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**SHEARSON
LEHMAN
BROTHERS**

February 20, 1986

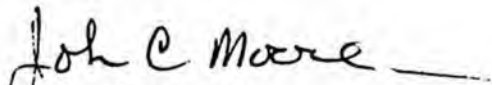
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

Dear Legislator:

I have enclosed a copy of our recent publication entitled "Credit Survey of State General Obligation Debt". Shearson Lehman Brothers, an active underwriter and market maker of Alaska's bond issues, places Alaska's general obligation bonds in the mid "AA" range with a stable trend.

I hope you find these surveys useful.

Very truly yours,



John C. Moore
Vice President
Public Finance

JCM:jh

Enclosure

file SB 417 reference

**SHEARSON
LEHMAN
BROTHERS**

Shearson Lehman Brothers Inc.
Foster & Marshall Inc.
The Robison-Humphrey Company, Inc.

MAR 3 1985

An American Express company



Credit Survey Of State General Obligation Debt

1985

Credit Survey Of
State General Obligation Debt
(1985)

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INTRODUCTION

In the period which has followed the recent recession, the performance of the states on the whole has markedly improved. This is due to the fact that most states have a high reliance on sales tax revenues and income tax revenues, and that these sources of funds benefit positively from an upturn in the economy. Certain states have also seen improved revenues due to the implementation of increased tax rates. During this period certain states have imposed tougher controls on state expenditures which, when combined with higher revenues, have resulted in stronger general fund balances.

Some areas that continue as question marks in state performance are tax-payer initiatives which would put pressure on revenues, as well as the price levels of specific resources that a state may rely heavily upon for funds. As an example, the weakness in oil prices has severely strained the revenue stream of such states as Louisiana, Texas and Alaska. As an indication of just how big an impact this source can have, consider that for every \$1 drop in the price of oil, these states lose approximately \$150 million in revenues. Finally, the stream of funds to the state coffers from the Federal government remains a large question mark as it concerns the amount of aid which can be expected from this source.

When considering the rating to place on a state credit, the above factors play a very large role. In addition to these areas, the aspects which are unique to each state are examined. Included in this analysis is an examination of the historical performance of financial policy makers as to whether operations have been run conservatively or if estimations of revenues and expenditures have consistently been beyond reasonable expectations. A history of good operations tends to indicate similar performance in the future. Also examined are the economics of the states, with positive emphasis on those exhibiting well-diversified and growing characteristics, as well as on those striving to diversify. States which possess economies reliant on one or two industries, particularly if cyclical industries, are closely scrutinized for other aspects which can help to overcome this problem. Other pieces in the analytical puzzle include the willingness to raise revenue sources, debt levels, wealth levels and historical employment levels. When combined, all of the above areas give us an idea of just how the state will perform, and helps us to assign a rating on outstanding debt.

Definition of Ratios

Net G.O. Debt Per Capita - This is a measure of the state's debt burden. By dividing net G.O. debt by the state's population, we gain a better perspective of the amount of debt per person that is supported by the general taxing powers of the state.

Net G.O. Debt as a % of Personal Income - This ratio divides the net G.O. debt by the state's total personal income. It provides a tool for standardizing and measuring the burden of a state's debt, and gives an indication of the taxpayer's ability to support the debt.

Net G.O. Debt as a % of Full Market Value - By dividing the net G.O. debt of the state by the full market value of all real property in the state, a perspective can be gained on the relationship between the size of debt and wealth of the state. This percentage also allows insight into the burden and magnitude of a state's debt relative to other states.

General Fund Balance as a % of General Fund Revenues - This ratio gives an indication of a state's financial performance by relating its degree of solvency to its existing revenue capacity.

U.S. Trends and Averages

Unemployment

1984: 7.5%

Five year average: 8.3%

Per capita income (1984): \$11,675

Median Debt Ratios

Per capita: \$258

Debt as % of personal income: 2.3%

Debt as % of full market value: 1.1%

Trend of State Revenue Sources (as % of total revenues)

	<u>Sales Tax</u>	<u>Income Tax</u>	<u>License Tax</u>	<u>Other</u>	<u>Total</u>
1957	58.1	17.6	15.1	9.2	100.0
1967	58.2	22.4	11.4	8.0	100.0
1977	51.8	34.3	7.1	6.8	100.0
1982	48.4	36.7	6.3	8.6	100.0
1983	48.9	36.7	6.2	8.2	100.0

SHEARSON LEHMAN BROTHERS STATE RATINGS



Key

L - Lower
M - Mid
U - Upper

	<u>SLB Rating</u>	<u>SLB Trend</u>	<u>Moody's/ S&P</u>	<u>Population (000's)</u>	<u>Per Capita Debt</u>	<u>Net GO Debt/ Personal Income</u>	<u>Net GO Debt/ Market Value</u>	<u>General Fund Balance/ General Fund Revenues</u>
Alabama	Lower AA	Stable	Aa/AA	4,110.0	\$ 267	2.9%	1.6%	4.2%
Alaska	Mid AA	Stable	Aa/AA-	510.5	2,125	13.1	2.7	54.1
California	Upper AA	Stable	Aa/AA+	25,622.0	110	0.8	0.3	1.4
Connecticut	Mid AA	Upward	Aa1/AA	3,138.0	749	5.4	3.1	3.9
Delaware	Mid AA	Stable	Aa/AA	606.0	929	7.2	4.1	12.7
Florida	Mid AA	Stable	Aa/AA	10,976.0	270	2.3	1.1	8.9
Georgia	Upper AA	Upward	Aaa/AA	5,837.0	286	2.8	0.9	2.6
Hawaii	Lower AA	Stable	Aa/AA	1,038.7	1,608	13.5	4.3	11.9
Illinois	Upper AA	Stable	Aaa/AA+	11,511.0	308	2.2	1.5	2.2
Iowa	Lower MIG-1	Stable	MIG-2/NR	2,894.0	155	1.3	0.6	0.3
Louisiana	Lower AA	Stable	A1/AA-	4,462.0	707	6.9	2.8	0.1
Maine	Upper AA	Stable	Aa1/AAA	1,150.0	256	2.9	1.1	2.2
Maryland	Lower AAA	Stable	Aaa/AAA	4,354.0	682	5.2	2.7	1.2
Massachusetts	Upper A	Stable	A1/AA	5,767.0	777	5.9	3.6	0.3
Michigan	Mid A	Stable	A/A+	9,107.0	144	1.3	0.7	5.1
Minnesota	Mid AA	Stable	Aa/AA+	4,162.0	273	2.3	0.9	1.6
Mississippi	Lower AA	Stable	Aa/AA-	2,598.0	257	3.2	2.2	0.8
Missouri	Mid AAA	Stable	Aaa/AAA	4,985.0	59	0.5	0.5	10.5
Montana	Mid AA	Stable	Aa/AA	824.0	286	2.9	1.4	12.6
Nevada	Mid AA	Stable	Aa/AA	911.0	101	0.8	0.2	15.6
New Hampshire	Mid AA	Stable	Aa/AA	977.0	365	3.1	1.2	0
New Jersey	Mid AAA	Stable	Aaa/AAA	7,515.0	421	3.0	1.5	9.1
New Mexico	Mid AA	Stable	Aa/AA	1,424.0	247	2.6	1.2	4.0
New York	Upper A	Stable	A/A+	17,735.0	613	4.7	4.1	0.2
North Carolina	Mid AAA	Stable	Aaa/AAA	6,164.2	143	1.5	0.7	4.8
North Dakota	Upper AA	Stable	Aa/AA	673.0	94	0.8	0.7	14.6
Ohio	Mid AA	Stable	Aa/AA	10,752.0	294	2.6	1.2	0.9
Oregon	Upper A	Stable	A1/A+	2,674.0	174	1.6	0.6	8.4
Pennsylvania	Mid A	Upward	A/AA-	11,901.0	387	3.4	3.4	0.6
Rhode Island	Mid AA	Downward	Aa/AA-	958.2	372	3.2	1.7	2.5
South Carolina	Lower AAA	Stable	Aaa/AAA	3,300.0	196	2.2	1.0	4.4
Tennessee	Lower AAA	Stable	Aaa/AA+	4,722.0	111	1.0	0.5	5.0
Texas	Mid AAA	Stable	Aaa/AAA	15,221.0	67	0.6	0.2	12.9
Utah	Lower AAA	Stable	Aaa/AAA	1,672.0	177	2.0	0.6	13.9
Vermont	Mid AA	Downward	Aa/NR	530.0	516	4.8	1.6	(10.7)
Virginia	Mid AAA	Stable	Aaa/AAA	5,636.0	84	0.7	0.7	6.1
Washington	Lower AA	Downward	A/AA-	4,349.0	574	4.4	1.6	5.1
West Virginia	Upper A	Stable	A1/AA-	1,953.0	396	4.3	1.6	9.9
Wisconsin	Mid AA	Stable	Aa/AA	4,766.0	324	3.4	1.3	3.4

ALABAMA

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA

In the 1984 fiscal year financial performance within the State improved significantly, with the unencumbered General Fund balance increasing to a level of \$21.6 million, from \$6.9 million. The major sources of revenues include corporation taxes, gross receipts business taxes and income taxes. The last income tax rate increase was implemented in 1982.

The economy of Alabama is extremely sensitive to business cycles, due to a heavy reliance on the durable goods manufacturing sector. This sector expanded 8.8% between '83 and '84, with the service sector expanding 4.1%. Wealth levels within the State are low, with unemployment rates having been traditionally high. Debt ratios in Alabama are average. As a buffer for State operations, the Heritage Trust Fund is currently at a level of \$120 million. Due to the highly cyclical economy and low levels of State wealth, we view the State as a Lower AA with a stable trend.

Population (1984): 4,110,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	19.9%
Wholesale and Retail Trade:	16.2%
Service Industries:	12.7%
Government:	16.4%

Unemployment (1984): 11.1%
5 year average: 11.07%

Wealth Statistics

Per capita income: \$9,242
% change 1980-1984: +13.9%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 15,300,000
1982	\$ 11,100,000
1983	\$ 6,900,000
1984	\$ 21,600,000

1984 G.F. Balance as % of G.F. revenues: 4.2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	1098.2	\$ 267	2.9%	1.6%

ALASKA

Mondy's: Aa

SLB: Mid AA
Trend: Stable

S & P: AA-

The State, which relies on oil taxes and royalties for close to 85% of its revenues, was hurt in 1984 as oil prices remained weak. Revenues in the General Fund decreased 2.2%, with expenditures also declining, at a rate of 11.9%. The General Fund balance fell, albeit modestly, to a level of \$2.09 billion. Every \$1 decrease in the price of a barrel of oil translates into a loss of revenues of approximately \$150 million, which has placed the State under a great deal of revenue pressure. Some oil analysts are currently projecting a price for oil below \$20 a barrel within the next few years. Oil and gas production taxes, the single largest revenue source, fell 6.8% in 1984.

