25.8 million, respectively. Due to declining state petroleum revenues, it is anticipated that local units will be turning to the bank on a regular basis for financing of their capital needs.

Anthony H. Arthur
208-1777

North Slope Borough, Alaska

Reviewed; ratings affirmed

Rationale: S&P affirms North Slope Borough, Alaska's outstanding BBB- rating on approximately \$794.9 million general obligation bonds. The rating on \$52.8 million series D bond anticipation notes due Nov. 18, 1986 is also affirmed at "SP-1+." An additional \$428.5 million of G.O. debt is outstanding but secured separately by various credit enhancements. The long-term debt rating reflects the narrowness of the borough's economic base, the large amount of debt supported by that base, debt-carrying charges that represent 67% of general fund expenditures, balanced by good financial operations and a strong financial position. The borough's economic viability entirely depends on the oil and gas industry, and the outlook for any significant diversification is poor. Due to remoteness and harsh environmental conditions, development of the limited infrastructure that supports the small community required the issuance of large amounts of debt. Total G.O. debt currently outstanding is approximately \$1.3 billion. The pace of debt issuance slowed over the past two years and is not expected to exceed \$107.4 million over the next three years. As a result, maturing debt should exceed new debt issuance over the period. The debt matures rapidly, with 48% rolling off in five years, and 95% in 10 years. The borough derives 60% of its revenues from a tax on oil- and gas-related real property improvements. Therefore, its main revenue stream is unaffected by fluctuations in oil prices. A small effect is expected from the recently settled pipeline tariff agreements which includes owners' income in the property assessment formula. The borough could lose up to \$2 million annually as a result of the settlement (0.6% of total revenues). An additional 27% of revenues is derived from interest earnings. The very large debt burden appears adequately supported by an increasing but very narrow tax base.

Issuer: North Slope Borough is a vast, geographically isolated, sparsely populated area located entirely north of the Arctic Circle. Barrow, located almost 2,000 miles northwest of Seattle, is the borough seat and its largest city (population of 2,647). The virtually impassable Brooks Range forms the borough's southern boundary. A wide range of services is provided by the borough, including health, safety, sanitation, utilities, education, housing, and transportation systems. The borough is analogous to the county form of government in the lower 48 states, but has greater governmental powers. Remoteness, the absence of a modern infrastructure, and severe climatic conditions make the cost of development enormous.

Debt: Debt issuance increased sharply in 1983 and 1984 as infrastructure improvements were made to provide services to residents and to accommodate increased oil-related economic activity. The borough currently has outstanding \$1.3 billion G.O. bonds and bond anticipation notes (net of refunded debt). Debt on a per capita basis is extremely high at \$121,704, but is a more moderate 7.5% of true value (\$13 billion in 1986). Carrying charges are very high as a percent of expenditures. The primary source of payment for the debt is a property tax assessed

on capital improvements made at the oil and gas fields at Prudhoe Bay and Kuparuk. These properties represent 95% of the tax base. Capital financing of \$107.4 million is planned for the next three years. These funds will be raised principally through issuance of G.O. bonds. An emergency debt service reserve fund was established during fiscal 1984 and is funded at 15% of outstanding debt. At July 1, 1985, a balance of \$184 million was available in this fund. Debt service requirements for 1985 totaled \$189 million.

Economy: Oil and gas production, transportation, and exploration form the base of the borough's economy. Before the discovery of oil and gas at Prudhoe Bay in 1968, and the construction of the Alyeska Pipeline, economic activity was limited to subsistence hunting, fishing, and military activities (DEW LINE maintenance and research). Further diversification of the economy is not expected due to extreme geographic and climatic problems. The lack of a highway system within the borough makes commercial air service and limited water transportation the only available means of mass transportation.

Within the next 25 years, no basic industry is projected to supplement the oil and gas industry. Maintenance or expansion of the oil industry depends on competitive lease offerings by the state and federal governments. The lead time from lease to production is approximately 10 years. The present production level at Prudhoe Bay of 1.5 million barrels of oil per day represents roughly 18% of total U.S. domestic production. Proven, extractable reserves at Prudhoe Bay are currently projected to last 11 years. Production at Kuparuk has begun and is expected to be 250,000 barrels of oil per day during 1986. An industry investment in Kuparuk is expected to total \$8 billion and the economic life of the field is projected at 20-30 years. The two major North Slope operating companies are Atlantic Richfield Co. (Arco) and Standard Oil Co. of Ohio (Sohio). Although Arco's 1986 North Slope construction budget was reduced from \$715 million to approximately \$500 million as a result of reduced oil prices, work on the Prudhoe Bay Gas Plant and the Kuparuk Lisburne production facility will continue. Sohio has indicated it will proceed with its 1986 construction program as planned.

Finances: General fund financial operations remain strong. Significant operating surpluses were generated in each of the past five years which were transferred to the reserve for capital outlay fund, the emergency debt service reserve fund, or the recently created permanent fund. At July 1, 1985, balances available in these funds were \$72 million, \$184 million, and \$117 million, respectively. As a result of these transfers, the general fund balance was reduced from \$56 million in 1983 to \$4 million in 1985. The three primary revenue sources of the general fund are property taxes (60%), interest earnings (27%), and state aid (10%). Tax collections are excellent, reaching roughly 99% on a current basis in each of the last five years. Debt service of \$189 million represented 67% of general fund expenditures in 1985. As of July 1, 1985, a balance of \$184 million was available in

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the emergency debt service reserve fund. Monies in excess of the 15% requirement in this fund will be transferred to the permanent fund. As of June 1985, \$4 million was transferred from the emergency debt service reserve fund to the permanent fund. An additional \$79 million transfer from the general fund left a balance of \$117.4 million available in the permanent fund to be held in perpetuity. Interest earnings on permanent fund bal-

ances will be used for general fund operations. Although financial management is sound, large debt service carrying charges, the range of services provided, and the high cost of service provision will continue to absorb the borough's large financial resources.

Maury Cooper
(212) 208-1757

MUNICIPAL REVENUE

Alaska Industrial Development Authority

\$11 million variable demand/ fixed rate bond due 2004
Sold, February 25, Goldman, Sachs & Co.
Rated 'A-

Rationale: S&P assigns an 'A-' rating to the Alaska Industrial Development Authority's conversion of its variable demand/ fixed rate bonds, series 1984 A and B to a fixed rate. The 'A-' rating on the outstanding economic development bonds, the consolidated bonds, and the umbrella bonds is affirmed. The rating is based upon the moral obligation pledge of the state of Alaska, whose rating is affirmed at 'AA-'. The bonds are additionally secured by the general obligation of the authority.

Issuer and security: The state legislature established the Alaska Industrial Development Authority in 1967 to aid in economic development. The authority was originally created to administer the enterprise development fund. This fund was capitalized in 1981 with \$166 million in state-originated loans. In addition, the state contributed \$23 million to fund the capital reserve funds. In 1982 and 1984, the enabling act was amended to expand the authority's powers. In 1982, the multifamily housing loan security fund was set up and in 1984 the economic development fund. All three programs are legally separate and distinct. All economic development activities are channeled through the enterprise development fund. This fund holds the authority's general assets from which all of the authority's general obligation indebtedness is payable. The enterprise development fund as of Dec. 31, 1985 had general assets of \$525 million. The multifamily housing fund, which is not an asset of the authority, provides additional security to any of the authority's G.O. bonds issued for multifamily housing projects. This fund at Dec. 31, 1985 held \$8 million in assets. The economic development fund empowers the authority to own and operate certain types of facilities when it is in the public interest to do so. This fund was capitalized with an appropriation of \$12 million in cash and \$132 million in loans held by the state. Financial obligations or liability incurred will be secured solely by the economic development fund and there is no general obligation pledge of the authority.

The authority has four types of bond issues outstanding: economic development bonds, consolidated bonds, umbrella bonds, and variable demand/ fixed rate bonds. All issues except the variable demand/ fixed rate bonds are secured by a general obligation pledge from the authority. Variable demand bonds are special obligations of the authority which become G.O.s upon conversion to a fixed rate. All bonds are further secured by the state's moral obligation pledge, if necessary, the state's legislature can, but is not obligated to, appropriate funds to the bonds through their capital reserve funds pursuant to notice under state statutes, if these reserves fall below required levels. The authority's total outstanding G.O. debt at June 30, 1985 is \$213 million. This issue will increase debt by \$11 million to \$224 million. Total variable rate/ fixed rate debt at Dec. 31, 1985 excluding this conversion is \$40 million. The total \$40 million is expected to be converted to fixed rate by the end of 1986 for \$254 million in G.O. debt of the authority.

The economic development bonds provide funds for participations in loans for industrial and commercial projects up to \$1 million. All revenues from these loan participations are pledged first to the payment of economic development bonds and then

to the other G.O. debt of the authority. As of June 30, 1985, the total outstanding economic development bond debt was \$126 million. Consolidated bonds provide funds for participations in loans for industrial, commercial, and multifamily housing projects from \$1-\$10 million. Revenues from these participations are not specifically pledged to the repayment of consolidated bonds. However, this is not a credit concern because both economic development and consolidated bonds are secured by the authority's general obligation and the state's moral obligation pledges. As of Dec. 31, 1985, outstanding consolidated bonds totaled \$59 million.

The new umbrella bond program is intended to replace both the economic development and consolidated bonds. These new bonds do not have claim to the economic development, consolidated, and variable rate bonds' existing capital reserve funds. A separate reserve fund for the umbrella bonds was established with similar provisions to the previously issued bonds. At Dec. 31, 1985, the balances in all the capital reserve funds for the authority's G.O. debt is \$26 million. This balance reflects the average annual debt service payments of the bonds.

Loan portfolio: The authority's portfolio of loans falls into three categories: bond loans, appropriation loans, and federal guaranteed loans. Bond loans derive their funds from bond proceeds, appropriated loans from state appropriated money, and federal guaranteed loans from the authority's funds on hand. These three sources of funds are used to buy loan participations from Alaska financial institutions. The fiscal 1985 composition of the portfolio is 22% appropriated loans, 61% bond loans, and 17% Small Business Administration (SBA) guaranteed loans. Appropriated loans are expected to decline to an insignificant percentage of the portfolio by 1991. Funds from the paid-off appropriation loans are used to buy SBA loans or investments. However, no SBA loans have been purchased in the last year due to remittance procedure problems with the new SBA servicer FIDATA. Until this situation is eliminated, no future investments in the SBA program will be maintained. The authority's purchase of loan participations is limited to completed projects that satisfy all terms of the authority's loan underwriting criteria. The authority's capital participation rate in loans under \$1 million is 90% and 80% for those between \$1-\$10 million. Loans are disbursed geographically in proportion to the state's population distribution. As a result, the Anchorage area has the highest percentage of bonded loans at 55.5%. The portfolio's investment in projects is concentrated mainly in commercial space, approximately 78% in fiscal 1985. Bond loans delinquency rates on 90 days and over are still below 1%, even given the slump in the Alaska economy. This low rate is attributed to stringent underwriting criteria. In addition, each participating financial institution must provide servicing on all loans and maintain a 90-day delinquency rate below 2% or be suspended from selling new participations until the rate is controlled. The authority has a loan loss reserve fund of \$2.6 million. This was created in 1981 and to date, the only charge offs are \$1.1 million in defaulted appropriated loans. The reserve is

returned to its original level from earnings. The authority reviews the adequacy of this reserve fund annually with its accountants.

Finances: The authority's assets have grown from \$218 million in 1981 to \$524 million in 1985. Liabilities total \$220 million in fiscal 1985, of which \$213 million are bonds payable. All operating expenses are paid from commitment and finance fees. In fiscal 1985, this totaled \$1.4 million to cover expenses of \$1.1 million. Net earnings have risen from \$16 million in fiscal 1981 to \$30 million in fiscal 1985. The authority has unrestricted investments, capital reserve funds, cash, and interest earnings totaling \$157 million at June 30, 1985 to meet shortfalls in debt ser-

vice of approximately \$28 million. Unrestricted surplus at June 30, 1985 is \$284 million.

During fiscal 1985, the authority will convert all of its remaining \$40 million variable rate debt to fixed. In addition, during 1985's first half it intends to issue its first taxable financing of \$15 million. For fiscal 1987 and beyond, approximately \$65 million in debt will be issued a year. It is impossible to determine how H.R. 3936 will affect future issuances other than to assume the program will continue with additional volume constraints.

Andrea M. Esposito
(212) 208-1834

Alaska Housing Finance Corp.

Reviewed ratings affirmed

Rationale: S&P affirms Alaska Housing Finance Corp. (AHFC) ratings on \$4.27 billion in outstanding taxable and tax-exempt debt. The bonds, issued under 59 resolutions, are secured by over 52,000 level-paying mortgage and growing equity mortgage (GEM) loans. The loans are originated throughout the state by private lenders and subsequently purchased by the AHFC with bond proceeds. Direct state appropriations (in cash and in mortgages) permit the purchase of mortgage loans which bear interest at legislatively prescribed "below market" rates. To enhance the security of its bonds, the AHFC has entered into various credit arrangements. They include Federal Housing Administration (FHA) Title I insurance, Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA) collateralization, bank letters of credit, and surety bonds. Additionally, the issuer enjoys strong support from the state of Alaska; 13 issues are guaranteed by a pledge of the state's full faith and credit. The affirmed bond ratings reflect the strength of the credit enhancements (see list at right).

Issuer: To date, AHFC has received \$563 million in state appropriations. Fiscal year ending June 1985 witnessed no requests for additional funding. Such funding will not be sought in the foreseeable future. Fund balances of \$1.458 million (fiscal 1985) reflect the healthy, well managed performance of the issuer to date. The corporation has a staff of 43 with experience in administration, mortgage underwriting, and finance. AHFC is governed by a five-member board consisting of two ex-officio and three governor-appointed members.