With an economy dependent on oil and gas, revenue projections have been sharply reduced for the 1985 fiscal year. What the State has in its favor is a huge General Fund balance and the Alaska Permanent Fund, which currently has a principal balance of over \$6 billion. The Permanent Fund serves as a constitutionally established "savings account". Fifty percent of the income generated by the Permanent Fund is transferred to the General Fund. Debt ratios are extremely high, with State unemployment also on the high side. Alaska does, however, possess very high wealth levels and a rapidly expanding population base. While the situation in terms of oil related revenues is deteriorating at a fast pace, the ability to control expenses, large fund cushions, and as yet untapped tax sources (i.e. sales and personal income taxes) provide adequate security for the State's debt, although the situation bears watching.

Population (1983): 510,550
% change 1980-1984: +22.9%

Employment Distribution

Manufacturing:	6.7%
Wholesale and Retail Trade:	17.9%
Service Industries:	17.2%
Government:	32.2%

Unemployment (1984): 10.6%
5 year average: 9.96%

Wealth Statistics

Per capita income: \$17,194
% change 1980-1984: +32.2%
Families below poverty level: 8.6%

General Fund (G.F.) Balance

1981	\$ 2,187,100,000
1982	\$ 2,334,300,000
1983	\$ 2,154,700,000
1984	\$ 2,091,285,000

1984 G.F. Balance as % of G.F. revenues: 54.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
G.O. + Special Oblig.	1085.1	\$ 2,125	13.1%	2.7%

CALIFORNIA

Moody's: Aa

SLB: Upper AA
Trend: Stable

S&P: AA+

California, one of the wealthiest states, possesses an economy marked by its diversified character. While still sensitive to a downturn in the economy, the low level of California's debt burden (\$110 net G.O. debt) provides excellent security for outstanding bonds.

The 1983-84 fiscal year was a turnaround year for the State. Major revenue sources, helped in part by the upsurge of the national economy, rebounded strongly. Sales and personal income tax grew at an annual rate of 12.9% and 20.6% respectively in 1984. The General Fund moved from a deficit of over \$608 million in 1983, to a surplus of \$328 million in '84, helped in part by expenditure controls (3.6% over 1983 levels). Future initiatives, such as the defeated Jarvis IV, could affect the revenue raising capabilities of the State. Any such initiatives will have to be examined as they are presented in order to determine their potential impact on California. Moves by the State to reduce its unfunded pension liability should be a priority in the future. The population of the State is growing at a fast pace, and the State possesses very high wealth levels. Unemployment levels approximate the national average.

Population (1984): 25,622,000
% change 1980-1984: +7.8%

Employment Distribution (1984)

Manufacturing:	19.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	23.7%
Government:	16.3%

Unemployment (1984): 7.8%
5 year average: 8.32%

Wealth Statistics

Per capita income: \$14,482
% change 1980-1984: +31.4%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	\$ 349,793,000
1982	\$ (154,204,000)
1983	\$ (608,400,000)
1984	\$ 327,600,000

1984 G.F. Balance as % of G.F. revenues: 1.4%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	2821.085	\$110.10	.8%	.3%
G.O. and Enterprise	7949.432	\$298.53	2.1%	.9%

CONNECTICUT

Moody's: Aa1

SLB: Mid AA
Trend: Upward

S & P: AA

1984 was a banner year for Connecticut, with total General Fund revenues increasing 17.1%, and an unappropriated deficit of \$47.9 million in 1983 being completely drawn down (with \$165 million placed in a Budget Reserve Fund). Sales tax revenues, which account for approximately one third of revenues, increased at a 21.4% clip, with corporate profits taxes rising 20.2%. The State finds itself in the enviable position of looking for areas in which to slash taxes, in order to stem the flow of surplus funds. To this point in fiscal '85, Connecticut has already registered a projected surplus of approximately \$50 million.

The economic base of the State is relatively narrow in scope, but it has shown movement towards diversification. Similarly, the tax base is also narrow in scope. The debt ratios are very high, and are expected to move even higher with the planned infrastructure borrowing. Overall, the wealth of the State and continuing strong financial performance help to mitigate high debt and the narrow economic base, justifying an upward trend.

Population (1984): 3,138,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	27.9%
Wholesale and Retail Trade:	21.4%
Service Industries:	21.9%
Government:	12.4%

Unemployment (1984): 4.7%
5 year average: 6.1%

Wealth Statistics

Per capita income: \$14,948
% change 1980-1984: +27.8%
Families below poverty level: 8.0%

General Fund (G.F.) Balance

1981	\$ (65,687,000)
1982	\$ (39,838,000)
1983	\$ (47,950,000)
1984	\$ 0 (\$165.2 million transferred to Budget Reserve Fund)

1984 G.F. Balance as % of G.F. revenues: 3.9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	2327.1	\$749	5.4%	3.1%

DELAWARE

Moody's: Aa

SLB: Mid AA
Trend: Stable

S & P: AA

After three years of operating at or near a deficit in the General Fund, the 1984 fiscal year ended with an operating surplus of \$48.1 million. The following revenue areas all showed strong gains: personal income taxes (+9.9%), franchise taxes (+8.6%) and corporate income taxes (+46.2%), with total revenues increasing 12%. Disbursements increased at a rate of only 2.9%. Overall, the General Fund balance improved to finish at a total of \$97.4 million.

Manufacturing, particularly in chemicals and automobiles dominates the State's economy. DuPont accounts for 38% of manufacturing employment and 9% of total State employment. Growth in the trade sector helps to offset the cyclicity of the manufacturing sector. Wealth levels in the State are high with unemployment recently falling below the national averages. Debt ratios in the State are extremely high. Revenues are reliant on income tax revenues, with no sales tax currently being levied. Well-controlled finances, a diversifying economy, consistent balances and untapped revenue sources provide adequate security for the outstanding debt, placing Delaware as a Mid AA with a stable trend.

Population (1984): 606,000
% change 1980-1984: +2.0%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.7%
Service Industries:	19.7%
Government:	16.7%

Unemployment (1984): 6.7%
5 year average: 7.7%

Wealth Statistics

Per capita income:	\$12,665
% change 1980-1984:	+25.9%
Families below poverty level:	11.8%

General Fund (G.F.) Balance

1981	\$ 50,900,000
1982	\$ 51,300,000
1983	\$ 49,400,000
1984	\$ 97,450,000

1984 G.F. Balance as % of G.F. revenues: 12.7%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net G.O. Debt	563.5	\$929.87	7.2%	4.1%

FLORIDA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In fiscal 1984, Florida revenues were slightly below projections and expenditures were also slightly below projected levels. Total operating expenses fell by approximately \$750,000,000, with taxes, licenses and fee revenues increasing by approximately \$1.5 billion. The State ended the year with an operating surplus in the General Fund of \$131 million. The General Fund balance has firmed its position since substantial declines in the 1982 fiscal year.

Florida has an economy which has moved away from a reliance on tourism and citrus agriculture to more of a diversified make-up. Manufacturing has been increasing at an average annual rate during the past 10 years of 3.6%, with Florida ranked #1 in its attractiveness as a business climate for manufacturers. Unemployment has traditionally been below the national average, with wealth levels at the national average. Debt ratios are moderate, with a majority of debt being double barrelled. The quick pace of growth, a diversifying economy and the double barrelled nature of debt provide good security for the bonds, and cause us to view Florida as a Mid AA with a stable trend.

Population (1984): 10,976,000
% change 1980-1984: +12.6%

Employment Distribution (1984)

Manufacturing:	11.9%
Wholesale and Retail Trade:	26.8%
Service Industries:	24.7%
Government:	16.3%

Unemployment (1984): 5.40%
5 year average: 6.98%

Wealth Statistics

Per capita income: \$11,689
% change 1980-1984: +27.1%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	\$ 651,970,000
1982	\$ 404,400,000
1983	\$ 456,500,000
1984	\$ 459,700,000

1984 G.F. Balance as % of G.F. revenues: 8.9%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	2867.3	\$270	2.3%	1.1%

GEORGIA

Moody's: Aaa

SLB: Upper AA
Trend: Upward

S&P: AA

In the 1984 fiscal year, Georgia saw strong gains in its revenue stream, and as a result, was able to replenish the monies in the Revenue Shortfall Reserve Fund (funded with 3% of revenues) and Mid-year Adjustment Reserve Fund (funded with 1% of revenues) which had been depleted during the 1982 and 1983 fiscal years. To date in 1985, revenue receipts are running ahead of State estimates by a rather substantial margin. The two largest sources of revenue for Georgia, sales and income taxes, each saw sizable increases from '83 to '84, increasing 10.7% and 12.8% respectively.

The State possesses a sound economic foundation, with agriculture becoming less important, as other sectors have taken over. The growing services sector (increasing 3.6% in '82 and 5.7% in '83) has helped to insulate Georgia from recessionary periods. The most recent recession, as evidenced by a revenue stream only somewhat affected, points to this fact. The population of the State has been increasing at a fast pace, with unemployment holding at very low levels. Per capita income, while below the national average, is on par with that of the region. Debt ratios of the State are moderate, and when combined with an improved economic make-up, improved financials and a growing population base cause us to view the State as an Upper AA with an upward trend.

Population (1984): 5,837,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	22.4%
Wholesale and Retail Trade:	24.0%
Service Industries:	17.4%
Government:	19.2%

Unemployment (1984): 6.0%
5 year average: 6.84%

Wealth Statistics

Per capita income: \$10,379
% change 1980-1984: +29.4%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	\$ 70,600,000	(\$93,000,000 Mid-year Adjustment Revenue Reserve)
1982	\$ 0	(\$50,000,000 Mid-year Adjustment Revenue Reserve)
1983	\$ 0	(\$22,000,000 Mid-year Adjustment Revenue Reserve)
1984	\$ 0	(\$105,000,000 Mid-year Adjustment Revenue Reserve)

1984 G.F. Balance as % of G.F. revenues: 2.6% (includes monies in revenue shortfall and mid-year adjustment reserve)

Debt Ratios	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1670.5	\$286	2.8%	.9%

HAWAII

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA

The budgetary gap which the State has been experiencing was substantially narrowed in the 1984 fiscal year to a level of \$20 million, from a level of \$92 million in 1983. However, as a result of this gap, the General Fund balance declined once again in '84, to a level of \$105 million. Revenues were lessened in 1984 due in part to a cessation of the gross receipts tax on airlines.

Overall, the already high debt burden of Hawaii has increased since the last survey, although this is consistent with the growth mode the State is in. The economy is reasonably diversified, with a strong reliance on tourism, federal defense and agriculture. Tourism trade in Hawaii has been consistently strong even during economic downturns, with a 1984 increase in visitors of 10.6% over 1983. Even with the strength of the dollar against the yen, the ever important Japanese tourist segment increased 15.7% over 1983 levels. The dollar has recently shown signs of weakening which should bode well for the State's Japanese tourist trade. Given the State's debt burden and limited economic diversification in conjunction with relatively low unemployment, good resident wealth and a thriving tourism industry, we place Hawaii in the range of a Lower AA credit with a stable trend.