Programs: Since its inception in 1971, AHFC has adopted many innovative programs and financing techniques. The principal activities include:

— **Mortgage loan subsidization.** All of the corporation's programs provide an interest rate subsidy on the first \$90,000 of a mortgage loan to Alaskan borrowers. The state currently subsidizes the mortgage loans to a maximum of 3% (4% for eligible veterans) below the cost of taxable funds to the corporation. However, loan rates may not be less than 10% (9% for veterans) unless the corporation's related cost of funds is less than 10%.

— **Taxable bonds.** To overcome the constraints of tax-exempt issuance caps (\$200 million per annum), the corporation began issuing taxable bonds in 1981. It currently has approximately \$1.3 billion in taxable debt outstanding, \$100 million of which was issued in 1985.

— **Alaska Building Equity loan program.** In 1983, AHFC introduced its own version of the GEM loan. Titled the Alaska Building Equity (ABE) loan, it requires an increase in the borrower's monthly payments to provide for an accelerated amortization of principal. Thus, it can take advantage of shorter-term, lower interest taxable bonds.

— **FNMA collateralization.** In 1983, AHFC signed a \$530 million pool purchase contract with FNMA enabling Alaskan mortgages to be swapped for FNMA mortgage-backed securities.

Rated debt outstanding	Amt (ml. \$)	Rating
Housing mortgage bonds (nonparity)		
1972 series A	10.6	AA
1973 series A	10.3	AA
1973 series B	29.6	AA
1975 series A	30.6	AA
1975 series B	10.5	AA
Insured mortgage bonds (parity)	311.7	A
1975 first series; 1976 first and second series; 1977 first, second, and third series; 1978 first, second, and third series; 1979 first and second series; 1980 first, second, and third series		
State-assisted mortgage bonds (nonparity)		
series A	95.8	A
series B and C	75.7	AA
series D and E	90.5	A-
series F	170.8	AA
series M	50.0	AA
series I	50.0	AA
series J	50.0	AA
series K	75.0	AA
series L	75.0	AA
series M	75.0	AA
series N	75.0	AA
series O*	50.0	AAA
series P*	50.0	AAA
Home mortgage bonds (nonparity)		
*1981 first series	79.6	A-
1981 second series	90.9	A
1982 first series	77.5	AA-
1982 second series	93.3	AA-
1983 first series	73.1	AA-
1983 second series	122.4	AA-
Collateralized 1984 series A	75.0	AAA
Collateralized 1984 series B	127.4	AAA
Collateralized 1985 series A	100.0	AAA
Collateralized 1985 series B	102.4	AAA
State-guaranteed bonds (nonparity)*		
1983 first series	46.2	AA
1983 second series	117.5	AA
1983 third series	72.0	AA
1983 fourth series	94.7	AA
1983 fifth series	48.3	AA
1983 sixth series	72.7	AA
1984 first series	130.0	AA
1984 second series	100.0	AA
Collateralized 1984 first series	100.0	AAA
Collateralized 1984 second series	302.5	AAA
Collateralized 1985 first series	150.0	AAA
Second mortgage bonds	9.3	AA
Fairbanks North Star Borough res. mtge. bonds	28.1	A-
AHFC Overseas Finance N.V. gtd. bonds	29.1	AAA

*Guaranteed by full faith and credit of the state of Alaska

(continued on next page)

(MBSs) These MBSs are then, in effect, purchased with bond proceeds and used as collateral for the bonds. Such collateralization has enabled the issuer to obtain 'AAA' ratings on 10 tax-exempt and taxable issues to date.

—*Recycling* AHFC relies heavily on recycling, wherein prepayments are used to make new mortgages, in many of its

bond structures. This technique has reduced the need for future bond financings and state appropriations.

Lori-Ann Wynter
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Platte River Power Authority, Colorado

\$113 million electric revenue bonds due 2018
Sold, February 20, Salomon Brothers Inc.
Rated 'A+'

Rationale: The \$113 million issue of Platte River Power Authority electric revenue bonds is rated 'A+', along with \$618 million of outstanding parity debt. The 'A' rating of the Loveland, Colo. electric revenue bonds was reviewed in connection with this sale and is affirmed. The ratings reflect the strength of the participant cities' economic bases and good financial performances. The authority's rates to the cities are low because capacity charges to Public Service Co. of Colorado are sufficient to pay debt service. Bond proceeds will be used to retire all outstanding commercial paper. The authority has refunded the commercial paper program instead of retiring it from revenues as was planned to avoid potential tax problems and to take advantage of current long-term interest rates.

Security: The bonds are secured by take-or-pay contracts with the cities of Fort Collins (45.7% of the project), Longmont (28.1%), Loveland (21.5%), and Estes Park (6.1%). The authority's rate covenant is net revenues 1.25 times (x) adjusted aggregated debt service. Debt service is adjusted to levelize payments of term bonds in 2000 and 2002. The additional bonds test requires net revenues in 12 of the preceding 24 months prior to issuance to meet the rate covenant. Additional security is provided by a debt service reserve fully funded to maximum debt service at the time of bond issuance.

Operations: Platte River's resources include energy and capacity under contract with the Western Area Power Administration (WAPA) through 1989. The authority receives 158mw in the winter and 238mw in the summer. The authority owns the 255mw coal-fired Rawhide Energy Station and an 18% share of the Yampa Project coal-fired Craig units, totaling 154mw. Excess capacity in the Craig and Rawhide units is sold to Public Service under a contract through 1994, which is less than the life of the bonds. Public Service is obligated to take-or-pay for capacity and energy made available in accordance with the schedule in the contract. If the contract schedules are not met, Public Service has the option to terminate the contract. Therefore, these bonds are not rated on the basis of the Public Service contract. Revenue derived from these sales is sufficient to pay all Platte River debt service at this time. In 1985, Platte River sold 340.5mw of capacity per month and 2,380gwh to Public Service.

Platte River expects peak demand to grow at a compound rate of 5.4% per year in the future and for energy sales to grow 5.9% per year. Since 1980, annual growth rates ranged from -3.8% to 16.4% for peak demand and from 3.3% to 11.8% for energy sales. The average growth rates of 5.9% and 5.7%, respectively, were strong despite this volatility. Based on this growth, Platte River expects to sell power from Yampa and Rawhide to participants when sales to Public Service end.

Rates: The authority is currently charging the participants 35 mills per kwh. Retail rates in all cities except Loveland are below those of Public Service and the Poudre Valley cooperative supplied by Tri-state generation and transmission cooperative.

Loveland's rates are only marginally above Public Service's rates. The authority does not anticipate raising rates to the participants until 1991 when it begins taking back its Rawhide capacity. Between 1991 and 1996, rates are expected to rise from 35.2 mills per kwh to 55.2 mills per kwh.

Finances: During the last two years, Platte River changed from a construction-oriented organization to an operating power supplier. The effect of this change is clearer when the operating statements for 1983 and 1984 are compared. Revenues grew 105% in that year and operating expenses grew 107%, primarily due to a 195% increase in depreciation with the start-up of Rawhide. During 1985, only 29.5% of revenues came from sales to the participants, the remainder of the revenues came from sales to Public Service. Annual debt service coverage was 1.48x in 1984 and 1.53x in 1985, including commercial paper interest. The balance sheet continued to improve in 1985. The current ratio was 4.39:1 and the quick ratio was 1.89:1. Leverage declined as the ratio of debt to plant declined to 1.14:1 from 1.20:1.

Participants: Fort Collins, Loveland, and Estes Park are in Larimer County, north of Denver, and Longmont is in Boulder County, west of Denver. The key economic sectors in this area are manufacturing, services, retail trade, and government. High technology electronics are a major source of employment, with manufacturing facilities of Hewlett-Packard Co., Storage Technology Inc., and NCR Inc. located in the participant cities. Colorado State University is another major employer in Fort Collins. The average unemployment rates for 1985 are below the national average in both counties, but rose slightly toward the end of the year to 7.1% in Larimer County and 6.7% in Boulder County. Total numbers employed remained stable.

Participants	Fort Collins	Longmont	Loveland	Estes Park
% Platte River	45.7	26.1	22.5	6.1
Peak demand 1985	110	59	48	14
gwh sold 1985	582	332	286	72
Population est. 1985	83,000	49,800	35,300	7,800
1984 revenue (000)	30,487	17,981	15,820	4,572
Debt serv. cov. (x)	•	•	5.80	•
Current ratio**	5.17:1	3:1	5.43:1	N/A

*No electric revenue bonds outstanding

**Current assets/current liabilities

N/A —Not available

The financial performance of the participants is good. Each has had a positive trend in revenues and controlled growth of expenses in recent years. Off-balance sheet debt service coverage is less than 1.00x for all participants because Platte River debt service payments are subsidized through the Public Service contract.

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Briefing Materials

Debt Management Plan

February, 1986

State of Alaska
Office of the Governor

February 1986

DEBT MANAGEMENT PLAN

Governor Bill Sheffield

Through careful management, the State of Alaska has maintained the best credit rating we've ever had. That AA rating, in turn, has allowed local governments across Alaska to keep their investment grade ratings as well. This good credit rating translates into lower property taxes for Alaskans.

With dropping world oil prices, however, Alaska's annual debt payments automatically become a larger part of our expenses.

So, I have asked the 14th Alaska Legislature to approve a package of new laws which, viewed as a whole, will give our young state a plan for comprehensive debt management for the first time. None of these proposed improvements in our laws is flashy or exciting, but as a package they are vital to the continued financial health of Alaska. I encourage you to read the enclosed information.

In short, the debt management plan I have placed before the Alaska Legislature will keep the commitments voters have made to our future, particularly in regards to local school construction. The plan also will guarantee we can continue to incur a reasonable amount of debt for school construction and other improvements in the future, while we preserve our good credit rating.

Debt Management Plan

"We've borrowed a considerable amount of money to help build Alaska. We can manage that debt, but it takes planning...lest that debt manage us in the future."

Governor Bill Sheffield

January 14, 1986

DEBT MANAGEMENT PLAN

An Overview

Without firm control of public debt the credit rating of all debt issuers in Alaska could be in jeopardy. Right now the State has an AA rating, the highest it's ever had, and all issuers within the State are rated as investment grade. But as oil prices decline, the share of revenues devoted to debt service will become an increasingly heavier burden. The State of Alaska cannot control the price of oil. What we can and must control is the amount of public debt.

Proper stewardship of public debt in Alaska can be accomplished through enactment of legislation covering four distinct needs. Taken separately, each of the four bills brings reasonableness to a different aspect of public debt. But viewed as a whole, this legislation provides a plan for comprehensive debt management for the first time. It assures that all State-supported debt, which is any debt paid from the State general fund, is subject to the control of the State Bond Committee. It is this total of State supported debt which the rating agencies look to in establishing the State's credit rating.

The first bill, House Bill 293, provides for orderly financial management in the event of a default by a municipality of its debt obligations. This legislation protects both issuers of public debt in Alaska and creditors.

House Bill 519 provides for the lease financing of public buildings through the Alaska State Housing Authority, acting as

the Alaska State Building Authority. The bill gives the State Bond Committee control over issuance of this debt as well as debt of the University of Alaska.

House Bill 520 gives the State Bond Committee control over the total amount and maturity of municipal school debt to be reimbursed by the State. The investment community needs to see some control on this fast-growing part of State supported debt.

The fourth bill, House Bill 521 places a limit on the issuance of general obligation debt by municipalities. Even with this limit some municipalities in Alaska will have some of the highest debt ratios in the United States. This legislation does not limit the ability to issue revenue bonds.

As background, Alaska's combined debt (State, municipal and school district) through the issuance of general obligation bonds was \$2.9 billion as of June 30, 1985. That amounts to about \$5,500 per Alaskan. When the amount of G.O. Bond debt for veterans' housing is included in the total, Alaska's per capita debt load is \$7,000.

That debt is manageable, but it takes planning. The State of Alaska has not had a bond authorization since 1980. Yet, the per capita interest on the State's general obligation bond debt is 20 times the national average. State policy limits debt service to five percent of unrestricted revenues, but that ratio is about 10 percent now and could climb to 16 percent by fiscal year 1989.

Again, this is a result of a combination of factors. World oil markets have seriously eroded the revenue Alaska receives from oil and gas production. At the same time, Alaska voters have authorized new debts, including \$325.0 million in school construction bonds so far in fiscal year 1985 alone. That translates into a possible 30 percent increase in State

reimbursement for local school debt--added costs which show up in the State operating budget.

These and other construction commitments are viewed by the nation's financial markets in different ways. On one hand, Alaska's rating agencies know this is a unique state, with enormous potential for generating public revenues and a young, dynamic workforce; on the other hand, the rating agencies look at all of Alaska's debt together, and while they are concerned about how much we borrow, they are more concerned that Alaska have controls on the growth of debt statewide.

To tackle that issue, Governor Sheffield is asking the Legislature to take the following initiatives:

- ° For school construction, honor all existing debt (as of March 31, 1986) under the current 80 percent reimbursement law, and limit the growth of future State reimbursement to \$10 million per year for school construction in the future.
- ° Set standards for school construction to guarantee more schools can be built with the funds available.
- ° Reimburse 100 percent of principal only for bonds authorized after April 1, 1986. This will encourage local districts to shop for the lowest interest rates.
- ° For local governments, limit debt to seven percent of assessed property values.
- ° Designate the Alaska State Housing Authority, acting as the Alaska State Building Authority, as the issuer of lease revenue bonds to finance public buildings. This

change was recommended by a citizens task force appointed by the Governor to study the issue in 1985.

- ° Designate the State Bond Committee as overseer of lease revenue bond issues and the total of State reimbursement for school debt (after March 31, 1986).

DEBT MANAGEMENT PLAN

Questions and Answers

QUESTION: Why do we need a debt management package?