Population (1984): 1,038,700
% change 1980-1984: +7.7%

Employment Distribution (1984)

Manufacturing:	5.5%
Wholesale and Retail Trade:	26.3%
Service Industries:	25.8%
Government:	22.6%

Unemployment (1984): 5.6%
5 year average: 5.8%

Wealth Statistics

Per capita income:	\$12,750
% change 1980-1984:	+25.9%
Families below poverty level:	9.9%

General Fund Balance

1981	\$ 231,700,000
1982	\$ 210,000,000
1983	\$ 129,500,000
1984	\$ 105,063,000

1984 G.F. Balance as % of G.F. Revenues: 11.9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net total tax supported debt	1670.7	\$1,608	13.5%	4.3%

ILLINOIS

Moody's: Aaa

SLB: Upper AA
Trend: Stable

S & P: AA+

Illinois, one of the wealthier states, also possesses an economy marked by its diversified nature. Durable goods manufacturing, however, comprises a large percentage of the economy, which will be problematical if the State goes into another recessionary period. The trend of budgetary deficits has been reversed (due in part to an improved economy and temporary tax hikes), as has the downward trend of the State's General Fund balance.

Overall, the 1983-84 fiscal year was one of great improvement for Illinois. Temporary tax increases, coupled with a strong economy, helped revenues of the State rebound sharply. Income tax revenues increased at a 33% rate, with sales tax revenues growing 10.7%. On the expenditure side, increases were kept at a level below the increases in revenues. The General Fund balance, which had decreased in the four previous years, rebounded sharply to finish at a level of \$217 million in 1984 and \$479 million in 1985. Due to an increase in 1986 projected expenditures and a decrease in projected revenues, the 1986 balance could be drawn down to \$177 million unless certain measures are taken. As evidenced by temporarily increased tax rates, the State is willing to take measures necessary to improve its operating performance. Sensitivity to a possible economic downturn, high levels of wealth, a diversified economy and an adequate fund balance cause us to view the State as an Upper AA credit with a stable trend.

Population (1984): 11,511,000
% change 1980-1984: +.7%

Employment Distribution (1984)

Manufacturing:	21.2%
Wholesale and Retail Trade:	24.6%
Service Industries:	22.6%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.72%

Wealth Statistics

Per capita income:	\$12,405
% change 1980-1984:	+18.38%
Families below poverty level:	11%

General Fund (G.F.) Balance

1981	\$ 197,000,000
1982	\$ 187,000,000
1983	\$ 110,000,000
1984	\$ 217,000,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	3551.0	\$308	2.16%	1.5%

IOWA

Moody's: MIG-2

SLB: Lower MIG-1
Trend: Stable

S & P: N.R.

With its foray into the capital marketplace, the State of Iowa has debt currently outstanding (consisting of tax and revenue anticipation notes) of \$452,000,000. The need for the notes was to offset the timing difference between revenues and scheduled disbursements, particularly in the area of school aid.

The 1984 fiscal year saw Iowa maintain its General Fund at a balance of \$8.3 million, which was transferred to the Economic Emergency Fund (money used to alleviate General Fund deficits in any future year). Revenues were hurt by a weakness in corporate income taxes. Constitutionally, the State cannot end a fiscal year with a General Fund Deficit; so that, expenditures will be slashed if new revenue sources are not located. Certain tax rates are moderate and can potentially be raised (e.g. sales tax). Wealth levels in Iowa are slightly below the national average, with unemployment well below the national average. The economy is fairly diversified with only 19.6% of employment accounted for by the manufacturing sector, and as a source of personal income only 2% is accounted for by the agricultural sector. Currently 123 of the Fortune 500 companies have manufacturing plants in Iowa. The State's low debt ratios, and the fact that constitutionally it cannot sustain a General Fund Deficit help to overshadow the slim State surplus and difficulty in timing revenues and expenditures, causing us to view Iowa as a Lower MIG-1 credit.

Population (1984): 2,894,000
% change 1980-1984: -0.7%

Employment Distribution (1984)

Manufacturing:	19.6%
Wholesale and Retail Trade:	25.5%
Service Industries:	20.5%
Government:	20.0%

Unemployment (1984): 4.8%
5 year average: 5.32%

Wealth Statistics

Per capita income:	\$11,048
% change 1980-1984:	+18.4%
Families below poverty level:	10.1%

General Fund (G.F.) Balance

1982	\$ 21,800,000
1983	\$ 8,300,000
1984	\$ 8,300,000 (Transferred to Economic Emergency Fund)
1985	\$ 0

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Total Unfunded Debt	452	\$155.32	1.3%	.6%

LOUISIANA

Moody's: A1

SLB: Lower AA
Trend: Stable

S&P: AA-

Louisiana, like the State of Texas, has a high reliance on oil and gas for revenues in the General Fund. Unlike Texas, they do not have the cushion of a substantial General Fund balance to help carry them through their current and potential future lean times. The balance declined from a 1983 level of \$180 million to an 1984 level of \$7 million. For the current year the State expects to maintain a token fund balance, although large expenditure cuts are required. Oil and gas severance taxes fell by 7.2% last year, and are projected to fall 6.1% this year. Should oil prices drop more than projected, any positive balance would not be a probable occurrence.

The 1985 fiscal year was one of heavy borrowing for Louisiana, making already poor debt ratios even worse. Debt as a percentage of personal income rose to 6.9%, while the median for all states has dropped to 2.4%. Revenues for the year should increase approximately \$500 million, due in large part to tax increases, particularly in the corporate income tax rate, gasoline tax and sales tax; but as mentioned before, expenditures need to be cut. The wealth statistics of the State are well below national averages, with unemployment well above. While high levels of debt, an economy highly reliant on an industry in a downward trend and an extremely large unfunded pension liability (\$4 billion) are very negative factors, the constitutional pledge of monies first to bond debt service enhances the quality of Louisiana debt.

Population (1984): 4,462,000
% change 1980-1984: +6.1%

Employment Distribution (1984)

Manufacturing:	11.4%
Wholesale and Retail Trade:	23.5%
Service Industries:	19.4%
Government:	20.2%

Unemployment (1984): 10.4%
5 year average: 9.52%

Wealth Statistics

Per capita income: \$10,406
% change 1980-1984: +22.8%
Families below poverty level: 18.6%

General Fund (G.F.) Balance

1981	\$ 556,000,000
1982	\$ 544,000,000
1983	\$ 180,000,000
1984	\$ 7,055,000

1984 G.F. Balance as % of G.F. revenues: .1%

Debt Ratios	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	3156.4	\$707.39	6.9%	2.8%

MAINE

Moody's: Aa1

SLB: Upper AA
Trend: Stable

S & P: AAA

Revenues of the State, after increasing only 1.8% in the 1983 fiscal year (led by a 2.1% decline in tax revenues), rose 13.8% in 1984. Adjustment to the total loss of unemployment compensation taxes and a substantial increase in corporate income tax revenues were prime contributors to the improvement. The undesignated General Fund balance, which until 1983 had been at very consistent levels, rebounded in 1984 to end at an amount of \$16.7 million. Operating results which in 1983 saw a deficit of \$15.5 million, in 1984 ended with a surplus of \$44.5 million. Estimation of receipts tend to be very accurate.

The economy of the State tends to be somewhat problematical, with a concentration in forest products, fishing and textiles. The planned expansion of national defense spending within the State is a positive factor. Wealth statistics, while below the national average, have risen at a rate above the national average. Additionally, population and resident employment have increased faster than the national average. New jobs are expected to be concentrated in the trade and service sectors. The debt ratios of Maine are at moderate levels. Conservative operations, moderate debt, and consistent performance over the past 10 years justify an Upper AA rating for the State of Maine.

Population (1984): 1,150,000
% change 1980-1984: +2.3%

Employment Distribution

Manufacturing:	25.7%
Wholesale and Retail Trade:	21.7%
Service Industries:	19.1%
Government:	20.5%

Unemployment (1984): 6.1%
5 year average: 8.04%

Wealth Statistics

Per capita income: \$9,847
% change 1980-1984: +23.7%
Families below poverty level: 13.0%

General Fund (G.F.) Balance

1981	\$	24,900,000
1982	\$	18,800,000
1983	\$	2,150,000
1984	\$	16,705,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	294.6	\$256.16	2.87%	1.13%

MARYLAND

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S&P: AAA

In the 1984 fiscal year, revenues and expenditures were extremely close to projected levels on a budgetary basis, with a favorable balance in General Fund receipts of 1% and an unfavorable balance in expenditures of .1%. Overall, revenues increased 12.5%, led by income taxes (+15.7%) and sales taxes (+14.2%), while expenditures increased only 4.7%. The General Fund, which reports according to GAAP (Generally Accepted Accounting Principles), widened its deficit to \$65 million and on a budgetary basis, ended at \$41.3 million, down from \$54.9 million. The drop is due mainly to planned use of the surplus.

The State of Maryland currently enjoys a balanced economy featuring tourism, services, agriculture and a strong government sector benefiting from its proximity to the nation's capital. Wealth levels are well above average and unemployment well below the national average. The G.F. balance on a GAAP basis is expected to be on the positive side in the 1985 fiscal year. An area for concern includes very high debt levels, with per capita debt at a level of \$682. The current S & L crisis is being responsibly handled and should not affect the States' prime rating. Deficits and high debt levels are partially offset by the traditionally responsible performance of State government (e.g. no short-term borrowing) and the typically short maturity of outstanding debt, placing the bonds as a Lower AAA with a stable trend.

Population (1984): 4,354,000
% change 1980-1984: +3.8%

Employment Distribution (1984)

Manufacturing:	12.3%
Wholesale and Retail Trade:	24.5%
Service Industries:	23.8%
Government:	23.3%

Unemployment (1984): 5.8%
5 year average: 7.2%

Wealth Statistics

Per capita income: \$13,100
% change 1980-1984: +26.2%
Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	\$ 197,200,000
1982	\$ 143,300,000
1983	\$ (51,600,000) GAAP
1984	\$ (65,000,000) GAAP

1984 G.F. Balance as % of G.F. revenues: 1.2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	2922.3	\$682	5.2%	2.7%

MASSACHUSETTS

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: AA

Massachusetts ended the 1984 fiscal year with an operating deficit in the General Fund, due in part to a substantial increase in State aid to cities and towns. This was caused partially by the passage of Proposition 2 1/2, which limited local revenue raising capabilities. The General Fund balance moved from a \$64.4 million surplus in 1983 to a \$19.3 million surplus in 1984. For the 1985 fiscal year, the State expects to widen its balance to \$37.2 million, but large increases in fund transfers, aid to cities and basic State expenditures will put a strain on the balance, particularly in the event of an economic slowdown.

The State exhibits very high per capita wealth, low levels of unemployment, a stable population and an economy marked by a shift towards the service, trade and high technology industries. This shift away from the more traditional manufacturing industries has helped to insulate the State from some of the effects of a recession. Debt ratios are on the high side, with the State spending more and more on aid to local entities. Wealth levels and improving economic make-up help to provide adequate security when all aspects of State operations are taken into consideration, and cause us to view Massachusetts as an Upper A with a stable trend.