ANSWER: The State has achieved a AA rating for its general obligation debt. However, the burden of paying the State's debt becomes heavier as revenues shrink. Now, with oil prices falling, the State must demonstrate to the rating agencies that it has the procedures, checks, and balances necessary to manage its debt obligations, if the State is to retain its high credit rating.

QUESTION: Why does the State have to be concerned about lease-purchase financing, University of Alaska, and municipal school debt? (HE 519, HB 520)

ANSWER: All or a major portion of the payments on this debt come from the State's general fund. These types of debt obligations are referred to as State supported debt. The total of State supported debt and State general obligation debt is the figure that Moody's and Standard and Poor's uses as the measure of the State's debt burden. As of June 30, 1985, this total was \$1,610.3 million, of which less than half, \$752.7 million, was State general obligation debt. Even the State's share of school debt alone, \$753.6 million, exceeded State general obligation debt.

QUESTION: Why should the State seek to limit municipal debt generally? (HB 521)

ANSWER: Because of high levels of State support to municipalities, they may be tempted to issue more debt than they could reasonably expect tax payers to support without the State aid. With State revenues declining, State support for municipalities eventually may suffer budget cuts along with other programs. The State needs to insure that such developments do not create avoidable financial difficulties for municipalities.

QUESTION: Is one reason for the State's concern with municipal debt levels that municipal credit ratings affect the State's ratings? (HB 521)

ANSWER: No. The State's rating is not affected by the rating of any or all municipalities. Even a municipal financial emergency or default would not ordinarily affect the State's rating. However, an emergency or default would be likely to tarnish all Alaska issuers somewhat, much as the New York City default affected all municipal debt issuers and the WPPSS (Whoops) default affected Northwestern U.S. and public power supply issues. This could significantly raise, for some period of time, the interest rates the State and other municipalities have to pay on bonds.

QUESTION: Is the WPPSS (Whoops) syndrome the reason for the introduction of the Municipal Financial Emergency Commission legislation? (HB 293)

ANSWER: It's one reason. However, a more important reason is to establish a mechanism that ensures satisfactory and early resolution of a municipal financial crisis so that provision of public services is impeded. Unlike nuclear power plants, municipalities cannot be mothballed. A mechanism for

satisfactory and early resolution also provides a valuable assurance to bond buyers.

QUESTION: What is the State's debt capacity and how is it determined?

ANSWER: In recent years, the State's debt policy has been that the State had capacity to issue additional general obligation debt if the debt service on the new bonds, combined with the debt service on outstanding bonds, would not exceed 5 percent of the State's unrestricted revenues. 5 percent is a level which few states with a AA credit rating exceed.

QUESTION: What is the current level of debt service relative to unrestricted revenues?

ANSWER: Considering only State general obligation bonds, the level for fiscal year 1987 is 5.7%. However, inclusion of all State supported debt which the rating agencies look at boosts the percentage to 11.5%. Falling State revenues will push the debt service to a level of 16.4% of revenues in fiscal year 1989.

QUESTION: Does this mean the State can't issue any more debt in the near future?

ANSWER: No. In the first place, the State could issue additional debt if it were willing to sacrifice its credit rating and that of State agencies and municipalities, whose ratings generally are tied to the State's. More to the point, additional issuance in modest amounts with a AA rating might be possible if the rating agencies were assured total debt obligations will remain limited. The limits and controls in Governor Sheffield's debt management package are an essential step in providing these assurances.

QUESTION: What happens to the State's reimbursement of municipal school debt that was authorized last fall? (HB 520)

ANSWER: That debt and all municipal school debt authorized before April 1, 1986, will be grandfathered under current law. This means State reimbursement for that debt will be under the current formula of 80% of principal and interest.

QUESTION: Does the Governor's budget contain the funds necessary for the State to reimburse the grandfathered bonds? (HB 520)

ANSWER: The amount required is contained in the Department of Education's fiscal note for HB 520. The estimated amount required for fiscal year 1987 is \$43 million. The Governor plans to support the \$43 million appropriation if the legislation is passed.

QUESTION: How much additional school debt could be reimbursed by the State under HB 520?

ANSWER: HB 520 would permit State reimbursement of \$10 million per year for debt authorized after March 31, 1986. Since the legislation establishes reimbursement at 100% of principal and requires the debt to have a 10 year term and constant principal payments, the \$10 million State reimbursement could support as much as \$100 million initially.

QUESTION: How does 100% of principal compare to 80% of principal and interest? (HB 520)

ANSWER: It depends on how much the interest is in relation to principal, which depends on the interest rates at the time the bonds are sold. At current interest rates, 100% of principal is approximately 89% of the current formula for reimbursement (80% of principal and interest). Thus, the new formula would provide

reimbursement at a level about 11% less than current reimbursement. 100% of principal would represent approximately 71% of total principal and interest.

QUESTION: How will it be decided what municipal school debt receives reimbursement if the \$10 million limit otherwise would be exceeded? (HB 520)

ANSWER: The Department of Education will establish a priority list based on criteria specified by law. Portions of school construction project costs also may be deemed ineligible for reimbursement based on design standards and regional cost differentials determined by the Department of Transportation and Public Facilities. Financing costs will not be eligible for reimbursement. State reimbursement will be reduced further by the interest earned on bond proceeds, except arbitrage which would have to be paid to the federal government under pending congressional legislation. These limitations will spread increasingly scarce State dollars further and enable the State to support more schools under the \$10 million limit.

QUESTION: Why is the limit set at only \$10 million? (HB 520)

ANSWER: There has been an explosion of authorization of municipal school debt. Between October 1, 1985, and March 31, 1986, total municipal school debt receiving voter approval is expected to exceed \$350 million. This would represent an increase of almost 50% in six months over the \$739 million school debt outstanding as of June 30, 1985. It is this explosion which will propel State payments for debt service to over 16% of State revenues by fiscal year 1989.

QUESTION: Can the limit be revised? (HB 520)

ANSWER: Certainly the limit could be amended by law in future legislative sessions. A report to the 1988 session of the legislature by the Department of Education on school construction needs is required in section 17 of HB 520. This would be an appropriate time to consider a revision. As an alternative, the State bond committee may revise the limit at any time in light of State credit conditions, school requirements, or any other reason.

QUESTION: Will the State Bond Committee decide which schools receive funding? (HB 520)

ANSWER: No. This will be determined solely by the Department of Education in establishing the priority list. The State Bond Committee will be concerned only with the credit implications for the State of the total amount of reimbursement to be paid.

QUESTION: What is lease-purchase financing? (HB 519)

ANSWER: Lease-purchase financing consists of debt obligations issued by a private developer or State agency to finance the construction or acquisition of facilities which are leased to the State. The lease payments made by the State are in an amount and duration which is equal to the principal and interest payments on the debt obligation. The debt obligation may take the form of a revenue bond or a certificate of participation in rent (CP or CCP as they are sometimes called). At the conclusion of the lease, title to the facility generally passes to the State.

QUESTION: Why is the Alaska State Housing Authority (ASHA) designated as the issuer of all lease-purchase financing for State facilities? (HE 519)

ANSWER: ASHA has previously issued lease revenue bonds for State facilities and is the current lessor of these facilities to the State. The designation of a single agency which has experience

and technical expertise in this area will improve accountability, efficiency, and control of these types of financing.

QUESTION: Why would ASHA be issuing debt under the name of the Alaska State Building Authority? (HB 519)

ANSWER: This name change, applicable only to the financing of public buildings, will improve the marketability of the debt. The alternate name avoids confusion about the issuer and debt since most state housing authorities issue debt only for the provision of low and moderate income housing. The name change helps recognize the higher credit standing accorded debt which is secured by payments from a state government for leases rather than from private individuals for rent.

QUESTION: What became of the State Office Complex Financing Task Force?

ANSWER: The Task Force, a body of executive branch officials, two legislators, and five members of the public with substantial financing experience, held hearings in the fall of 1985 and produced a report to the Governor which is available from the Treasury Division of the Department of Revenue. HB 519 implements the recommendations contained in that report.

QUESTION: Will ASHA be deciding what public buildings will be built or acquired? (HB 519)

ANSWER: No. Each branch of government and the University of Alaska would decide what facilities would be built or acquired. The facilities would have to meet the requirements and specifications of each branch or the University before the branch or University could be expected to execute the lease. No financing can occur without an executed lease.

QUESTION: Does this mean each branch or the University can enter into lease-purchase financings without legislative approval or approval by law? (HB 519)

ANSWER: Yes. However, the annual lease payments are subject to appropriation by the legislature as a matter of constitutional law. HB 519 requires lease-purchase agreements to state this fact so that it is clear to all parties. Because lease payments are subject to appropriation, lease-purchase financing is not debt from the standpoint of the State Constitution.

QUESTION: Could legislative approval or approval by law be required of lease-purchase financing by statute? (HB 519)

ANSWER: Alaska Supreme Court decisions indicate that this probably would violate the separation of powers doctrine and be unconstitutional. Legal questions of this caliber can easily derail debt financings because bond buyers will not purchase debt with such uncertainties about it. To achieve the same purpose, Governor Sheffield has pledged to seek legislative approval of any executive branch lease-purchase financings. The other branches and University might be expected to do the same.

QUESTION: Why does the State Bond Committee need to approve lease-purchase financings? (HB 519)

ANSWER: Lease-purchase financing is paid from the State general fund and, accordingly, is added into the State's debt burden by the credit rating agencies. Because of this, the State Bond Committee needs to control aspects of such financings which can affect the State's credit standing. This can include such things as the maturities of the debt, need for insurance, or the timing of the sale. The State Bond Committee will not be concerned with project justification or specification. This is the same manner

in which the Committee functions with respect to State general obligation debt.

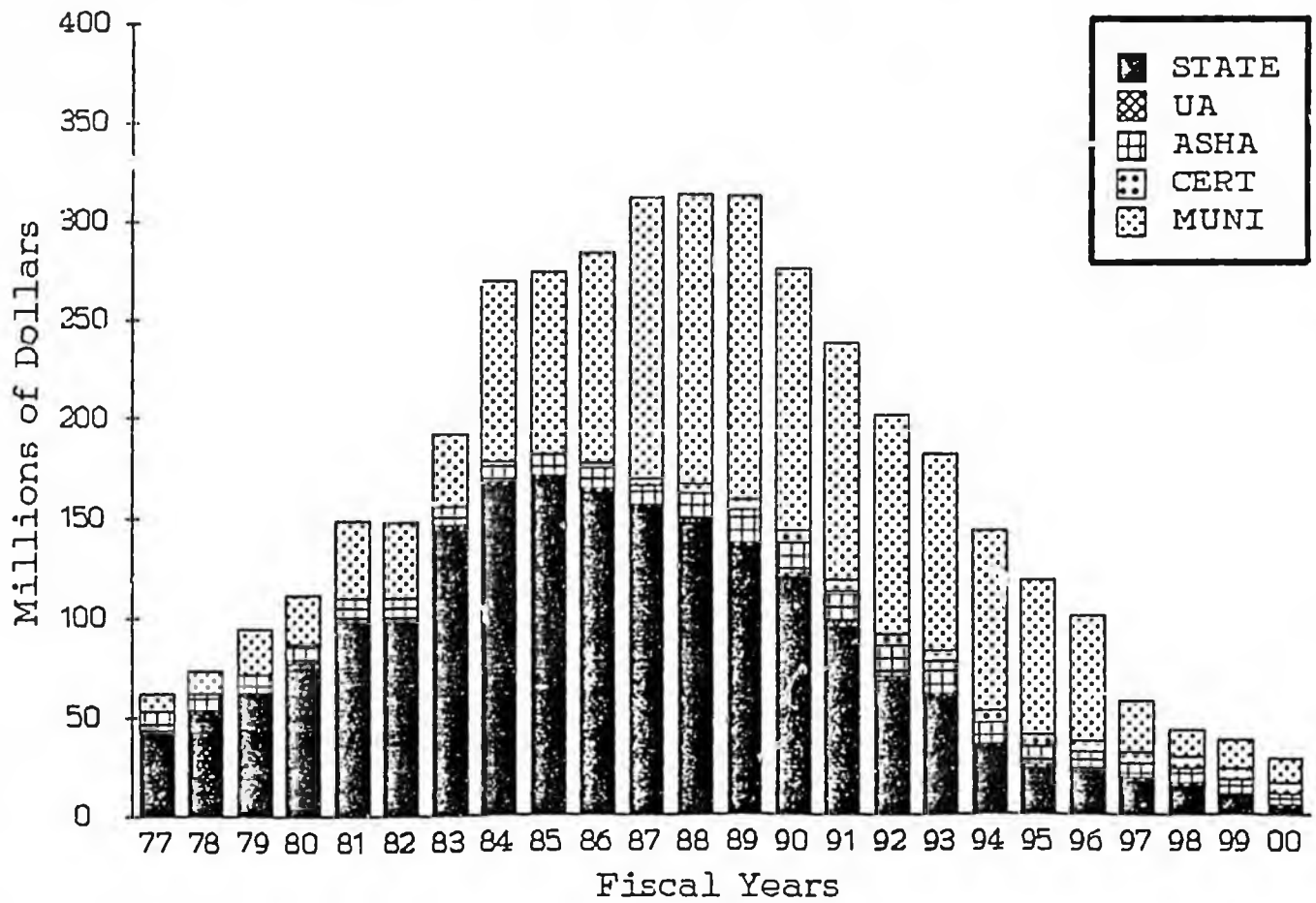
QUESTION: What municipalities would be forestalled from issuing additional debt under HB 521?

ANSWER: The North Slope Borough and the city of Wrangell currently have general obligation debt exceeding 7% of the full value of their property tax base. They would not be able to issue additional debt until their tax base has increased sufficiently or outstanding debt is paid down. The North Slope Borough should be able to issue additional debt again within two years. The city of Nenana would not be limited by the cap due to the exemption in HB 521 for self-supporting debt which is issued as a general obligation bond. Issuance of revenue bonds and refunding bonds are not limited by HB 521.

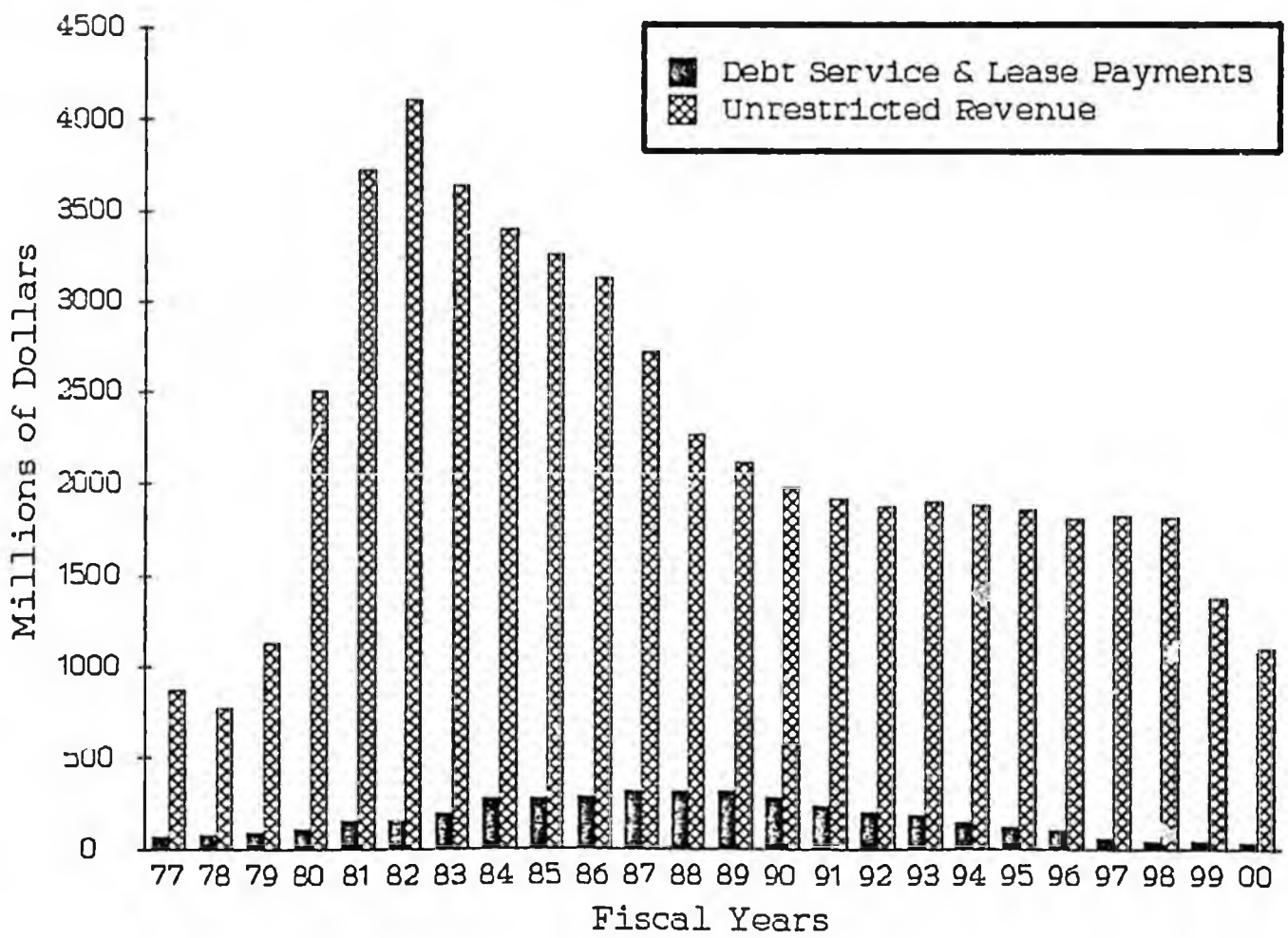
QUESTION: Why is the limit set at 7%? (HB 521)

ANSWER: National medians for municipal general obligation debt are in the range of 3% to 4% of full value. A higher level is appropriate for Alaska because the economy is still developing, with spurts of rapid growth in particular localities, if not statewide. However, a level significantly above 7% would not be an effective limit or provide the credit markets any comfort that Alaska is managing its debt.

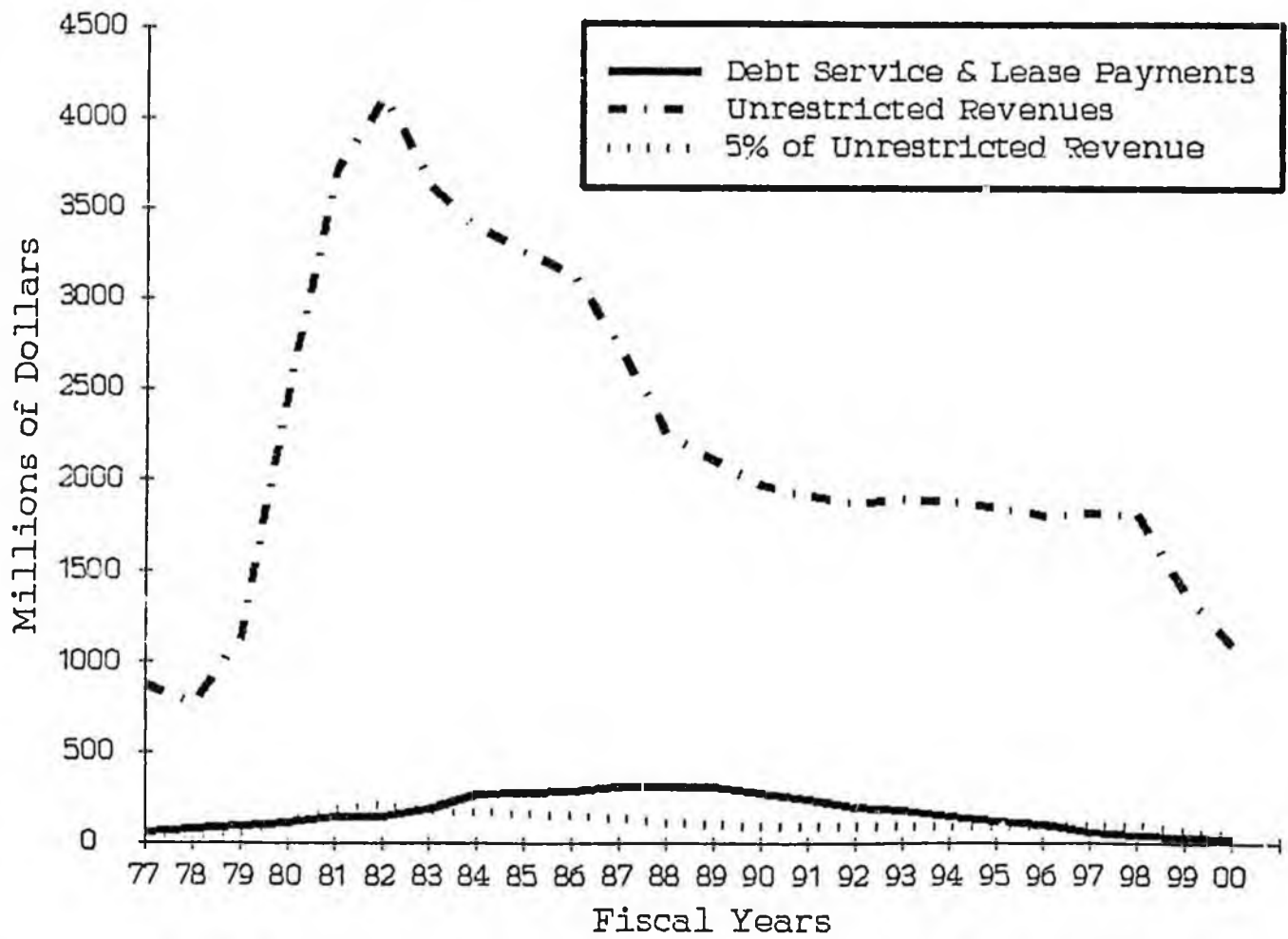
Total Debt Service & Lease Payments (January 28, 1986)



Debt Service vs. Unrestricted Revenue



Debt Service vs. 5% Revenue



Total Debt Service & Lease Payments
(\$ Millions)

<u>Fiscal Year</u>	<u>State</u>	<u>UA</u>	<u>ASHA</u>	<u>Certificates of Participation (Cert)</u>	<u>School Debt (Muni)</u>
77	41.9	1.5	9.9	0	9.0
78	50.0	1.7	10.1	0	11.4
79	60.0	1.7	10.1	0	22.3
80	75.1	1.8	10.1	0	24.1
81	97.6	2.2	10.0	0	38.4
82	97.5	2.3	10.0	0	38.3
83	143.6	2.3	9.9	0	36.2
84	166.3	2.0	9.9	0	91.2
85	169.5	2.0	9.9	.1	92.8
86	163.2	1.8	9.9	3.0	105.3
87	154.9	1.8	9.5	3.0	143.0
88	147.9	1.7	12.5	5.1	146.0
89	135.5	1.8	16.5	5.1	154.0
90	120.3	1.7	15.5	6.0	150.0
91	95.5	1.7	15.5	6.0	110.0
92	68.2	1.7	15.5	6.0	110.0
93	59.7	1.7	15.5	5.9	99.0
94	33.9	1.5	11.1	5.9	91.0
95	23.1	1.5	9.5	5.9	79.0
96	21.5	1.5	8.0	5.9	63.0
97	16.7	1.5	7.0	5.9	26.0
98	14.4	1.5	7.0	5.9	14.0
99	9.0	1.5	7.0	5.9	14.0
00	2.6	1.5	6.0	5.9	12.0

Debt Service vs. Unrestricted Revenue
(\$ Millions)

<u>Fiscal Year</u>	<u>Total Debt Service</u>	<u>Unrestricted Revenue</u>	<u>Percentage</u>
77	62.4	874.3	7.1%
78	73.3	764.9	9.6
79	94.1	1133.0	8.3
80	111.0	2501.2	4.4
81	148.2	3718.2	4.0
82	148.1	4108.4	3.6
83	192.0	3631.0	5.3
84	269.5	3390.1	7.9
85	274.3	3260.0	8.4
86	283.2	3124.6	9.1
87	312.0	2718.8	11.5
88	313.0	2257.4	13.9
89	313.0	2109.1	14.8
90	276.0	1980.4	13.9
91	238.0	1915.5	12.4
92	201.0	1874.6	10.7
93	182.0	1903.7	9.6
94	143.0	1881.8	7.6
95	119.0	1854.9	6.4
96	100.0	1808.2	5.5
97	57.0	1820.7	3.1
98	42.0	1812.5	2.3
99	37.0	1378.1	2.7
00	27.0	1106.0	2.4

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

SEVEN PERCENT CAP

Borough	FULL VALUE	G. O. DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	\$15,755,411,000.00	\$358,779,900.00	\$1,102,879,770.00	32.53%	2.28%
Eristoi Bay	\$101,778,800.00	\$3,535,000.00	\$7,125,916.00	49.51%	3.47%
Fairbanks	\$4,210,597,700.00	\$90,928,500.00	\$294,769,539.00	30.85%	2.16%
Haines	\$93,945,500.00	\$1,300,000.00	\$6,576,155.00	19.77%	1.38%
Juneau	\$1,613,329,900.00	\$47,651,000.00	\$112,937,223.00	42.19%	2.95%
Kenai Peninsula	\$3,290,219,200.00	\$137,929,000.00	\$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	\$675,955,100.00	\$31,930,000.00	\$47,319,957.00	57.48%	4.72%
Kodiak	\$572,370,700.00	\$28,270,000.00	\$40,065,949.00	70.56%	4.94%
Mat-Su	\$2,357,401,700.00	\$112,209,000.00	\$165,719,474.00	57.71%	4.74%
North Slope	\$12,376,756,000.00	\$1,155,650,000.00	\$901,375,033.00	128.21%	8.97%
Sitka	\$396,227,900.00	\$12,400,000.00	\$27,735,953.00	44.71%	3.13%
Total Boroughs	\$41,954,537,900.00	\$1,920,631,400.00	\$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	\$132,295,900.00	\$55,500.00	\$12,750,723.00	4.36%	0.31%
Cordova	\$120,673,000.00	\$0.00	\$9,447,110.00	0.00%	0.00%
Craig	\$34,797,400.00	\$0.00	\$2,429,518.00	0.00%	0.00%
Delta Junction	\$30,870,500	\$0	\$2,160,935.00	0.00%	0.00%
Dillingham	\$94,657,900.00	\$0.00	\$6,626,873.00	0.00%	0.00%
Eagle	\$9,104,500.00	\$0.00	\$637,315.00	0.00%	0.00%
Galena	\$19,149,500.00	\$900,000.00	\$1,340,465.00	57.11%	4.70%
Hoonah	\$27,245,200.00	\$0.00	\$1,949,164.00	0.00%	0.00%
Hycaburg	\$12,659,900.00	\$0.00	\$895,223.00	0.00%	0.00%
Kake	\$11,658,000.00	\$0.00	\$812,560.00	0.00%	0.00%
King Cove	\$23,230,900.00	\$0.00	\$1,626,156.00	0.00%	0.00%
Klawock	\$5,553,000.00	\$0.00	\$387,410.00	0.00%	0.00%
Kotzebue	\$93,245,100.00	\$0.00	\$6,527,157.00	0.00%	0.00%
Nenana	\$12,831,500.00	\$2,717,300.00	\$901,795.00	301.35%	21.09%
Nope	\$116,712,900.00	\$2,161,200.00	\$8,169,993.00	26.45%	1.85%
Pelican	\$10,155,400.00	\$0.00	\$710,878.00	0.00%	0.00%
Petersburg	\$161,219,300.00	\$5,195,000.00	\$11,225,351.00	54.59%	3.84%
Sand Point	\$71,086,800.00	\$0.00	\$4,576,076.00	0.00%	0.00%
Skaqway	\$59,447,100.00	\$820,000.00	\$4,091,297.00	20.04%	1.40%
St. Mary's	\$4,239,400.00	\$0.00	\$296,759.00	0.00%	0.00%
Tanana	\$11,195,400.00	\$0.00	\$723,672.00	0.00%	0.00%
Unalakleet	\$19,714,500	\$0	\$1,320,015.00	0.00%	0.00%
Unalaska	\$105,309,400.00	\$3,297,000.00	\$7,371,658.00	44.75%	3.13%
Valdez	\$1,740,431,900.00	\$75,333,000.00	\$121,330,233.00	67.24%	4.36%
Whittier	\$19,419,200.00	\$0.00	\$1,359,344.00	0.00%	0.00%
Wrangell	\$111,757,000.00	\$10,750,000.00	\$7,622,990.00	137.42%	9.62%
Yakutat	\$17,679,400.00	\$235,200.00	\$1,237,553.00	19.01%	1.33%
TOTAL CITIES	\$3,125,901,900.00	\$103,467,200.00	\$218,812,133.00	67.32%	2.21%

STATE	\$48,915,237,900.00	\$816,100,000.00	\$3,424,066,653.00	23.83%	1.67%
Total Boroughs	\$41,954,537,900.00	\$1,920,631,400.00	\$2,936,817,653.00	67.44%	4.72%

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting two bills that provide for improved state debt management. One relates to control of state-supported school debt, the other to lease-financing transactions by the various branches of government.