Population (1984): 5,767,000
% change 1980-1984: +.5%

Employment Distribution (1984)

Manufacturing:	23.7%
Wholesale and Retail Trade:	23.1%
Service Industries:	26.3%
Government:	13.0%

Unemployment (1984): 4.3%
5 year average: 6.5%

Wealth Statistics

Per capita income: \$14,463
% change 1980-1984: +42.8%
Families below poverty level: 9.6%

General Fund (G.F.) Balance

1981	\$ 21,400,000
1982	\$ 4,400,000
1983	\$ 64,400,000
1984	\$ 19,200,000

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	4481.9	\$777.19	5.9%	3.6%

MICHIGAN

Moody's: A

SLB: Mid A
Trend: Stable

S&P: A+

Tax revenues in 1984 rose sharply, up 23.5% from 1983, due in part to an improved economy and temporary income tax increases. Overall, State revenues increased 12.1%. Due mainly to lower than expected receipts from Federal agencies, actual General Fund revenues were below target. Expenditures were kept at an increase of 5.5%, compared to an increase of 5.7% the year before. The undesignated General Fund balance, at a level of \$19.7 million in 1983, ballooned to \$283.2 million in 1984. In the 1985 fiscal year, it is expected that approximately \$386.7 million will be deposited in the Budget Stabilization Fund.

The Michigan economy, traditionally concentrated in durable goods manufacturing, has been extremely sensitive to hard economic times. While diversification is being encouraged, at this point in time the vulnerability remains. The State possesses a high unemployment rate, a certain amount of migration to other States, and only average per capita wealth. State government has made a concerted effort to improve operations with budget cuts, work force reductions and tax increases. The debt ratios of the State are low, and when looking at G.O. debt, they are very low. Given the commitment to improved operations, low debt ratios and an improved economy, Michigan can support a Mid A rating, although the State economy continues to leave it vulnerable to the downswing in the business cycle.

Population (1984): 9,107,000
% change 1980-1984: -1.5%

Employment Distribution (1984)

Manufacturing:	28.6%
Wholesale and Retail Trade:	21.6%
Service Industries:	20.2%
Government:	17.4%

Unemployment (10/84): 10.1%
5 year average: 12.9%

Wealth Statistics

Per capita income: \$11,574
% change 1980-1984: +16.1%
Families below poverty level: 10.4%

General Fund (G.F.) Balance

1981	\$	0
1982	\$	6,200,000
1983	\$	19,600,000
1984	\$	283,200,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	1304.7	\$144	1.3%	.7%

MINNESOTA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA+

The 1984 fiscal year was one of marked improvement for the State, as evidenced by its General Fund balance moving from a \$5.3 million surplus to a \$344.2 million surplus. Expenditures, which had been slashed 22% in the 1983 fiscal year increased in 1984 to slightly above 1982 levels, with revenues increasing 16.2% in 1984. The revenue base increased in part because of tax increases and also because of an improved economy. The economic pause in the beginning of 1985 combined with major tax cuts has caused a reduction in forecasted revenues. A cushion against revenue shortfalls will be provided by a \$450 million Reserve Fund expected to be funded in the upcoming biennium.

Wealth levels in Minnesota are above the national average, with unemployment consistently well below the average. Agriculture, comprises 6.1% of employment; and the service sector, which is less sensitive to a downturn in the economy, has been gaining in importance. Debt ratios in the State are moderate, and short-term borrowing needs will be greatly reduced in the future. A stronger economy, a commitment to balanced financial operations and moderate debt levels indicate an improved position, although the tax cuts put through are an area of concern in light of weakening revenues. We view Minnesota as a Mid AA with a stable trend.

Population (1984): 4,162,000
% change 1980-1984: +2.1%

Employment Distribution (1984)

Manufacturing:	20.5%
Wholesale and Retail Trade:	25.2%
Service Industries:	22.9%
Government:	16.0%

Unemployment (1984): 6.3%
5 year average: 6.74%

Wealth Statistics

Per capita income: \$13,218
% change 1980-1984: +36.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	\$ (60,047,000)
1982	\$ (624,500,000)
1983	\$ 5,344,000
1984	\$ 344,300,000

1984 G.F. Balance as % of G.F. revenues: 1.6%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1135.5	\$273	2.3%	.9%

MISSISSIPPI

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA-

In fiscal 1984, General Fund receipts and expenditures were about equal, with receipts increasing 9.3%, and expenditures 7.7%. Tax rate increases (sales, personal income and corporate income) were made permanent, with sharp increases in sales tax revenues (+13%) and income tax revenues (+19.1%) over fiscal 1983. The General Fund balance dropped to a level of \$10.6 million from \$15.2 million the year before. To this point in 1985, operations have shown improvement with the General Fund operating at a surplus, due in part to strict controls on expenditures. The Working Cash Balance Fund, to be funded with approximately \$31 million, is intended to ease cash flow imbalances.

The State currently has an economy based in manufacturing, although the trade sector has increased by 7% since 1980. The main components of manufacturing are textiles and lumber which have been weak in the recent past. Mississippi is the poorest state in the nation, with per capita income only 69% of the national average, unemployment well over the national average, and 23.9% of its families below the poverty level. Overall, the State has had responsible fiscal operations, moderate levels of debt, has planned for the future and displayed a willingness to raise taxes, all of which combine to place the State as a Lower AA with a stable trend.

Population (1984): 2,598,000
% change 1980-1984: +3.1%

Employment Distribution (1984)

Manufacturing:	26.6%
Wholesale and Retail Trade:	21.3%
Service Industries:	15.2%
Government:	22.3%

Unemployment (1984): 10.8%
5 year average: 10.04%

Wealth Statistics

Per capita income: \$8,098
% change 1980-1984: +23.5%
Families below poverty level: 23.9%

General Fund (G.F.) Balance

1981	\$	76,975,000
1982	\$	39,294,000
1983	\$	15,190,000
1984	\$	10,614,000

1984 G.F. Balance as % of G.F. revenues: .8%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	666.7	\$257	3.2%	2.2%

MISSOURI

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S & P: AAA

1984 was a year of substantial improvement over the 1983 fiscal year. After three years of an operating deficit (after operating transfers out), 1984 resulted in a surplus. General Fund revenues increased approximately 4.4%, while expenditures rose 10.5%, but operating transfers out increased only 3.9%. Preliminary results for 1985 indicate that revenues are running approximately 6% over original estimates. The major tax sources consist of general sales taxes and personal income taxes. Undesignated General Fund monies increased in 1984, ending at a level of \$242 million.

The Missouri economy exhibits a diverse nature, with durable goods manufacturing a major component (automobiles and aircraft). This left State finances vulnerable to the recent recessionary period. The economy has seen more growth in the other sectors, helping to lower the impact of economic downturns. Personal income is average, with unemployment traditionally above the national average. Given the low amount of debt which the State has outstanding and the improved economic environment, Missouri's prime credit rating is upheld.

Population (1984): 4,985,000
% change 1980-1984: +1.4%

Employment Distribution (1984)

Manufacturing:	21.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	21.2%
Government:	17.2%

Unemployment (1984): 7.4%
5 year average: 8.3%

Wealth Statistics

Per capita income: \$10,969
% change 1980-1984: +24.5%
Families below poverty level: 12.2%

General Fund (G.F.) Balance

1981	\$ 151,100,000
1982	\$ 123,500,000
1983	\$ 98,900,000
1984	\$ 242,000,000

1984 G.F. Balance as % of G.F. revenues: 10.5%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	295.59	\$59.50	.5%	.5%

MONTANA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The 1984 fiscal year saw General Fund revenues for the State of Montana decrease 6.1%, due in large part to a 19% drop in gas, oil and coal production taxes. Strong increases in its revenue stream were provided by personal income taxes, which rose 12.4%. Expenditures were pared, however, with general government spending being slashed 33.9%, and overall spending decreasing approximately 1%. The undesignated General Fund balance of the State has consistently shown a surplus, and has ended the 1984 fiscal year at a level of \$36 million, down from \$57 million.

The economy of Montana is concentrated in the agricultural, mining and forest product sectors, areas which have not performed well in the recent past. Due to this economic makeup, the growth of the State will not be as powerful as had been expected. Oil and coal related industries have been weak, combined with a drought that has hurt agriculture. Wealth levels of the State are below average, with per capita income only 80% of the national average. Debt ratios, which as recently as 1981 had been low, are now moderate, due to large borrowing for a variety of capital projects. The State has, however, exhibited not only a stable financial past, but a conservatism in its financial operations which provide good security for outstanding debt, and cause us to view Montana as a Mid AA with a stable trend.

Population (1984): 824,000
% change 1980-1984: +4.7%

Employment Distribution (1984)

Manufacturing:	7.8%
Wholesale and Retail Trade:	27.0%
Service Industries:	21.4%
Government:	24.2%

Unemployment (1984): 7.4%
5 year average: 7.56%

Wealth Statistics

- Per capita income: \$9,994
- % change 1980-1984: +15.5%
- Families below poverty level: 12.3%

General Fund (G.F.) Balance

1981	\$ 58,106,000
1982	\$ 14,132,000
1983	\$ 56,895,000
1984	\$ 35,097,000

1984 G.F. Balance as % of G.F. revenues: 12.6%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	235.9	\$286	2.9%	1.4%

NEVADA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In 1984, total revenues increased at a 6.9% rate, led by sales tax revenues which showed a gain of 10.2%. This tax was raised in 1981 from 3.5% to 5.75%. Gaming taxes declined 4%, due in part to new timing of payments and to an employee strike late in the year. Expenditures were kept at constant levels, predominantly because of a 10.7% decline in educational contributions caused by excessive payments in 1983. The end result of 1984 was the replenishment of the General Fund balance, up to a level of \$81.5 million.

The economy of Nevada, not surprisingly, is dominated by the hotel and gaming industries, which comprise 28.1% of non-agricultural employment. Although under pressure from competition such as Atlantic City and other legalized gambling alternatives (e.g. lotteries), 1984 saw an increase in visitors (4%), conventions (10.2%) and casino winnings (11.36%). Although in an uptrend, this reliance on an industry facing a difficult competitive environment is an area of concern. More optimistic components of the State of Nevada include above average wealth, low debt ratios, and a population base which has been increasing much faster than the national average. These factors, combined with consistent and strong General Fund balances provide good security, and place the State as a Mid AA with a stable trend.

Population (1984): 911,000
% change 1980-1984: +13.9%

Employment Distribution (1984)

Manufacturing:	4.7%
Wholesale and Retail Trade:	19.9%
Service Industries:	44.2%
Government:	14.3%

Unemployment (1984): 7.8%
5 year average: 8.2%

Wealth Statistics

- Per capita income: \$12,451
- % change 1980-1984: +16.1%
- Families below poverty level: 8.7%

General Fund (G.F.) Balance

1981	\$ 44,100,000
1982	\$ 45,800,000
1983	\$ 48,600,000
1984	\$ 81,500,000

1984 G.F. Balance as % of G.F. revenues: 15.6%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	91.7	\$101	.8%	.2%

NEW HAMPSHIRE

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The 1984 fiscal year was a solid turnaround year for the State of New Hampshire. This can be evidenced by a General Fund surplus of \$1,300,000 in 1984, after the State posted a G.F. deficit of over \$40,000,000 in 1983. The State has recently been rewarded by Moody's for the substantially improved results by having its rating raised to Aa from A1.