These two bills are each cornerstones of a comprehensive proposal designed to monitor and control more effectively the issuance of debt instruments that harbor substantial credit implications for the state. (Some citations in each bill are to provisions in the other bill. The two work together.) Alaska's remarkable wealth has facilitated tremendous economic growth in all areas of the state's economy and at all levels of government. Many of these worthy projects and programs have been funded directly by the state. In other instances, however, funding has been obtained through the issuance of debt instruments, either by the state or by local governments. Where government activities are funded through the issuance of debt, maintenance of a favorable credit rating for the state assumes critical importance. Simply stated, actions detrimental to the state's credit standing are injurious to the Alaska economy.

Unlike past years, we approach an era where the state's vast wealth is not, in and of itself, sufficient to support a favorable credit rating. In my discussions with representatives of the national financial community, the constant theme stated was the need for Alaska to demonstrate its ability to effectively manage its resources. One critical

attribute of responsible state management is an effective debt management program.

Any discussion of maintenance of a favorable credit rating for the state must reflect the broad array of financial obligations encompassed within the term "state-supported debt." It is critical to bear in mind that state general obligation bonds are but one type of debt instrument that affects the state's credit standing. The financial community also looks to other recurring, long-term financial obligations which are paid from the general fund, such as those which arise under a lease-financing agreement. In a similar vein, the state's commitment to support school debt issued by municipalities is a type of long-term financial commitment with substantial credit implications.

Debt management concerns must further reflect the impact of excessive or improvident municipal debt issuance on the state's credit standing. I initially observe that responsible state debt management policies must necessarily include a degree of state supervision of municipal debt issuance. While I am, of course, cognizant and supportive of the prerogatives of local government, problems with municipal debt issuance inevitably burden the state as well. For that reason, I previously introduced a bill that relates directly to the issuance of municipal debt. Last session I proposed the establishment of a Municipal Financial Emergency Commission to assist municipalities that have defaulted in bonded indebtedness (HB 293). I am also proposing legislation that imposes reasonable limitations on a municipality's authority to issue general obligation debt. As noted in the transmittal letters accompanying each of those bills, responsible state management of municipal debt is necessary to assure the continued investment community support of and confidence in municipal and state debt issues.

The two bills attached to this letter today are intended to assure proper state oversight before the state enters into the type of recurring, long-term financial commitments that might have an impact on the state's credit standing. Where the state issues general obligation bonds, the constitutional requirement of voter approval offers an appropriate opportunity for the electorate and for elected officials to gauge any adverse effect that issuance of the debt may have on the state. Under present law, however, neither the statutory reimbursement formula for school debt nor the unrestricted authority to enter lease-financing agreements

offers comparable mechanisms to assure that state credit implications are adequately addressed. As the decline of available revenues further exacerbates the sensitivity of the state's credit standing, it is of critical importance to assure that each project is viewed not only on its own merits but also with consideration of how the issuance of additional state-supported debt will affect broader state interests. I believe that these two bills offer a responsible way of meeting the needs of the state to obtain office facilities and of municipalities to provide necessary educational facilities -- a way that best preserves the state's favorable credit standing.

I.

The shorter bill implements the recommendations of the State Office Complex Financing Task Force, a body whose membership brought together the views of executive-branch officials, two legislators, and several members of the public with substantial financing expertise. The task force conducted extensive hearings to consider the most appropriate method to provide state office facilities in the most cost-efficient manner possible. After review of the available financing alternatives, the task force recommended the enactment of legislation to facilitate the acquisition of state office facilities through lease-financing agreements. The bill designates the Alaska State Housing Authority as the appropriate financing entity, but provides that when the authority issues debt for this purpose, it do so as the Alaska State Building Authority. The name change is intended to prevent confusion in national financing markets.

Sections 1, 6, 7 and 8 provide that the university and each branch of government, respectively, have legal authority to enter into lease-financing agreements with the Alaska State Housing Authority acting as the Alaska State Building Authority. The state has previously executed lease-financing agreements under existing lease authority, and these sections are thus intended to remove any ambiguities regarding the legal authority to enter into lease-financing agreements. The cost of building acquisition or development would be provided by the sale of revenue bonds by the Alaska State Building Authority. In all instances, a lease-financing agreement preserves legislative prerogatives through the requirement that lease payments be subject to annual appropriation.

While the bill recognizes the desirability of the lease-financing technique, the bill also imposes effective debt

management controls. First, lease-financing agreements may only be executed with the Alaska State Building Authority, a limitation that ensures uniformity and continuity in the state's lease-financing programs.

More importantly, secs. 9 -- 16 expand the responsibilities of the state bond committee (AS 37.15) to ensure that the broader credit implications are adequately assessed before the state enters into a lease-financing agreement. Under sec. 15, for example, proposed AS 37.15.770 authorizes the state bond committee to review any proposed lease-financing in detail and to prohibit or condition the sale of the debt instruments if it is in the best interests of the state to do so.

I observe that sec. 8 of this bill is similar to legislation that I proposed last session in the wake of the controversy surrounding the Anchorage Office Complex. The bill proposed last session (HB 392 and the identical SB 293) provided for project-specific legislative approval before execution of a lease-financing agreement. In the transmittal letter accompanying the initial bill, dated April 19, 1985 (1985 H.J., p. 1001, and 1985 S.J., p. 856), I noted that the provision of project-specific legislative approval posed substantial constitutional problems. Both the constitutional doctrine of separation of powers and the constitutional prohibition against special and local legislation place in serious legal doubt any statutory requirement to seek project-specific approval. And public finance is the worst forum to interject such a substantial legal uncertainty. Accordingly, the present bill does not propose project-specific approval. To do so, in my view, would impermissibly intrude upon the constitutional prerogatives of future governors. Although I believe it inappropriate to require project-specific approval as a matter of law, I reaffirm my personal commitment to seek legislative approval before the executive branch enters into any lease-financing agreement.

II.

The longer of these two bills that I am transmitting makes several changes to the state's support of public school construction. Most notable of the significant changes proposed under this bill is a cap is placed upon the amount of municipal debt obligations for which the state will provide reimbursement. Municipalities issuing debt to finance school construction will pay the interest costs, while the state will pay the principal in equal payments up

to an aggregate amount of \$10,000,000 in any year for debt approved by local voters after March 31, 1986.

The state presently provides, in addition to its municipal grant program, three forms of aid for school construction. Under AS 14.11.010 all school districts may apply to the Department of Education for an appropriation for school construction projects for which the department may request, in order of priority, appropriations from the legislature. If an appropriation for a school construction project is made, the school district may, under AS 14.11.020, request the assumption of the state's responsibility to plan, design, and construct the particular project. The department provides for the assumption of the responsibility by executing a grant agreement with the school district.

AS 14.11.100 provides two additional forms of state aid for public school construction which are only available to municipal school districts. The state reimburses municipal debt service payments in varying percentages which, because of amendments made in ch. 78, SLA 1985, are at least 80 percent. The state also reimburses a municipality for at least 80 percent of its cash payments used for school construction. To receive reimbursement of either debt service or cash payments, the municipality must first quantify the need for the project and provide a description of the project and an estimate of its cost. The Department of Education reviews the project and its justification, and, when appropriate, grants its approval of the project and its estimated costs. The next step is approval of the municipality's voters to sell the bonds. If the local voters approve the sale of the bonds, the state will reimburse the costs of debt service by requesting money in each year's budget.

There are several weaknesses in the state's present programs of financing school construction.

First, there are inadequate procedures to ensure that the estimates of project costs are reasonable. Before 1982, the administration of the school construction grant program was shared by the Department of Education and the Department of Transportation and Public Facilities. Chapter 92, SLA 1982 transferred all responsibility for the state's construction grant program to the Department of Education. This same weakness exists under AS 14.11.100.

The second major failing is that there is no ceiling for the amount of money which the state will be requested to reim-

burse under AS 14.11.100. In the proposed FY 1987 state budget, approximately \$106,000,000 in municipal debt service payments is requested to continue existing level of debt.

During the last session of this legislature, the percentage of reimbursement for debt service costs was increased to 80 percent, although allowable projects were limited to facilities necessary for increased enrollment or to correct health and safety problems. The result of last session's amendments to AS 14.11.100 has been an identification of required projects with approval of the projects closely followed by local bond elections. These recent municipal elections have authorized approximately \$312,500,000 of new municipal debt for which local communities will seek reimbursement from the state for debt service costs. I anticipate, if all of this newly authorized debt is incurred in the near term, that the impact on the debt retirement program could be as much as an additional \$45,000,000 in requested reimbursements in FY 1987. I intend to support this additional funding as soon as the amount is determined and necessary debt management legislation is passed.

I, of course, recognize that there are municipalities in the state which have experienced significant population increases, and which therefore need the construction of new schools. I believe that these existing needs should be met at the current levels of state support. However, the future of state revenues and the need for new schools are uncertain. Consequently, I believe that different approaches need to be applied to the way the state considers all school construction in the state.

With discipline and altered approaches to the school construction, I believe that the state and its municipalities can contain state-supported debt and still allow for adequate state support of school construction.

This bill changes procedures for reviewing and approving school projects.

Section 1 amends AS 14.08.151. These amendments are desirable to clarify the manner in which the state conveys title for school sites to regional education attendance areas.

Section 2 amends AS 14.11.010(b) by requiring the Department of Education to request cost estimates from the Department of Transportation and Public Facilities and to base its

project approval upon that cost estimate. This same requirement is found in sec. 11 in amendments to AS 14.11.102, which relates to project approval for the debt retirement program. Section 14 contains new authority for DOT/PF to estimate construction costs for all school projects financed by appropriations and debt retirement. Included within that authority is the responsibility to establish design standards.

Section 3 of the bill amends AS 14.11.010(c) by adding new criteria, relating to population trends and the condition of facilities, which the Department of Education will consider when approving projects for appropriation. These amendments are also applicable to the debt retirement program under language found in sec. 11.

Section 4 proposes new language that will require school districts requesting state aid to inventory and inspect the schools in their districts and to revise that inventory on a yearly basis. The provisions of this section also require that school districts provide information relating to maintenance and operation costs. This information regarding existing school facilities will enable the state to better analyze new projects that the state will be asked to finance by appropriation or by debt reimbursement.

Sections 5 and 6 limit the state's reimbursement of school debt to principal only for approved projects financed by new municipal debt authorized by local voters after March 30, 1986. If the debt was authorized by local voters before April 1, 1986, the state's reimbursement continues as before. The state's reimbursement of cash payments by municipalities ends for payments made after June 30, 1986.

Section 7 amends AS 14.11.100(b) by offsetting the amount that the municipality receives for debt reimbursement by the amount of interest earned on the proceeds of bonds sold for a particular project. This amendment parallels existing law found in AS 14.11.100(k), which is repealed in sec. 16.

Sections 8, 9, and 10 contain a number of amendments to AS 14.11.100(h), (i), and (j), respectively, which are necessary to reflect the new class of reimbursement under the language proposed in AS 14.11.100(a)(6) in sec. 6 of the bill. Section 10 has a fiscal impact. It amends AS 14.11.100(j)(2) to allow refunding of bonds only in those situations where there is at least a five percent saving in debt service costs. It also amends AS 14.11.100(j)(3) by requiring that the principal on bonds be reimbursed in equal

annual payments over a period of 10 years or a term set by the state bond committee.

Under sec. 12, the Department of Education will continue to allocate money to reimburse municipal debt. However, a cap on reimbursement is placed upon debt authorized by local voters after April 1, 1986. The department may only allocate money for the reimbursement of principal paid on new debt if the new payments, when combined with all other reimbursements under this class of debt, do not exceed the \$10,000,000 or an amount set by the state bond committee. This mechanism will have two results. It puts a cap on state-supported debt, but, with discipline, it will enable municipalities to construct needed school projects in addition to those that are financed by bonds authorized by local voters before April 1, 1986.

Section 13 amends AS 14.11.135(3) by changing the definition of school construction costs. It excludes all financing costs for debt authorized by local voters after March 31, 1986.

Section 14 adds three new sections to AS 35.15. Under the proposed language, the Department of Transportation and Public Facilities will estimate the costs of all school construction projects under common design standards that it will develop.