The improved financial results can be attributed to both the revenue and expenditure sides of the State's operations. On the revenue side, the State was aided by tax rate increases on business profits (largest revenue source) and real estate transfers. Coupled with the increased revenues, the State dedicated itself to expenditure controls, keeping the increase to 10.8% above 1983 levels. Preliminary '85 results show the State 8.5% ahead of revenue projections and in line with expenditure projections. General Fund balance expectations are for a level of approximately \$40 million. Combining the State's diversified economy, low unemployment, moderate debt levels and strong population growth with both its willingness to adjust tax rates and control expenditures, New Hampshire has in a very short time turned itself around. The outlook for the future is that this trend should continue, with Shearson Lehman Brothers viewing New Hampshire as a Mid AA with a stable trend.

Population (1984): 977,000
% change 1980-1983: +6.1%

Employment Distribution (1984)

Manufacturing:	28.0%
Wholesale and Retail Trade:	23.7%
Service Industries:	20.5%
Government:	13.1%

Unemployment (1984): 4.3%
5 year average: 5.36%

Wealth Statistics

Per capita income: \$12,021
% change 1980-1984: +31.4%
Families below poverty level: 8.5%

General Fund Balance

1981	\$ (30,600,000)
1982	\$ (33,200,000)
1983	\$ (40,100,000)
1984	\$ 1,300,000

1984 G.F. Balance as % of G.F. Revenues: 0

Debt Ratios

	<u>Outstanding</u> (000,000)	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net Total Tax Supported Debt	356.6	\$365	3.1%	1.2%

NEW JERSEY

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S & P: AAA

The State of New Jersey performed well in fiscal 1984, with revenues in the General Fund increasing at a rate of 12.6%, and expenditures at a rate of 6.6%. Sales tax revenues rose 24.8% for the year and corporate tax revenues, after an 11.9% decrease in 1983, rebounded sharply to show a 24.8% gain. The General Fund balance, which had slipped to \$98.4 million, ballooned to \$485.3 million. Due to an expected 10% increase in expenditures in 1985, and a slowing of revenues, the fund balance should remain at about the same level this year.

New Jersey has an economy marked by its diversification, and by the fact that the manufacturing sector has contracted 18.3% over the past 13 years, with the service sector expanding 61.5%. The State possesses very high personal wealth levels, low unemployment and a stable population base. Per capita debt is moderate, with specific revenue sources also pledged to payment. The overall picture of New Jersey, which includes diversity, wealth, a prime location and responsible financial operations supports a Mid AAA rating with a stable trend.

Population (1984): 7,515,000
% change 1980-1984: +2.0%

Employment Distribution

Manufacturing:	22.6%
Wholesale and Retail Trade:	23.1%
Service Industries:	22.0%
Government:	16.8%

Unemployment (1984): 6.2%
5 year average: 7.5%

Wealth Statistics

Per capita income: \$14,122
% change 1980-1984: +28.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	\$ 188,100,000
1982	\$ 78,700,00
1983	\$ 98,400,000
1984	\$ 485,300,000

1984 G.F. Balance as % of G.F. revenues: 9.1%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	3160.1	\$421	3%	1.5%

NEW MEXICO

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In 1984, revenues of the State declined, due in large part to the fact that 1983 revenues included \$260 million from a gross receipts tax settlement and 1984 Federal revenue sharing dollars were almost completely slashed. Recurring receipts in 1984 improved in all areas, with certain rate increases and tax implementations a partial reason. Income tax revenues increased 51.2% (30% rate increase), severance tax revenues were up 14.6% and sales tax revenues increased 19.9%. Expenditures for the year rose only 4.8%. The General Fund balance stabilized, ending the year at a level of \$57 million.

The economy of New Mexico is reliant on a few specific areas, namely mining, tourism and government research. Gas and oil account for 89% of severance tax revenues, with both areas showing weakness since 1982. Severance tax bonds, the majority of New Mexico debt outstanding, are secured by a pledge of these revenues, and have had historical coverage figures of 2.32x. Debt ratios are moderate when severance tax bonds are included, but G.O. ratios are very low. The State has low wealth levels, but a population base which has been growing at double the U.S. average. Stabilized financial performance with conservative spending patterns, combined with the uncertainty surrounding the mining industry which leaves the State vulnerable to demand, places New Mexico as a Mid AA with a stable trend.

Population (1984): 1,424,000
% change 1980-1984: +9.5%

Employment Distribution (1984)

Manufacturing:	7.3%
Wholesale and Retail Trade:	23.4%
Service Industries:	21.3%
Government:	25.8%

Unemployment (1984): 7.5%
5 year average: 8.32%

Wealth Statistics

Per capita income: \$9,640
% change 1980-1984: +21.4%
Families below poverty level: 17.6%

General Fund (G.F.) Balance

1981	\$ 100,645,000
1982	\$ 118,252,000
1983	\$ 53,682,000
1984	\$ 57,413,000

1984 G.F. Balance as % of G.F. revenues: 4.0%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	351.3	\$247	2.6%	1.2%

NEW YORK

Moody's: A

SLB: Upper A
Trend: Stable

S&P: A+

In the 1984 fiscal year, New York State improved its fund balance from a level of \$0 to \$51 million. Revenues increased 7.8%, led by personal income taxes (+14.5%) and sales taxes (+12.1%). Expenditures increased 7.1% over 1983 levels. Capital construction costs, which had jumped 29.8% in 1983, declined 14.2% in 1984. State operations were close to projections, with a favorable variance in receipts of \$16 million and a favorable balance of \$6.5 million in expenditures.

The economy of the State is well-spread out among all of the sectors, with a good portion in the service and other non-manufacturing industries, insulating the State somewhat from a recessionary period. Wealth levels are well above average, with unemployment rates below the national figures and a population base which has stabilized after a period of loss. The State possesses moderate debt levels (G.O. debt per capita of \$215), although the amount of agency debt to which some commitment has been made is very large. The diversity of the economy and basic financial wealth of the State helps to offset agency responsibilities and inaction concerning the reduction of its deficit based on GAAP accounting. These factors place New York in our Upper A category with stable trend.

Population (1984): 17,735,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	17.8%
Wholesale and Retail Trade:	20.5%
Service Industries:	25.7%
Government:	17.8%

Unemployment (1984): 7.2%
5 year average: 8.1%

Wealth Statistics

Per capita income: \$12,990
% change 1980-1984: +26.3%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	\$ 200,000
1982	\$ 308,000
1983	\$ 0
1984	\$ 50,800,000

1984 G.F. Balance as % of G.F. revenues: .2%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt (excludes agency and state guaranteed debt)	10868.9	\$613	4.7%	4.1%

NORTH CAROLINA

Moody's: Aaa

SLB: Mid AAA

S & P: AAA

Trend: Stable

In the 1984 fiscal year, North Carolina accurately forecasted its revenues and expenditures, winding up with an overall favorable variance of \$254 million. Receipts were right on target, with disbursements 4.4% below expected levels. Major sources of funds rose sharply, with income tax revenues up 15.9% and sales tax revenues up 21.4%. Total revenues rose 13.7%, with total disbursements up 9.4%. General government spending was slashed 6.9% as part of the plan to balance the budget. Overall, the General Fund balance increased to a level of \$253 million.

The economy of the State is based primarily in manufacturing (textiles, furniture and electrical) and agriculture (tobacco), although gains in the service sector are expected. Currently, however, the State remains vulnerable to the ups and downs of the economy. Wealth levels are well below the national average, with unemployment near the average. Debt ratios are on the low side, and retirement of principal is fairly rapid. Given the State's long record of stable financial operations, low debt and an exhibited willingness to control expenditures, a Mid AAA rating is warranted.

Population (1984): 6,164,200
 % change 1980-1984: +4.5%

Employment Distribution (1984)

Manufacturing:	31.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	15.8%
Government:	16.0%

Unemployment (1984): 7.2%
 5 year average: 8.6%

Wealth Statistics

Per capita income: \$9,787
 % change 1980-1984: +13.2%
 Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 154,600,000
1982	\$ 163,100,000
1983	\$ 72,000,000
1984	\$ 253,000,000

1984 G.F. Balance as % of G.F. revenues: 4.8%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net G.O. Debt	879.2	\$142.63	1.5%	.7%

NORTH DAKOTA

Moody's: Aa

SLB: Upper AA
Trend: Stable

S & P: AA

In the current biennium revenues are running slightly ahead of estimates, with major contributions being made by sales tax revenues and income tax revenues. An extension of the recent income tax rate increase has been approved. Expenditure levels are running slightly behind forecasted levels, with the largest differentials in general government spending and higher education. This performance has enabled the State to bring the cash balance back up to a level of \$161 million, after dropping to \$56 million at the end of the '81 biennium.

The economy of North Dakota is currently concentrated in the agriculture and mining sectors, making the State vulnerable to the cyclical swings of the economy. The service and government sectors have been expanding, with the manufacturing sector still approximately 1/4 the size of the national average. Due to the makeup of the economy, wealth levels have lagged behind the national average. Overall, the composition of outstanding debt (predominantly self-supporting), low debt levels, conservative financial operations and a willingness to raise tax rates in light of economic problems all combine to enable the State to maintain an Upper AA rating with a stable trend.

Population (1984): 673,000
% change 1980-1984: +3.1%

Employment Distribution

Manufacturing:	6.1%
Wholesale and Retail Trade:	25.8%
Service Industries:	21.8%
Government:	24.6%

Unemployment (3/84): 6.6%
5 year average: 5.6%

Wealth Statistics

Per capita income: \$11,666
% change 1980-1984: +35.2%
Families below poverty level: 12.6%

General Fund (G.F.) Balance

1981	\$	160,200,000
1982		174,500,000
1983	\$	56,100,000
1984	\$	161,000,000

1984 G.F. Balance as % of G.F. revenues: 14.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	61.175	\$ 94	.8%	.2%

OHIO

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

Ohio ended the 1984 fiscal year with an improved financial position, showing a fund balance of \$93 million. This is a substantial gain over past years ending balances, particularly 1981 when the final tally was \$200,000. The gains can be attributed to two major factors, the first being an improved economy nationwide; and the second tax rate increases for personal income, corporate franchise and public utilities taxes. Between 1983 and 1984, income tax revenues increased at a 24.6% rate and corporate franchise revenues increased 36.9%.

The performance of the State, which has a large portion of its economy concentrated in durable goods manufacturing, was particularly hard hit by the 1980-1982 recession. The economic mix of Ohio has shifted somewhat in recent years, moving more towards non-manufacturing sectors. Wealth levels of the State are moderate, with unemployment, due to the large durable goods sector, above the U.S. average. Debt ratios are slightly above average, with over half the debt representing moral obligations of Ohio. The well developed economy of the State, and its willingness to take measures necessary to increase the revenue stream and control expenditures, places Ohio in the Mid AA category with a stable trend.

Population (1984): 10,752,000
% change 1980-1984: -.4%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.6%
Service Industries:	21.4%
Government:	16.1%

Unemployment (1984): 9.1%
5 year average: 10.36%

Wealth Statistics

Per capita income: \$11,216
% change 1980-1984: +18.6%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 200,000
1982	\$ 50,200,000
1983	\$ 43,600,000
1984	\$ 93,300,000

1984 G.F. Balance as % of G.F. revenues: .9%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	3163.4	\$294	2.6%	1.2%

OREGON

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: A+

After returning to surplus operations in the 1983 fiscal year, Oregon continued the trend in 1984, widening the General Fund balance to \$134.7 million. Revenues decreased slightly in 1984, although the major revenue sources showed gains. The jump in income and cigarette tax revenues can be traced to rate increases. Expenditures were kept at an increase of 8.1%. In fiscal 1985, preliminary projections call for an increase in the General Fund balance to approximately \$171 million.

The Oregon economy is based predominantly in the wood products industries, exposing the State to the cyclical swings of the economy. Recently, however, some diversification has been evidenced, particularly in high technology. Wealth levels are average, with unemployment rates above average. Debt ratios are very high when the self-supporting Veterans Loan program is considered. Prospective cash flow problems have been addressed, and remedial actions have hopefully corrected the problem although a lawsuit initiated on behalf of the veterans has clouded the issue. While we do not believe the suit will be successful, its progress will be closely monitored. Overall, the State faces frequent initiative action, possesses a stable economy and uncertainty surrounding the Veterans bonds. Implementation of a 5% sales tax has recently been rejected (9/85). All of the above factors cause us to view the State as an Upper A with a stable trend.

Population (1984): 2,674,000
% change 1980-1984: +1.6

Employment Distribution (1984)

Manufacturing:	19.8%
Wholesale and Retail Trade:	25.1%
Service Industries:	20.4%
Government:	19.4%

Unemployment (1984): 9.4%
5 year average: 9.98%

Wealth Statistics

Per capita income: \$11,582
% change 1980-1984: +24.3%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	\$ 15,157,000
1982	\$ (181,391,000)
1983	\$ 45,600,000
1984	\$ 134,705,000

1984 G.F. Balance as % of G.F. revenues: 8.4%

Debt Ratios

	<u>Outstanding</u> (000,000)	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	465.5	\$174	1.6%	.6%
Total Debt (including Veteran Bonds)	6420.1	\$2400	20.7%	7.5%

PENNSYLVANIA

Moody's: A

SLB: Mid A
Trend: Upward

S&P: AA-

Aided by a temporary personal income tax increase, an improved overall national economy and tax accelerations, Pennsylvania moved from a large 1983 General Fund deficit to a surplus of \$76.4 million. Income tax revenues increased at a 23.9% clip, sales tax revenues increased 14.6% and overall revenues were up 6.3%. At the same time, disbursements were kept at a low increase of 3.3%. These numbers compare favorably to the previous fiscal year when revenues were up only 3.3% and disbursements rose 5.6%.

The economy of the State is extremely reliant on manufacturing and mining (steel and coal), making it extremely sensitive to downturns in the economy. Employment in the service sector, up 55% since 1970, has helped to diversify the economy somewhat. Population has remained virtually the same since 1970, wealth levels are close to national averages, and unemployment has been well above the national average. The debt ratios of the State are moderate and have decreased in recent years, along with the level of short-term borrowing. The willingness of the State to control expenditures, and its attempt to diversify the economy and take measures to raise revenues, help to overshadow the heavy reliance on cyclical industries, and place Pennsylvania as a Mid A with an upward trend.

Population (1984): 11,901,000
% change 1980-1984: +.3%

Employment Distribution (1984)

Manufacturing:	24.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	23.7%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.6%

Wealth Statistics

Per capita income: \$11,629
% change 1980-1984: +23.4%
Families below poverty level: 10.5%

General Fund (G.F.) Balance

1981	\$ 71,800,000
1982	\$ 7,500,000
1983	\$ (234,700,000)
1984	\$ 76,400,000

1984 G.F. Balance as % of G.F. revenues: .6%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	4602.5	\$387	3.4%	3.4%

RHODE ISLAND

Moody's: Aa

SLB: Mid AA
Trend: Downward

S & P: AA-

Aided by an improved economy, the 1984 fiscal year saw Rhode Island improve its bottom line, with the General Fund balance increasing to a level of \$32 million. Revenues were led by sales taxes (+15%), income taxes (+7.6%) and corporate taxes (+39%), with Federal revenues accounting for 24.4% of receipts. Tax revenues were strong in part because of rate increases. Overall, revenues rose 9.6% from the 1983 fiscal year. Expenditures were kept at a reasonable increase of 6.1%, with spending for mental health and hospitals rising 10%.

The economy of the State is extremely reliant on manufacturing in areas which are sensitive to the cyclical swings of the economy (e.g. textiles, rubber and plastic). This sector currently accounts for 32% of total employment. Unemployment rates have historically been above the national average, with the population base holding steady. On the negative side, the State has a heavy reliance on the Federal Government for revenues, a highly cyclical economy, and an income tax base which could be affected by any Federal tax changes. Positive factors, including moderate debt, conservative fiscal management and a willingness to increase taxes, combine with the negatives to place the State as a Mid AA with a downward trend.

Population (1984): 958,000
% change 1980-1984: +1.2%

Employment Distribution

Manufacturing:	32.2%
Wholesale and Retail Trade:	20.3%
Service Industries:	21.0%
Government:	14.9%

Unemployment (1984): 6%
5 year average: 7.9%

Wealth Statistics

- Per capita income: \$11,670
- % change 1980-1984: +26.5%
- Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 31,000,000
1982	\$ 3,200,000
1983	\$ 3,900,000
1984	\$ 32,000,000

1984 G.F. Balance as % of G.F. revenues: 2.5%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	356.8	\$ 372.44	3.2%	1.7%

SOUTH CAROLINA

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AAA

The financial bottom line improved substantially in 1984, with revenues increasing at a rate of 13.1% and expenditures increasing 9%. The General Fund reserve balance increased to a level of \$98.5 million in the 1984 fiscal year. The major sources of revenue for South Carolina include income taxes (+12.7%) and sales taxes (+15.5%). The largest expenditure, education, increased 9.1%. The General Reserve Fund, which must be maintained at between 3% and 5% (level subject to general assembly vote), provides a measure of stability for operations.

The South Carolina economy, which had previously been anchored by the agricultural sector has become more diversified, although textile manufacturing dominates. In the event of a recession, the State is somewhat vulnerable. Per capita income in the State is well below the national average, while unemployment has been slightly above. The debt ratios are below average, and short-term borrowing to cover cash flow shortages has not been used for the past 50 years. Overall, consistent financial performance, a constitutional limitation on debt issuance and a comfortable General Fund balance overshadow the current economic make-up, and cause us to view the State as a Lower AAA with a stable trend.

Population (1984): 3,300,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	30.6%
Wholesale and Retail Trade:	20.1%
Service Industries:	15.0%
Government:	19.5%

Unemployment (10/84): 7.0%
5 year average: 8.6%

Wealth Statistics

Per capita income: \$9,187
% change 1980-1984: +26.5%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	\$	76,500,000
1982	\$	21,100,000
1983	\$	40,000,000
1984	\$	98,500,000

1984 G.F. Balance as % of G.F. revenues: 4.4%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	645.7	\$196	2.2%	1.0%

TENNESSEE

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AA+

In 1984, total revenues increased at a rate of 15.1% over 1983, compared to a 3.3% increase the year before. Sales and use taxes led the way increasing 15.6%, due in part to a temporary 1% increase in the rate. This source of income accounts for 55.6% of all tax revenues. Expenditures increased 10.1% over 1983 levels, led by increases in health, social services, and transportation. The fund balance of Tennessee expanded from 1983 levels, ending fiscal '84 at \$163.7 million.

The economic picture of Tennessee is dominated by the manufacturing sector, which makes the State sensitive to the ups and downs of the business cycle. Wealth levels are below average, with the unemployment rate above average. Debt ratios are low and have declined in the past year with no new debt issued in 1984. Issuance of new debt is tied to the growth in personal income. Despite the sensitivity of the economy, low levels of debt, consistent operational surplus and stable General Fund balances help to support the prime rating.

Population (1984): 4,722,000
% change 1980-1984: +2.6%

Employment Distribution (as % of G.N.P.)

Manufacturing:	33.2%
Wholesale and Retail Trade:	16.1%
Service Industries:	12.4%
Government:	11.1%

Unemployment (1984): 8.7%
5 year average: 9.5%

Wealth Statistics

Per capita income: \$10,231
% change 1980-1984: +34.4%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 23,100,000
1982	\$ 31,800,00
1983	\$ 40,500,000
1984	\$ 163,700,000

1984 G.F. Balance as % of G.F. revenues: 5.0%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	524.3	\$111	1.0%	.5%

TEXAS

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S&P: AAA

To summarize the past performance and future outlook for the State of Texas, it can be largely broken down to the areas of oil and gas. These two industries directly or indirectly account for approximately 20% of tax revenues in the State. Texas has been moving towards a more diversified economy. General Fund cash balance moved from a surplus of over a billion dollars in 1983 to an ending balance of \$743 million in 1984, and has declined further in 1985 to a level of \$232.5 million. Oil is currently priced at approximately \$27 per barrel and is forecasted to drop to \$24.15 by 1987. Every \$1 drop in the price translates into a loss of tax revenue in the area of \$100 million. Projections of many economists see a price for oil of under \$20 per barrel within the next few years.

The 1984-1985 biennium should show a growth in revenues over the previous biennium, oil price weakness notwithstanding, due in part to an increase in the State sales tax. Other tax legislation will effect an increase in motor fuels tax and motor vehicle sales tax. However, given a continued weakness in the price of oil, the future revenue stream remains cloudy. Even with the State cutting expenditures, the key is to find a replacement for lost oil and gas revenues. While implementation of an income tax is probably not a likely occurrence, other tax sources, such as a value added tax, could raise significant funds. The State has many positive areas, among them a high amount of self supporting general obligation debt, low debt ratios, low unemployment, high personal income, a diversifying economy and conservative financial operations. Although negative factors such as the continued and expected declines in the General Fund Cash balance, continued weakness in oil prices and lack of any strong revenue increasing legislation indicate a negative performance trend, the positive aspects indicate that the rating of Texas will remain stable.

Population (1984): 15,221,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	15.6%
Wholesale and Retail Trade:	25.1%
Service Industries:	19.4%
Government:	16.9%

Unemployment (1984): 5.9%
5 year average: 6.3%

Wealth Statistics

Per capita income: \$11,419
% change 1980-1984: +40.4%
Families below poverty level: 14.7%

General Fund (G.F.) Balance

1981	\$ 676,291,000
1982	\$ 1,331,215,000
1983	\$ 1,007,085,000
1984	\$ 668,154,000

1984 G.F. Balance as % of G.F. revenues: 12.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1065.3	\$67	.6%	.2%

UTAH

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AAA

1984 was an excellent year for Utah, with the General Fund balance expanding to a level of \$159.6 million. Revenues, which were right on budgeted levels, were aided by increases in the State sales tax and the corporate income tax. Sales tax revenues increased 34.9%, with corporate tax revenues up 40.6%. Expenditures were approximately \$40 million below budgeted levels.

The economy of Utah is concentrated outside of the manufacturing sector, with employment gains having been particularly strong in government and services. This helps to insulate the State somewhat from cyclical swings in the economy, and has helped to keep unemployment levels below the national average. Per capita income is below the national average, but population growth has been very strong. Debt levels, which had been on the rise have declined, and are below average. Overall the diversified economy, growing population base, low debt with rapid retirement, consistent General Fund balances and a willingness to raise the tax base help to support Utah's rating.