Section 15 amends AS 37.15 to give the state bond committee the ability to manage state-supported school debt, which is accomplished under two different mechanisms. First, it may establish a higher or lower ceiling for allocations for reimbursement of new authorizations of school debt under AS 14.11.100(a)(6) (found in sec. 6), depending on the state's credit standing as well as on the needs for school construction. Second, it may control the term of the obligations to ensure that their maturity structure does not adversely affect the state's credit standing. While a 10-year term is allowed by the proposed provisions of AS 14.11.100(j)(2) (found in sec. 10), the committee is accorded the ability to set a different term when it is in the state's best interest.

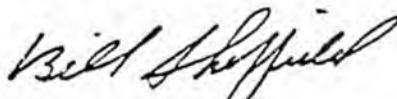
It is our intent with the language in sec. 17 to develop a long range plan for the state's school construction through the end of the century. The necessary components of this plan would include projected enrollments under reasonable population projections, construction costs, design parameters, and financing techniques. It is our hope that,

after the completion of the plan, a rational mechanism can be put in place to provide for the state's public school construction needs which is within the state's ability to pay.

III.

Continued economic prosperity for all sectors of the Alaska economy is in part inextricably tied to more rigorous state debt management. These two bills, as well as legislation relating to responsible limitation on municipal debt, promote more responsible state debt management. Alaska's credit standing is, of course, in part dependent on factors beyond our control. That the state cannot control all relevant factors is no excuse, however, for the inadequate management of those factors within our control. I believe that it is critical that the state become more sensitive to the long-term credit implications of each isolated funding decision. These two bills provide for responsible yet flexible state debt management, and I urge your prompt consideration and approval of these measures.

Sincerely,



Bill Sheffield
Governor



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 15, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to establish a Municipal Financial Emergency Commission that will provide assistance to municipalities that are in default on bonded indebtedness.

Recent controversy surrounding the financial practices of the North Slope Borough has led to a greater sensitivity to the consequences of local financial disorder. While there is absolutely no indication that the present problems of the North Slope Borough will have any effect on the borough's ability to satisfy all debt service obligations, the controversy has led to concern that current law does not provide a role for the state in the event of a municipal default. It bears noting that a municipal default will inevitably affect the state and other municipalities as well. While each municipality's general obligation debt is of course a direct financial burden of only the issuing municipality, the practical fact is that all governmental entities in the state share, to one degree or another, in the consequences of a municipal default. While I reiterate that there is no present prospect of municipal default, it is imperative to establish a procedure to deal with that event before a financial crisis occurs -- not in response to one.

The bill proposes the establishment of the Municipal Financial Emergency Commission which consists of the commissioners of the Departments of Community and Regional Affairs, Revenue, and Administration. Under proposed AS 29.58.420, a municipality must provide notice of a default to the commission, or the municipality may request the assistance of the commission in anticipation of financial distress. Once the commission receives notice of a municipality in financial disarray, the commission must

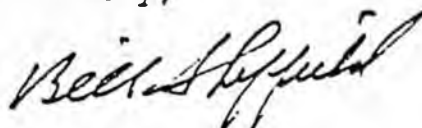
promptly convene and assess the municipality's financial affairs.

Under proposed AS 29.58.410, the commission enjoys extraordinarily broad powers to assure, to the extent possible, the resolution of the financial crisis. The fundamental objective of the commission is to adopt a plan that satisfies debt service obligations in a manner acceptable to municipal creditors. The commission enjoys the power to issue subpoenas and orders as are necessary to undertake this task.

I certainly anticipate that a municipality will act to implement the plan adopted by the commission. However, the bill provides that, in the unlikely event that a municipality fails to implement the plan, or if the commission determines that the municipality remains in financial disarray, the commission may assume full control of the defaulting municipality's financial affairs. This extraordinary intrusion upon local governmental prerogatives can only be exercised in narrowly prescribed instances and, as do all of the commission's powers, the authority of the commission expires upon the successful satisfaction of the default. While certain of these broad powers may approach the legal limit of the state's authority to impair local government powers, I believe that the overwhelming public concern for the financial stability of all Alaskan communities offers a compelling justification for this possible intrusion.

I again emphasize that this bill does not foretell any municipal default. In the area of municipal finance, however, it is not sufficient to act only in response to events. Instead, it is far preferable to establish a mechanism before any default, so that if a municipality does default on a debt service obligation, the repercussions to the state and to other municipalities are limited to the extent possible. With due respect for the prerogatives of local governments, I believe that this bill provides a needed mechanism for state involvement. I urge your prompt consideration and passage of this bill.

Sincerely,



Bill Sheffield
Governor

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will establish a reasonable limit on the authority of a municipality or borough to issue general obligation bond debt.

At present, there is no limit as to the amount of general obligation debt that municipalities may incur. And, while taxing limits are generally prescribed by statute, current law specifically exempts from the taxing limitation any assessments necessary to satisfy debt service obligations. The potential for excessive municipal debt burdens -- a burden that both directly and indirectly affects the state and other municipalities -- is one which simply must be controlled.

I believe that reasonable general obligation bond debt limitations are essential to preserve the financial stability of Alaska municipalities. We are all aware that the level of per capita municipal debt in Alaska far exceeds the national average. To be sure, the lack of basic public services in many areas of the state contributes to the current level of debt. While I am certainly sensitive to the extreme, and at times costly, needs of rural communities, I am equally concerned that excessive municipal debt will only undermine the substantial economic progress enjoyed by all Alaska communities in the last several years.

The problems associated with excessive debt requirements will increase in the future. As state revenues decline,

municipalities will increasingly be responsible for the cost of governmental services, and this inevitable burden will only be further compounded if municipalities are saddled with excessive debt service obligations.

The bill proposes that a municipality may not incur additional general obligation debt if, upon issuance, the municipality's general obligation debt would exceed seven percent of the market value of property which is taxable under state law. The Department of Community and Regional Affairs is currently required by statute to ascertain annually the property value necessary for this limit. That only three communities -- the North Slope Borough, the cities of Nenana and Wrangell -- exceed the seven percent standard is indicative that the limit is reasonable, and will not unfairly limit the prerogatives of local governments.

It is equally important to note what the bill does not do. The bill does not limit in any manner a municipality's authority to levy taxes in order to satisfy debt service obligations. The bill does not limit a municipality's authority to issue revenue or refunding bonds. And finally, the bill does not penalize those municipalities that have issued debt in excess of the seven percent standard.

I believe that the bill provides a needed assurance that municipalities will not incur an unsupportable debt burden. Establishment of a debt ceiling greatly diminishes the prospect of a municipal default. It also prevents a decline in state revenues as municipal assessments are increased to support an ever-increasing debt burden. I urge your prompt passage of this legislation.

Sincerely,

Bill Sheffield
Governor

Cape May County, New Jersey

\$19 million general improvement bonds due 1987-1996
Competitive March 5
Rated 'A--'

Rationale: S&P affirms Cape May County, N.J.'s 'A--' rating on outstanding general obligation general improvement bonds and assigns an 'A--' rating to the current \$19 million offering. The rating reflects strong financial performance and rapid bond retirement, coupled with the tourist-based economy and below-average wealth and income levels. Because of the developments in the casino industry in nearby Atlantic City, building permit activity is very strong. The casino industry also benefits from the county's commercial fishing industry because of increased tourism and year-round populations.

Economy: Cape May County forms the southernmost tip of New Jersey. The county is a peninsula, 454 square miles in total area, and has had steady population growth since the 1960s. The county's major industry is tourism, with the summer tourist industry the strongest economic factor for over 50 years. Population in the summer months increases to 593,856 from 95,724. Unemployment rates are seasonal in nature; during the summer of 1985, unemployment dropped to a low of 6% and reached 15% during the winter. Recent developments in the casino industry in nearby Atlantic City have significantly impacted the county's economy. Building permit activity has been very strong over the past few years with the construction of new hotels and motels, townhouses, and condominiums. The commercial fishing industry continues to be influenced favorably by Atlantic City as the larger tourist and permanent populations create greater seafood consumption.

Debt: Proceeds from this issue will be used for various municipal buildings, road, bridge, and storm sewer construction. With this issue, the county will have outstanding net debt of \$29.8 million. Per capita debt is high at \$1,007, but low as a percent of true value at 3.9%. Bond retirement is rapid, retiring 87% of the debt in 10 years. The S&P index, measure of per capita debt to per capita effective buying income, is moderate at 9.1%. The county's capital improvement program for the next five years amounts to approximately \$16.2 million, with 68% expected to be funded from bond proceeds.

Finances: Financial operations are sound. Revenues are derived primarily from property taxes, which account for approximately 70% of current fund revenues. The largest expenditures item is health and welfare, accounting for 24% of operating expenses. Debt service expense will increase with this sale to approximately 10% of budget. Unaudited results for year ended Dec. 31, 1985 show an ending fund balance net of deferred charges of \$6.1 million, or 14% of current fund revenues, a slight decrease from year-end 1984's \$6.4 million fund balance. The budget outlook for fiscal 1986 is expected to continue on a favorable basis, with revenues projected to be in line with budget expectations.

Dominick J. Truglio
(212) 208-1789

Alaska

Reviewed, rating affirmed

Rationale: S&P affirms Alaska's 'AA--' rating on all outstanding general obligation bonds. With the continued "softening" of the world oil market, a new approach to revenue forecasting known as the "30th percentile" has been implemented. The 30th percentile method means that, in the estimation of the state financial forecasters, there is a 70% chance that revenues will actually be greater than the amounts forecasted, and only a 30% chance that they will be less. Current projections reflect an average annual decline in petroleum revenues of approximately 10% for 1986-1988. Indications are that at current levels the projected decline will not adversely affect state revenues in the short run. However, in the long run, an absence of sustained exploratory activity, smaller discoveries, enhanced recovery, and production of heavy oil, at least at current levels, can adversely affect state revenues. Financially, the state continues to perform in a manner commensurate with its rating, as evidenced by a good cash and fund balance position, and a strong permanent fund. The fishing and timber industries, important contributors to the Alaskan economy, are still somewhat depressed, but continue to show signs of gains. Debt remains manageable and is declining as the state continues to meet some of its capital needs through pay-as-you-go financing. Overall, the state's economy continued to show growth in population, employment and personal income, and maturation in the trade and services sectors.

Economy: The state's economic base is primarily extractive, with major dependence upon oil and gas production, and to a somewhat lesser extent, the supportive industries of fishing, timber, minerals, and tourism. Approximately 86% of state revenues are derived from royalties and taxes paid on state-owned oil and gas leases. Indications are that the production level of several Cook Inlet fields is declining and production from the

Prudhoe Bay field will substantially decline in the 1990s. As of Jan. 1, 1986, the Alaska Oil and Gas Conservation Commission estimated the state's remaining recoverable reserves to be 7.995 billion barrels of oil and 34.23 trillion cubic feet of gas. Approximately one-third of Prudhoe Bay's estimated 9.6 billion barrels had been produced by year-end 1984. Some encouragement may be gained from the fact that there have been varied successes in oil and gas exploration in North Slope, totaling an estimated 2.5 billion barrels of recoverable oil. This new exploration bolstered a relatively strong employment picture. Arco Alaska and Standard Oil Co. of Ohio, two major petroleum operators, are cutting their construction budgets by 43% and 17%, respectively. The combined exploration spending still represents a large sum for 1986 at \$1.25 billion. State revenue forecasters believe that in the short run, the current decline in world oil prices will be offset at the wellhead by the reduction in the Trans-Alaska Pipeline System tariffs, by approximately \$1.20 per barrel. A partial settlement was reached in a long outstanding tariff litigation between the state and pipeline owners. The state will receive a total of \$95 million, including refunds from 1982-1985, as a result of this settlement. However, the settlement will have an adverse effect on local communities who depend on the pipeline for a portion of their property taxes. North Slope Borough will lose approximately \$2.0 million annually, while Valdez and Fairbanks North Star will lose approximately \$1.8 million and \$500,000 annually, respectively. In fiscal 1986, the state will receive an added \$227 million from this settlement.

The fishing and timber industries continue to be important contributors to the state's economy. Total revenues to fishermen from fish catch sold in Alaska for fiscal 1985 was \$700 million, compared to \$602.3 million in 1984. Since 1977, salmon catches have been improving, however, the shell fish industry, which includes king crab and shrimp, the major revenue contrib-

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utors, remains somewhat depressed. However, it is anticipated that harvests will continue to improve, and the future of the industry enhanced by the priority given to U.S. fisheries over foreign fleets to harvest within the 200-mile fisheries conservation zone. Alaska forests are expected to remain a major source of timber, despite restrictions imposed by the Alaska National Interest Lands Conservation Act of 1979. As part of the settlement act passed by Congress, the industry has been guaranteed 450 million board feet per year, a quantity capable of sustaining traditional harvest levels. The industry has been declining since 1980, as export of forest products have declined at an average annual rate of 10% due to competition and a strong U.S. dollar. In 1984, forest product exports totaled \$219 million, or 21% of all Alaska exports.

Anticipated depletion of oil reserves in the future resulted in attention to minerals and mineral deposits. Shipments of coal to Korea from the Usibelli Mine, which began in 1984 and now totals 560,000 tons yearly, may be increased to 800,000 tons in 1986. Development of a world-class molybdenum mine by U.S. Borax & Chemical Co. is continuing with expectations of 900 new jobs on completion. Also under development are the Red Dog and Greens Creek zinc and lead mines. The Red Dog deposit is estimated at 29% of U.S. deposits and is the second largest zinc deposit in the world. Tourism continues to contribute significantly to the economy. Its importance is underlined by the size of the marketing budget of \$8.1 million in 1985, and a projected \$7.2 million in 1986. In 1984, 700,000 visitors spent a total of \$620 million. Approximately 715,000 visited in 1985.