Population (1984): 1,672,000
% change 1980-1984: +13.6%

Employment Distribution

Manufacturing:	15.7%
Wholesale and Retail Trade:	23.4%
Service Industries:	20.2%
Government:	21.8%

Unemployment (1984): 8.0%
5 year average: 7.6%

Wealth Statistics

Per capita income: \$9,100
% change 1980-1984: +18.8%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 42,600,000
1982	\$ 109,300,000
1983	\$ 64,800,000
1984	\$ 159,623,000

1984 G.F. Balance as % of G.F. revenues: 13.9%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	292.2	\$ 177	2.0%	.6%

VERMONT

Moody's: Aa

SLB: Mid AA

S & P: NR

Trend: Downward

In fiscal 1984, total General Fund revenues for the State finished \$8.7 million behind projected levels, with \$5 million being added to the accumulated General Fund deficit. This weakness in receipts comes amid a series of tax rate increases, with personal income tax revenues and corporate income tax revenues hurt by Federal tax law changes. Expenditure limitations and tax rate increases were implemented in order to eliminate the deficit, which ended 1984 at \$35 million.

The economy of Vermont is concentrated in the areas of manufacturing, tourism and agriculture, and has become less sensitive to the cyclical swings of the economy. Wealth levels are low compared to the national average, and very low compared to New England states. Population has shown some growth, with unemployment at low levels. The debt ratios of the State are high, but are expected to decrease at a fairly steady rate. While the implementation of a plan to erase the State deficit is a very positive step, Vermont remains extremely vulnerable to Federal tax law changes and economic slowdown. The uncertainty created by this situation causes us to view the State as a Mid AA with a downward trend.

Population (1984): 530,000

% change 1980-1984: +3.7%

Employment Distribution

Manufacturing:	23.2%
Wholesale and Retail Trade:	20.9%
Service Industries:	24.7%
Government:	18.2%

Unemployment (1984): 5.2%

5 year average: 6.22%

Wealth Statistics

Per capita income: \$10,692

% change 1980-1984: +36.9%

Families below poverty level: 12.1%

General Fund (G.F.) Balance

1981	\$ (1,200,000)
1982	\$ (100,000)
1983	\$ (30,800,000)
1984	\$ (35,800,000)

1984 G.F. Balance as % of G.F. revenues: (10.7%)

Debt Ratios

	<u>Outstanding</u> (000,000)	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	273.9	\$ 515.79	4.8%	1.6%

VIRGINIA

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S&P: AAA

In fiscal 1984, Virginia achieved substantial gains in its General Fund balance, moving from a 1983 ending balance of \$101.9 million to an '84 ending balance of \$208 million. The improvement was due to the strong performance of the corporate income tax (+33%), sales tax (+15.3%) and personal income tax revenues (+14.1%), while expenditure increases were kept at a reasonable level (+7.9%).

The State possesses a triple A by both rating services, putting it into an elite group of eight states. Virginia is generally considered one of the best G.O. credits around. The State has not funded cash-flow deficiencies with short-term borrowing since 1969, debt ratios have been stable and low, no major tax increases have been implemented, and fiscal management has been strong. All of these factors combine with above average wealth levels, low unemployment, a growing population base and a diversified economy which has seen some shift away from the manufacturing sector, and includes mineral production, agriculture and tourism. We view the State as a Mid AAA with a stable trend.

Population (1984): 5,636,000
% change 1980-1984: +5.4%

Employment Distribution (1984)

Manufacturing:	18.7%
Wholesale and Retail Trade:	21.4%
Service Industries:	20.1%
Government:	23.5%

Unemployment (1984): 5.0%
5 year average: 5.98%

Wealth Statistics

Per capita income: \$12,116
% change 1980-1984: +28.8%
Families below poverty level: 11.8%

General Fund (G.F.) Balance

1981	\$ 300,200,000
1982	\$ 213,200,000
1983	\$ 101,900,000
1984	\$ 208,000,000

1984 G.F. Balance as % of G.F. revenues: 6.1%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	475.2	\$84	.7%	.7%

WASHINGTON

Moody's: A

SLB: Lower AA
Trend: Downward

S & P: AA-

The 1984 fiscal year was marked by the austerity budget instituted by Washington, with total expenditures declining 1.7%. Combined with the increase in revenues of 6.1%, the General Fund balance moved from a level of \$79.8 million to \$66.5 million. One problem with the revenue stream of the State is the heavy reliance on sales tax revenues in the absence of any personal income taxes. In 1983 the sales tax rate was increased from 5.4% to 6.5%, along with increases in motor vehicle, tobacco and liquor sales taxes. Tax revenue projections for the current year have been sharply revised downward, with a General Fund balance of \$0 expected by the end of the biennium. Passage of Initiative 464 (sales tax based on the value of an item minus trade-in value) should not have a large impact on State operations, but its effect will be monitored.

An economy reliant on cyclical and interest sensitive industries is the basis of the State's problems, with concentration primarily in forest products and aerospace. Wealth levels are above the national average but unemployment is consistently high, debt ratios are high, and short-term borrowing to cover cash flow deficits has become the norm. Talks are currently underway concerning potential tax increases. The negatives of Washington greatly outweigh the positive aspect of fiscal responsibility, and cause us to view the State as a Lower AA with a downward trend.

Population (1984): 4,349,000
% change 1980-1984: +5.2%

Employment Distribution

Manufacturing:	17.5%
Wholesale and Retail Trade:	24.8%
Service Industries:	20.8%
Government:	20.6%

Unemployment (1984): 9.5%
5 year average: 9.78%

Wealth Statistics

Per capita income: \$12,728
% change 1980-1984: +22.9%
Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	\$ 10,500,000
1982	\$ (149,500,000)
1983	\$ 79,800,000
1984	\$ 66,520,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	2510.3	\$574	4.4%	1.6%

WEST VIRGINIA

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: AA-

During the 1984 fiscal year, General Fund receipts expanded over expenditures, allowing the General Fund balance to increase to a level of \$142 million. The largest components of revenues are business and occupation taxes, sales taxes and income taxes. The major expenditure of the State is in the area of education. The method of taxing business has been redefined.

The West Virginia economy is extremely reliant on the coal industry, which has contributed to the above average unemployment levels as well as to the low levels of per capita wealth. There have recently been major job losses in the areas of construction, mining and manufacturing, which played a role in the S & P rating downgrade to AA-. Per capita debt, which is above average, has remained stable since the last report. Overall, the economic reliance on an industry which is vulnerable to the business cycle together with the presence of adequate fund balances cause us to view the State as an Upper A credit with a stable trend.

Population (1984): 1,953,000
% change 1980-1984: +2.8

Employment Distribution (1984)

Manufacturing:	16.2%
Wholesale and Retail Trade:	21.1%
Service Industries:	17.0%
Government:	20.9%

Unemployment (1984): 11.0%
5 year average: 10.2%

Wealth Statistics

Per capita income: \$8,997
% change 1980-1984: +30.4%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$	42,200,000
1982	\$	78,200,000
1983	\$	62,000,000
1984	\$	142,000,000

1984 G.F. Balance as % of G.F. revenues: 9.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	773.3	\$396	4.3%	1.6%

WISCONSIN

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The State of Wisconsin performed well above expectations in the '83-'84 fiscal year, moving from a General Fund deficit balance of close to \$200 million, to a surplus of \$360 million. The economic recovery hit the State in a big way, with income and sales taxes showing good gains, increasing 25.8% and 13.7% respectively. With total revenues increasing 6.4%, expenditures were kept at a 3.5% rise.

The manufacturing sector of the State, particularly durable goods has made it sensitive to economic downturns. The economy has been diversifying with manufacturing, still dominant, losing some ground while the service sector has been gaining. Wisconsin has been having trouble with its Veterans Bond program, but a restructuring has hopefully alleviated the problem. Per capita income figures are good, with unemployment very close to the national average. The debt ratios of the State are moderate, with a demonstrated willingness having been shown to increase the revenue stream while controlling expenses. All of the factors combine to place Wisconsin as a Mid AA with a stable trend.

Population (1984): 4,766,000
% change 1980-1984: +1.3%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	23.1%
Service Industries:	20.9%
Government:	17.0%

Unemployment (1984): 7.7%
5 year average: 8.76%

Wealth Statistics

Per capita income: \$11,352
% change 1980-1984: +20.6%
Families below poverty level: 8.7%

General Fund (G.F.) Balance

1981	\$ 14,065,000
1982	\$ 26,485,000
1983	\$ (182,100,000)
1984	\$ 360,000,000

1984 G.F. Balance as % of G.F. revenues: 3.4%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1543.9	\$324	3.4%	1.3%

Additional information available upon request.

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FEB
BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

2350

January 31, 1986

The Honorable Bettye Fahrenkamp
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Fahrenkamp:

At your request, I am enclosing a set of tables that detail the State's existing debt service burden (Table I), the burden if the State were to issue additional debt (Tables II and III), and the burden if the State were to defease certain State general obligation (GO) bonds (Tables IV - VI).

The amounts of additional lease-financing and State GO debt assumed to be issued in the tables are arbitrary and are chosen solely to illustrate the burden of additional debt issuance.

The enclosed discussion paper provides a background on the issue of defeasance. As explained in the paper the State would generally incur a financial loss with respect to defeasance of bonds issued after May 2, 1978. This is because the funds escrowed to defease such bonds cannot be invested at a yield greater than the yield on the bonds being defeased. Examination of the enclosed Table 1.12 indicates that only the April 1, 1982 GO bonds had an interest rate that is above the current rates at which the escrow fund could be invested.

Thus, Tables IV - VI assume that only the pre-May 2, 1978 GO bonds and the 1982 Series A GO bond are defeased. As of June 30, 1986 the bonds outstanding which would be defeased will total \$429,008,000 with total debt service to maturity being \$560,209,516. The appropriation required to defease these bonds would be approximately \$386 million based on January 16, 1986 interest rates on U.S. Treasury securities.


It would be important to keep in mind that defeasance of any bonds could preclude additional bond issuance for some period of time. This is because the IRS might rule that any bonds issued in conjunction with the defeasance are arbitrage bonds. They could be arbitrage bonds because the bond proceeds would replace funds (the funds escrowed for defeasance) that are invested at a higher yield than the yield on the newly-issued bonds. Interest on arbitrage bonds is taxable.

The Honorable Bettye Fahrenkamp
January 31, 1986
Page #

It also would be possible for the State to appropriate funds to defease some or all of its share of outstanding municipal school debt. Again, only those bonds issued prior to May 2, 1978 could be defeased without financial loss. The arbitrage questions in this case might be more of a problem since municipalities may be more likely to be ongoing issuers of debt than the State.

A different approach to alleviating the State's debt service burden resulting from school debt would be to appropriate State funds for school construction for some or all of the projects that otherwise would be bonded. Early action to keep this option open would be required because \$230.2 million of school debt is scheduled for issuance during the remainder of FY 86. These bonds, once issued, would not be attractive candidates for defeasance because their issuance postdates May 2, 1978.