Following completion of Trans Alaska Pipeline System construction in mid-1977, population which totaled 411,000 in 1978, declined to 402,000 in 1980. Since this decline, major gains have been realized, particularly in the early 1980s resulting in an approximate total increase of 25% for 1980-1984. Current estimated 1985 population is 566,600. For 1980-1984, all sectors of employment continued to experience growth with the exception of mining and manufacturing which had 11% and 1% declines, respectively. Government employment, historically high in Alaska, accounts for 29% of total employment for 1980-1984. Per capita money income experienced modest gains, with the 1981 level at \$11,722. This represents 134.8% of the U.S. average; at \$12,900 in 1983, it was the equivalent of 135.8% of the U.S. average. Total personal income for 1980-1984 increased from \$5,236 million to \$8,739 million, or 66.8%

Finances: The state continues to portray a strong financial posture. Fiscal 1985 unrestricted revenues for the general fund totaled approximately \$3.2 billion, excluding amounts which go directly to the permanent fund. Petroleum revenues accounted for approximately 85% of total unrestricted revenues, down from a peak of 90% in 1980. Projected unrestricted general fund revenue for fiscal 1986 is \$3.1 billion, of which \$2.1 billion, or 66%, will be from petroleum revenues. As of Dec. 31, 1985, the permanent fund balance was \$7.0 billion. The fund is expected to total \$8.5 billion by 1990 and \$16.6 billion by 2000. The amount of fund income available for dividends in 1985 was \$217.3 million, with 521,323 eligible applicants receiving \$404.

An amendment to limit state appropriations to \$2.5 billion, approved by voters at the November 1982 general elections, will be placed on the ballot for reconsideration in the 1986 general election. Under the amendment, state appropriations cannot exceed \$2.5 billion for any fiscal year by more than the cumulative change, based on federal indices in population and inflation after July 1, 1981. If rejected, it will be repealed. If approved, the amendment would become permanent, and appropriations may be subjected to impoundment powers of the governor, who may withhold or reduce appropriations during a budget year if revenues are less than appropriations. The amendment has not been operative, and has exceeded any revenues or accrued surpluses available for appropriation.

Debt: Historically, the issuance of state debt has been significant due to the state's commitment to capital improvement programs. The state is currently studying the implementation of a debt management policy, which may have been influenced by declining oil revenues and the need to meet unfilled infrastructure requirements while maintaining a conservative debt position. The policy will include all debt that relies on state general fund appropriations, in particular all nonself-supporting state debt, including G.O. debt, lease revenue debt, and similar obligations paid by the state. The state's last debt issuance was in fiscal 1983. Maximum annual debt service on all bonds is \$175.7 million, due in 1986. As currently structured, debt service requirements will decrease substantially through 2000.

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Alaska Municipal Bond Bank

Reviewed; ratings affirmed

Rationale: S&P affirms the 'A' rating on all outstanding Alaska Municipal Bond Bank's general obligation bonds and the 'A-' rating on all outstanding bond bank revenue bonds. About \$168.5 million of debt is affected. The basis of the rating is the moral obligation of the state. S&P policy establishes this rating at one full category below the existing rating of the state. In this case, the rating would be 'A-' based upon the state's 'AA-' rating. However, the G.O.s of the bond bank where the state has the authority to withhold aid to participating units, in lieu of debt service payments upon the request of the bank, are rated 'A'. The revenue bonds remain at 'A-', where no withholding provisions exist.

The bank: The Municipal Bond Bank Act established the bank as a public corporation and instrumentality of the state of Alaska within the department of revenue, but separate from and independent of the state. The bank, which began operations in August 1975, was created for the purpose of lending money to government units within the state of Alaska by purchasing municipal bonds issued by such governmental units. Under the act and the bank's general resolution, the bank initially was authorized to purchase only G.O. bonds. Effective May 16, 1978, the Alaska state legislature authorized the bank to purchase municipal

revenue bonds, and provided that the bank shall be called the Alaska Municipal Bond Bank Authority when issuing revenue bonds, and the Alaska Municipal Bond Bank when issuing G.O. bonds. The purchase of bonds is dependent upon bond counsel's opinion, stating that the bonds are valid obligations of the governmental unit as required by the act and that a loan agreement has been authorized and executed between the bank and the governmental unit, which constitutes a valid and binding obligation of the governmental unit. The powers of the bank are vested in a five-member board of directors, three of whom are public members appointed by the governor and confirmed by the state legislature. The three appointees serve four-year staggered terms. The remaining two members, the Commissioner of Revenue and the Commissioner of Community and Regional Affairs, are permanent.

Finances: Ongoing operations of the bank are not funded by the state's general fund appropriations, but by fees and charges and interest earned on investments. The bank is not allowed to carry surpluses, which must be returned to the state. Since its inception, the bank has returned \$7.6 million. In fiscal 1985, \$1.8 million was returned. The reserve fund, which receives capital appropriations from the state's general fund for

funds leveraging, is maintained at an amount equal to the maximum annual debt service requirement. As of June 30, 1985, the Alaska legislature has appropriated \$17.9 million to the bank for the statutory reserve fund, of which approximately \$5.4 million is available to meet statutory reserve fund requirements for future bank bond issues. The bank is annually required to deliver a statement to the governor and state legislature, stating the sum, if any, necessary to restore the reserve fund to the required debt service reserve level. The state is not legally obligated to make such an appropriation and, to date, it has never been necessary.

Debt: The bank has issued \$192.8 million in bonds with \$168.5 million currently outstanding. The outstanding debt is comprised of G.O. revenue, coastal energy reserve, and coastal energy loan program bonds. There is a statutory debt limit of \$300 million, of which \$131.5 million remains available. During 1982-1985, the bank's debt issuance has been \$48.5 million, \$30.6 million, \$7.0 million, and \$25.8 million, respectively. Due to declining state petroleum revenues, it is anticipated that local units will be turning to the bank on a regular basis for the financing of their capital needs.

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North Slope Borough, Alaska

Reviewed ratings affirmed

Rationale: S&P affirms North Slope Borough, Alaska's outstanding 'BBB+' rating on approximately \$794.9 million general obligation bonds. The rating on \$52.8 million series D bond anticipation notes due Nov. 18, 1986 is also affirmed at 'SP-1+'. An additional \$428.5 million of G.O. debt is outstanding but secured separately by various credit enhancements. The long-term debt rating reflects the narrowness of the borough's economic base, the large amount of debt supported by that base, debt carrying charges that represent 67% of general fund expenditures, balanced by good financial operations and a strong financial position. The borough's economic viability entirely depends on the oil and gas industry, and the outlook for any significant diversification is poor. Due to remoteness and harsh environmental conditions, development of the limited infrastructure that supports the small community required the issuance of large amounts of debt. Total G.O. debt currently outstanding is approximately \$1.3 billion. The pace of debt issuance slowed over the past two years and is not expected to exceed \$107.4 million over the next three years. As a result, maturing debt should exceed new debt issuance over the period. The debt matures rapidly, with 48% rolling off in five years, and 95% in 10 years. The borough derives 60% of its revenues from a tax on oil- and gas-related real property improvements. Therefore, its main revenue stream is unaffected by fluctuations in oil prices. A small effect is expected from the recently settled pipeline tariff agreements which includes owners' income in the property assessment formula. The borough could lose up to \$2 million annually as a result of the settlement (0.6% of total revenues). An additional 27% of revenues is derived from interest earnings. The very large debt burden appears adequately supported by an increasing but very narrow tax base.

Issuer: North Slope Borough is a vast, geographically isolated, sparsely populated area located entirely north of the Arctic Circle. Barrow, located almost 2,000 miles northwest of Seattle, is the borough seat and its largest city (population of 2,647). The virtually impassable Brooks Range forms the borough's southern boundary. A wide range of services is provided by the borough, including health, safety, sanitation, utilities, education, housing, and transportation systems. The borough is analogous to the county form of government in the lower 48 states, but has greater governmental powers. Remoteness, the absence of a modern infrastructure, and severe climatic conditions make the cost of development enormous.

Debt: Debt issuance increased sharply in 1983 and 1984 as infrastructure improvements were made to provide services to residents and to accommodate increased oil-related economic activity. The borough currently has outstanding \$1.3 billion G.O. bonds and bond anticipation notes (net of refunded debt). Debt on a per capita basis is extremely high at \$121,704, but is a more moderate 7.5% of true value (\$13 billion in 1986). Carrying charges are very high as a percent of expenditures. The primary source of payment for the debt is a property tax assessed

on capital improvements made at the oil and gas fields at Prudhoe Bay and Kuparuk. These properties represent 95% of the tax base. Capital financing of \$107.4 million is planned for the next three years. These funds will be raised principally through issuance of G.O. bonds. An emergency debt service reserve fund was established during fiscal 1984 and is funded at 15% of outstanding debt. At July 1, 1985, a balance of \$184 million was available in this fund. Debt service requirements for 1985 totaled \$189 million.

Economy: Oil and gas production, transportation, and exploration form the base of the borough's economy. Before the discovery of oil and gas at Prudhoe Bay in 1968, and the construction of the Alyeska Pipeline, economic activity was limited to subsistence hunting, fishing, and military activities (DEW LINE maintenance and research). Further diversification of the economy is not expected due to extreme geographic and climatic problems. The lack of a highway system within the borough makes commercial air service and limited water transportation the only available means of mass transportation.

Within the next 25 years, no basic industry is projected to supplement the oil and gas industry. Maintenance or expansion of the oil industry depends on competitive lease offerings by the state and federal governments. The lead time from lease to production is approximately 10 years. The present production level at Prudhoe Bay of 1.5 million barrels of oil per day represents roughly 18% of total U.S. domestic production. Proven, extractable reserves at Prudhoe Bay are currently projected to last 11 years. Production at Kuparuk has begun and is expected to be 250,000 barrels of oil per day during 1986. An industry investment in Kuparuk is expected to total \$8 billion and the economic life of the field is projected at 20-30 years. The two major North Slope operating companies are Atlantic Richfield Co. (Arco) and Standard Oil Co. of Ohio (Sohio). Although Arco's 1986 North Slope construction budget was reduced from \$715 million to approximately \$500 million as a result of reduced oil prices, work on the Prudhoe Bay Gas Plant and the Kuparuk Lisburne production facility will continue. Sohio has indicated it will proceed with its 1986 construction program as planned.

Finances: General fund financial operations remain strong. Significant operating surpluses were generated in each of the past five years which were transferred to the reserve for capital outlay fund, the emergency debt service reserve fund, or the recently created permanent fund. At July 1, 1985, balances available in these funds were \$72 million, \$184 million, and \$117 million, respectively. As a result of these transfers, the general fund balance was reduced from \$56 million in 1983 to \$4 million in 1985. The three primary revenue sources of the general fund are property taxes (60%), interest earnings (27%), and state aid (10%). Tax collections are excellent, reaching roughly 99% on a current basis in each of the last five years. Debt service of \$189 million represented 67% of general fund expenditures in 1985. As of July 1, 1985, a balance of \$184 million was available in

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the emergency debt service reserve fund. Monies in excess of the 15% requirement in this fund will be transferred to the permanent fund. As of June 1985, \$4 million was transferred from the emergency debt service reserve fund to the permanent fund. An additional \$79 million transfer from the general fund left a balance of \$117.4 million available in the permanent fund to be held in perpetuity. Interest earnings on permanent fund bal-

ances will be used for general fund operations. Although financial management is sound, large debt service carrying charges, the range of services provided, and the high cost of service provision will continue to absorb the borough's large financial resources.

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MUNICIPAL REVENUE

Alaska Industrial Development Authority

\$11 million variable demand/fixed rate bond due 2004
Sold, February 25, Goldman, Sachs & Co.
Rated 'A-

Rationale: S&P assigns an 'A-' rating to the Alaska Industrial Development Authority's conversion of its variable demand/fixed rate bonds, series 1984 A and B to a fixed rate. The 'A-' rating on the outstanding economic development bonds, the consolidated bonds, and the umbrella bonds is affirmed. The rating is based upon the moral obligation pledge of the state of Alaska, whose rating is affirmed at 'AA-'. The bonds are additionally secured by the general obligation of the authority.

Issuer and security: The state legislature established the Alaska Industrial Development Authority in 1967 to aid economic development. The authority was originally created to administer the enterprise development fund. This fund was capitalized in 1981 with \$165 million in state-originated loans. In addition, the state contributed \$23 million to fund the capital reserve funds. In 1982 and 1984, the enabling act was amended to expand the authority's powers. In 1982, the multifamily housing loan security fund was set up and in 1984 the economic development fund. All three programs are legally separate and distinct. All economic development activities are channeled through the enterprise development fund. This fund holds the authority's general assets from which all of the authority's general obligation indebtedness is payable. The enterprise development fund as of Dec. 31, 1985 had general assets of \$525 million. The multifamily housing fund, which is not an asset of the authority, provides additional security to any of the authority's G.O. bonds issued for multifamily housing projects. This fund at Dec. 31, 1985 held \$8 million in assets. The economic development fund empowers the authority to own and operate certain types of facilities when it is in the public interest to do so. This fund was capitalized with an appropriation of \$12 million in cash and \$132 million in loans held by the state. Financial obligations or liability incurred will be secured solely by the economic development fund and there is no general obligation pledge of the authority.

The authority has four types of bond issues outstanding: economic development bonds, consolidated bonds, umbrella bonds, and variable demand/fixed rate bonds. All issues except the variable demand/fixed rate bonds are secured by a general obligation pledge from the authority. Variable demand bonds are special obligations of the authority which become G.O.s upon conversion to a fixed rate. All bonds are further secured by the state's moral obligation pledge. If necessary, the state's legislature can, but is not obligated to, appropriate funds to the bonds through their capital reserve funds pursuant to notice under state statutes, if these reserves fall below required levels. The authority's total outstanding G.O. debt at June 30, 1985 is \$213 million. This issue will increase debt by \$11 million to \$224 million. Total variable rate/fixed rate debt at Dec. 31, 1985 excluding this conversion is \$40 million. The total \$40 million is expected to be converted to fixed rate by the end of 1986 for \$254 million in G.O. debt of the authority.

The economic development bonds provide funds for participations in loans for industrial and commercial projects up to \$1 million. All revenues from these loan participations are pledged first to the payment of economic development bonds and then

to the other G.O. debt of the authority. As of June 30, 1985, the total outstanding economic development bond debt was \$126 million. Consolidated bonds provide funds for participations in loans for industrial, commercial, and multifamily housing projects from \$1-\$10 million. Revenues from these participations are not specifically pledged to the repayment of consolidated bonds. However, this is not a credit concern because both economic development and consolidated bonds are secured by the authority's general obligation and the state's moral obligation pledges. As of Dec. 31, 1985, outstanding consolidated bonds totaled \$59 million.

The new umbrella bond program is intended to replace both the economic development and consolidated bonds. These new bonds do not have claim to the economic development, consolidated, and variable rate bonds' existing capital reserve funds. A separate reserve fund for the umbrella bonds was established with similar provisions to the previously issued bonds. At Dec. 31, 1985, the balances in all the capital reserve funds for the authority's G.O. debt is \$26 million. This balance reflects the average annual debt service payments of the bonds.

Loan portfolio: The authority's portfolio of loans falls into three categories: bond loans, appropriation loans, and federal guaranteed loans. Bond loans derive their funds from bond proceeds, appropriated loans from state appropriated money, and federal guaranteed loans from the authority's funds on hand. These three sources of funds are used to buy loan participations from Alaska financial institutions. The fiscal 1985 composition of the portfolio is 22% appropriated loans, 61% bond loans, and 17% Small Business Administration (SBA) guaranteed loans. Appropriated loans are expected to decline to an insignificant percentage of the portfolio by 1991. Funds from the paid-off appropriation loans are used to buy SBA loans or investments. However, no SBA loans have been purchased in the last year due to remittance procedure problems with the new SBA servicer FIDATA. Until this situation is eliminated, no future investments in the SBA program will be maintained. The authority's purchase of loan participations is limited to completed projects that satisfy all terms of the authority's loan underwriting criteria. The authority's capital participation rate in loans under \$1 million is 90% and 80% for those between \$1-\$10 million. Loans are disbursed geographically in proportion to the state's population distribution. As a result, the Anchorage area has the highest percentage of bonded loans at 35.5%. The portfolio's investment in projects is concentrated mainly in commercial space, approximately 78% in fiscal 1985. Bond loans delinquency rates on 90 days and over are still below 1%, even given the slump in the Alaska economy. This low rate is attributed to stringent underwriting criteria. In addition, each participating financial institution must provide servicing on all loans and maintain a 90-day delinquency rate below 2% or be suspended from selling new participations until the rate is controlled. The authority has a loan loss reserve fund of \$2.6 million. This was created in 1981 and to date, the only charge offs are \$1.1 million in defaulted appropriated loans. The reserve is

returned to its original level from earnings. The authority reviews the adequacy of this reserve fund annually with its accountants.

Finances: The authority's assets have grown from \$218 million in 1981 to \$524 million in 1985. Liabilities total \$220 million in fiscal 1985, of which \$213 million are bonds payable. All operating expenses are paid from commitment and finance fees. In fiscal 1985, this totaled \$1.4 million to cover expenses of \$1.1 million. Net earnings have risen from \$16 million in fiscal 1981 to \$30 million in fiscal 1985. The authority has unrestricted investments, capital reserve funds, cash, and interest earnings totaling \$157 million at June 30, 1985 to meet shortfalls in debt ser-

vice of approximately \$28 million. Unrestricted surplus at June 30, 1985 is \$284 million.

During fiscal 1986, the authority will convert all of its remaining \$40 million variable rate debt to fixed. In addition, during 1986's first half it intends to issue its first taxable financing of \$15 million. For fiscal 1987 and beyond, approximately \$65 million in debt will be issued a year. It is impossible to determine how H.R. 3838 will affect future issuances other than to assume the program will continue with additional volume constraints.

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Alaska Housing Finance Corp.

Reviewed ratings affirmed

Rationale: S&P affirms Alaska Housing Finance Corp. (AHFC) ratings on \$4.27 billion in outstanding taxable and tax-exempt debt. The bonds, issued under 59 resolutions, are secured by over 52,000 level-paying mortgage and growing equity mortgage (GEM) loans. The loans are originated throughout the state by private lenders and subsequently purchased by the AHFC with bond proceeds. Direct state appropriations (in cash and in mortgages) permit the purchase of mortgage loans which bear interest at legislatively prescribed "below market" rates. To enhance the security of its bonds, the AHFC has entered into various credit arrangements. They include: Federal Housing Administration (FHA) Title I Insurance, Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA) collateralization, bank letters of credit, and surety bonds. Additionally, the issuer enjoys strong support from the state of Alaska. 13 issues are guaranteed by a pledge of the state's full faith and credit. The affirmed bond ratings reflect the strength of the credit enhancements (see list at right).

Issuer: To date, AHFC has received \$563 million in state appropriations. Fiscal year ending June 1985 witnessed no requests for additional funding. Such funding will not be sought in the foreseeable future. Fund balances of \$1.458 million (fiscal 1985) reflect the healthy, well managed performance of the issuer to date. The corporation has a staff of 43 with experience in administration, mortgage underwriting, and finance. AHFC is governed by a five-member board consisting of two ex-officio and three governor-appointed members.

Programs: Since its inception in 1971, AHFC has adopted many innovative programs and financing techniques. The principal activities include:

—**Mortgage loan subsidization.** All of the corporation's programs provide an interest rate subsidy on the first \$90,000 of a mortgage loan to Alaskan borrowers. The state currently subsidizes the mortgage loans to a maximum of 3% (4% for eligible veterans) below the cost of taxable funds to the corporation. However, loan rates may not be less than 10% (9% for veterans) unless the corporation's related cost of funds is less than 10%.

—**Taxable bonds.** To overcome the constraints of tax-exempt issuance caps (\$200 million per annum), the corporation began issuing taxable bonds in 1981. It currently has approximately \$1.3 billion in taxable debt outstanding, \$100 million of which was issued in 1985.

—**Alaska Building Equity loan program.** In 1983, AHFC introduced its own version of the GEM loan. Titled the Alaska Building Equity (ABE) loan, it requires an increase in the borrower's monthly payments to provide for an accelerated amortization of principal. Thus, it can take advantage of shorter-term, lower interest taxable bonds.

—**FNMA collateralization.** In 1983, AHFC signed a \$530 million pool purchase contract with FNMA enabling Alaskan mortgages to be swapped for FNMA mortgage-backed securities.

Rated debt outstanding	Amt. (\$)	Rating
Housing mortgage bonds (nonparty)		
1972 series A	106	AA
1973 series A	103	AA
1975 series B	296	AA
1975 series A	306	AA
1975 series B	105	AA
Insured mortgage bonds (party)	9117	A
1975 first series, 1976 first and second series, 1977 first, second, and third series, 1978 first, second, and third series, 1979 first and second series, 1980 first, second, and third series.		
State-assisted mortgage bonds (nonparty)		
series A	958	A
series B and C	757	AA
series D and E	905	A-
series F	1708	AA
series H	500	AA
series I	500	AA
series J	500	AA
series K	750	AA
series L	750	AA
series M	750	AA
series N	750	AA
series O*	500	AAA
series P*	500	AAA
Home mortgage bonds (nonparty)		
1981 first series	796	A-
1981 second series	909	A
1982 first series	775	AA-
1982 second series	933	AA-
1983 first series	731	AA-
1983 second series	1224	AA-
Collateralized 1984 series A	750	AAA
Collateralized 1984 series B	1274	AAA
Collateralized 1985 series A	1000	AAA
Collateralized 1985 series B	1024	AAA
State-guaranteed bonds (nonparty)*		
1983 first series	462	AA
1983 second series	1175	AA
1983 third series	720	AA
1983 fourth series	947	AA
1983 fifth series	483	AA
1983 sixth series	727	AA
1984 first series	1300	AA
1984 second series	1000	AA
Collateralized 1984 first series	1000	AAA
Collateralized 1984 second series	3025	AAA
Collateralized 1985 first series	1500	AAA
Second mortgage bonds	93	AA
Fairbanks North Star Borough res. mtge. bonds	281	A-
AHFC Overseas Finance N.V. gld. bonds	981	AAA

*Guaranteed by full faith and credit of the state of Alaska

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(MBSs) These MBSs are then, in effect, purchased with bond proceeds and used as collateral for the bonds. Such collateralization has enabled the issuer to obtain 'AAA' ratings on 10 tax-exempt and taxable issues to date.

—*Recycling* AHFC relies heavily on recycling, wherein prepayments are used to make new mortgages, in many of its

bond structures. This technique has reduced the need for future bond financings and state appropriations.

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Platte River Power Authority, Colorado

\$113 million electric revenue bonds due 2018

Sold, February 20, Salomon Brothers Inc.

Rated 'A+'

Rationale: The \$113 million issue of Platte River Power Authority electric revenue bonds is rated 'A+', along with \$618 million of outstanding parly debt. The 'A+' rating of the Loveland, Colo. electric revenue bonds was renewed in connection with this sale and is affirmed. The ratings reflect the strength of the participant cities' economic bases and good financial performance. The authority's rates to the cities are low because capacity charges to Public Service Co. of Colorado are sufficient to pay debt service. Bond proceeds will be used to retire all outstanding commercial paper. The authority has refunded the commercial paper program instead of retiring it from revenues as was planned to avoid potential tax problems and to take advantage of current long-term interest rates.

Security: The bonds are secured by take-or-pay contracts with the cities of Fort Collins (45.7% of the project), Longmont (28.1%), Loveland (21.5%), and Estes Park (6.1%). The authority's rate covenant is net revenues 1.25 times (x) adjusted aggregated debt service. Debt service is adjusted to levelize payments of term bonds in 2000 and 2002. The additional bonds test requires net revenues in 12 of the preceding 24 months prior to issuance to meet the rate covenant. Additional security is provided by a debt service reserve fully funded to maximum debt service at the time of bond issuance.

Operations: Platte River's resources include energy and capacity under contract with the Western Area Power Administration (WAPA) through 1989. The authority receives 158mw in the winter and 238mw in the summer. The authority owns the 255mw coal-fired Rawhide Energy Station and an 18% share of the Yampa Project coal-fired Craig units, totaling 154mw. Excess capacity in the Craig and Rawhide units is sold to Public Service under a contract through 1994, which is less than the life of the bonds. Public Service is obligated to take-or-pay for capacity and energy made available in accordance with the schedule in the contract. If the contract schedules are not met, Public Service has the option to terminate the contract. Therefore, these bonds are not rated on the basis of the Public Service contract. Revenue derived from these sales is sufficient to pay all Platte River debt service at this time. In 1985, Platte River sold 340.5mw of capacity per month and 2,380gwh to Public Service.

Platte River expects peak demand to grow at a compound rate of 5.4% per year in the future and for energy sales to grow 5.9% per year. Since 1980, annual growth rates ranged from -3.8% to 16.4% for peak demand and from 3.3% to 11.8% for energy sales. The average growth rates of 5.9% and 5.7%, respectively, were strong despite this volatility. Based on this growth, Platte River expects to sell power from Yampa and Rawhide to participants when sales to Public Service end.

Rates: The authority is currently charging the participants 35 mills per kwh. Retail rates in all cities except Loveland are below those of Public Service and the Poudre Valley cooperative supplied by Tri-state generation and transmission cooperative.

Loveland's rates are only marginally above Public Service's rates. The authority does not anticipate raising rates to the participants until 1991 when it begins taking the Rawhide capacity. Between 1991 and 1996, rates are expected to rise from 35.2 mills per kwh to 55.2 mills per kwh.

Finances: During the last two years, Platte River changed from a construction-oriented organization to an operating power supplier. The effect of this change is clearer when the operating statements for 1983 and 1984 are compared. Revenues grew 105% in that year and operating expenses grew 107%, primarily due to a 195% increase in depreciation with the start-up of Rawhide. During 1985, only 29.5% of revenues came from sales to the participants, the remainder of the revenues came from sales to Public Service. Annual debt service coverage was 1.48x in 1984 and 1.53x in 1985, including commercial paper interest. The balance sheet continued to improve in 1985. The current ratio was 4.39:1 and the quick ratio was 1.89:1. Leverage declined as the ratio of debt to plant declined to 1.14:1 from 1.20:1.

Participants: Fort Collins, Loveland, and Estes Park are in Larimer County, north of Denver, and Longmont is in Boulder County, west of Denver. The key economic sectors in this area are manufacturing, services, retail trade, and government. High technology electronics are a major source of employment, with manufacturing facilities of Hewlett-Packard Co., Storage Technology Inc., and NCR Inc. located in the participant cities. Colorado State University is another major employer in Fort Collins. The average unemployment rates for 1985 are below the national average in both counties, but rose slightly toward the end of the year to 7.1% in Larimer County and 6.7% in Boulder County. Total numbers employed remained stable.

Participants	Fort Collins	Longmont	Loveland	Estes Park
% Platte River	45.7	26.1	22.5	6.1
Peak demand 1985	110	59	48	14
gwh sold 1985	582	332	286	72
Population est. 1985	83,000	49,800	35,300	7,800
1984 revenue (000)	30,487	17,981	15,820	4,572
Debt serv cov (x)	•	•	5.80	•
Current ratio**	5.17:1	3.15:1	5.43:1	NA

*No electric revenue bonds outstanding

**Current assets/current liabilities

NA—Not available

The financial performance of the participants is good. Each has had a positive trend in revenues and controlled growth of expenses in recent years. Off-balance sheet debt service coverage is less than 1.00x for all participants because Platte River debt service payments are subsidized through the Public Service contract.

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