Sincerely,



Milt Barker
Deputy Commissioner

MB/gb
86-13

Enclosures

Table I

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}

Note G.O. + ASHA
(1)

Fiscal Year	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
	\$	%	\$	%	\$	%	\$	%	\$	%
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	313	15.1	313	15.1
89	150	7.9	109	5.7	259	13.6	313	16.4	323	16.9
90	135	7.5	90	5.0	225	12.5	276	15.3	286	15.9
91	110	6.5	78	4.6	188	11.1	238	14.1	248	14.7
92	82	4.8	72	4.2	154	9.0	201	11.8	211	12.4
93	73	4.3	63	3.7	136	8.0	182	10.7	192	11.3
94	44	2.8	56	3.6	100	6.4	143	9.2	153	9.8
95	32	2.1	47	3.1	79	5.2	119	7.8	129	8.5
96	28	2.0	33	2.4	61	4.4	100	7.2	110	7.9
97	24	1.6	16	1.1	40	2.7	57	3.9	67	4.6
98	21	1.5	14	1.0	35	2.5	42	3.0	52	3.7
99	16	1.1	14	1.0	30	2.3	37	2.6	47	3.3
00	9	.7	12	.9	21	1.6	27	2.1	37	2.9

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table II

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming \$200 Million Additional Lease-Financing Authorized and Issued
in Columns 4 and 5

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	318	15.3	318	15.3
89	150	7.9	109	5.7	259	13.6	328	17.2	338	17.7
90	135	7.5	90	5.0	225	12.5	301	16.7	311	17.3
91	110	6.5	78	4.6	188	11.1	262	15.5	272	16.1
92	82	4.8	72	4.2	154	9.0	224	13.1	234	13.7
93	73	4.3	63	3.7	136	8.0	205	12.0	215	12.6
94	44	2.8	56	3.6	100	6.4	165	10.6	175	11.2
95	32	2.1	47	3.1	79	5.2	140	9.2	150	9.9
96	28	2.0	33	2.4	61	4.4	121	8.7	131	9.4
97	24	1.6	16	1.1	40	2.7	76	5.2	86	5.9
98	21	1.5	14	1.0	35	2.5	61	4.4	71	5.1
99	16	1.1	14	1.0	30	2.1	55	3.9	65	4.6
00	9	.7	12	.9	21	1.6	44	3.4	54	4.2

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table III

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming Additional \$500 Million General Obligation Debt
(\$100 Million Issued Per Year for the Next Five Years)
and \$200 Million Lease-Financing Authorized and Issued
in Columns 4 and 5

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	335	16.2	335	16.2
89	150	7.9	109	5.7	259	13.6	362	19.0	372	19.5
90	135	7.5	90	5.0	225	12.5	351	19.5	361	20.1
91	110	6.5	78	4.6	188	11.1	327	19.3	337	19.9
92	82	4.8	72	4.2	154	9.0	303	17.8	313	18.4
93	73	4.3	63	3.7	136	8.0	281	16.5	291	17.1
94	44	2.8	56	3.6	100	6.4	237	15.2	247	15.9
95	32	2.1	47	3.1	79	5.2	208	13.6	218	14.3
96	28	2.0	33	2.4	61	4.4	186	13.4	196	14.1
97	24	1.6	16	1.1	40	2.7	138	9.4	148	10.1
98	21	1.5	14	1.0	35	2.5	109	7.8	119	8.5
99	16	1.1	14	1.0	30	2.1	90	6.3	100	7.0
00	9	.7	12	.9	21	1.6	67	5.2	77	6.0

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table IV

State Debt Service Burden
 in \$ Millions and as a % of Unrestricted Revenues ^{1/}
 Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

compare to Table I

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	80	3.3	109	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	229	11.1	229	11.1
89	75	4.0	109	5.7	184	9.7	238	12.5	248	13.0
90	68	3.8	90	5.0	158	8.8	209	11.6	219	12.2
91	46	2.7	78	4.6	124	7.3	174	10.3	184	10.9
92	44	2.6	72	4.2	116	6.8	163	9.6	173	10.2
93	41	2.4	63	3.7	104	6.1	150	8.8	160	9.4
94	18	1.1	56	3.6	74	4.7	117	7.5	127	8.1
95	9	.6	47	3.1	56	3.7	96	6.3	106	7.0
96	7	.5	33	2.4	40	2.9	79	5.7	89	6.4
97	7	.5	16	1.1	23	1.6	40	2.7	50	3.4
98	7	.5	14	1.0	21	1.5	28	2.0	38	2.7
99	7	.5	14	1.0	21	1.4	28	2.0	38	2.7
00	6	.5	12	.9	18	1.4	24	1.9	34	2.7

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table V

State Debt Service Burden
 in \$ Millions and as a % of Unrestricted Revenues ^{1/}
 Assuming \$200 Million Additional Lease-Financing Authorized and Issued
 in Column 4 and 5 and
 Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	80	3.3	109	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	234	11.3	234	11.3
89	75	4.0	109	5.7	184	9.7	253	13.3	263	13.8
90	68	3.8	90	5.0	158	8.8	234	13.0	244	13.6
91	46	2.7	78	4.6	124	7.3	198	11.7	208	12.3
92	44	2.6	72	4.2	116	6.8	186	10.9	196	11.4
93	41	2.4	63	3.7	104	6.1	173	10.1	183	10.7
94	18	1.1	56	3.6	74	4.7	139	8.9	149	9.5
95	9	.6	47	3.1	56	3.7	117	7.7	127	8.4
96	7	.5	33	2.4	40	2.9	100	7.2	110	7.9
97	7	.5	16	1.1	23	1.6	59	4.0	69	4.7
98	7	.5	14	1.0	21	1.5	47	3.4	57	4.1
99	7	.5	14	1.0	21	1.4	46	3.3	56	4.0
00	6	.5	12	.9	18	1.4	41	3.2	51	4.0

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table VI

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming Additional \$500 Million General Obligation Debt
(\$100 Million Issued Per Year for the Next Five Years)
and \$200 Million Lease-Financing Authorized and Issued
in Column 4 and 5 and
Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7	\$283	9.7%	\$283	9.7%
87	80	3.3	109	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	251	12.1	251	12.1
89	75	4.0	109	5.7	184	9.7	287	15.1	297	15.6
90	68	3.8	90	5.0	158	8.8	284	15.8	294	16.4
91	46	2.7	78	4.6	124	7.3	263	15.5	273	16.1
92	44	2.6	72	4.2	116	6.8	265	15.6	275	16.2
93	41	2.4	63	3.7	104	6.1	249	14.6	259	15.2
94	18	1.1	56	3.6	74	4.7	211	13.5	221	14.1
95	9	.6	47	3.1	56	3.7	185	12.1	195	12.8
96	7	.5	33	2.4	40	2.9	165	11.9	175	12.6
97	7	.5	16	1.1	23	1.6	121	8.2	131	8.9
98	7	.5	14	1.0	21	1.5	95	6.8	105	7.5
99	7	.5	14	1.0	21	1.4	81	5.7	91	6.4
00	6	.5	12	.9	18	1.4	64	5.0	74	5.8

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Column Key

1. Debt service on State general obligation bonds, University of Alaska revenue bonds, ASHA lease revenue bonds, and lease payments on Seward Student Service Center and Correctional Center.
2. 80%, 90%, or 100% State reimbursement of debt service paid by municipalities on school debt outstanding as of December 31, 1985.
3. Total of columns 1 and 2.
4. Column 3 plus lease payments on Anchorage Court Building plus State reimbursement on \$312.5 million of authorized but unissued school debt and \$31.4 million of school debt to be authorized by the voters in January and March of 1986. Of this \$343.9 million new school debt, \$230.2 million is scheduled for issuance in FY 86. Reimbursement of school debt is 80% of current debt service payments on 10 year debt with level principal payments.
5. Column 4 plus maximum additional State reimbursement of \$10 million per year for school debt authorized after March 31, 1986. Reimbursement of school debt under this cap would be 100% of principal paid two years prior on 10 year debt with level principal payments.

Prepared by: Department of Revenue
January 31, 1986

Discussion Paper:

General Obligation Bonding Policy and Debt Defeasance

Division of Policy Development
and Planning
Office of the Governor
February 23, 1981

Discussion Paper:

General Obligation Bonding Policy and Debt Defeasance

The State of Alaska is receiving (and over the next few years, expects to continue to receive) revenues in excess of current expenditures. It has been suggested that under these conditions it might be appropriate to pay for capital facilities with cash (general funding) rather than to borrow funds for these purposes through the general obligation bond method. Further, it has been suggested that the State consider the advance funding of the general obligation debt owed, thus, in essence, "paying off" and eliminating the State's bonded indebtedness. This process is known as "defeasance" in municipal bond parlance. The purpose of this memorandum is to outline the issues which need to be considered in weighing the pros and cons of these proposals.

The two proposals, paying cash in the future and defeasance of existing G. O. bonds are closely related, although the arguments surrounding each are somewhat different. The initial discussion here will focus on future G. O. bonding, since if it is decided that bonding should continue without interruption, this could constrain the State's ability to forward fund its existing indebtedness.

BONDING VERSUS PAYING CASH FOR CAPITAL FACILITIES

ISSUE I - FISCAL IMPACT:

A. Direct Impacts

1. The use of cash (general funds) instead of bonding would cost the State the opportunity to use the general funds for other purposes. The opportunity cost most easily measured is that of revenues which could have been earned by investing these funds. The State can borrow in the tax exempt market at a lower interest rate than that which it can earn on its investments. For every 1% spread on a 10 year \$100 million bond issue, the present value of this opportunity loss would be in excess of \$8 million. In nominal terms, a one percentage point spread would amount to more than \$22 million for each \$100 million of cash spent instead of borrowed.
2. There are other forms of legal arbitrage the loss of which would represent a cost to the State of paying cash. These include the allowable return on investment of borrowed funds during the lag between the time the funds are obtained and actually committed; and, the investment of 15% of the borrowed funds in certain reserve accounts.

3. On the other hand, use of cash would be administratively cheaper. The State Treasury Division estimates total bonding costs at approximately .35% of the value of bonds issued. These costs include such things as service fees, legal fees, preparation of prospecti, printing and advertising expenses.

B. Indirect Impacts

1. The major direct cost associated with paying cash (1 above) is relevant only if (a) the cash is invested at higher rates, or (b) is spent on projects which offer higher overall returns to the State (such returns being either economic or social in nature). However, if it is assumed that the funds will be spent on low valued activities, the State might be better off to spend the cash on the capital facilities and avoid creation of debt.
2. Another aspect of fiscal impact is concern over the total level of government spending. It has been contended by some, that bonded costs are not carefully considered as a part of overall State spending. A related concern is that there is tremendous pressure from special interest groups to spend all available cash and borrow in addition. Thus, to the extent that paying cash reduces the total fund availability (general funds plus borrowed funds), then overall spending will be reduced.
3. Even though bonding may not be considered by some as equivalent to other types of spending, debt service is a significant, non-discretionary element of the State's operating budget. The Governor's FY 1982 Budget Request contains \$128 million for debt service. Since policy makers have no choice but to pay debt service, it reduces their flexibility in directing and controlling operating expenditures. This issue becomes more important if an expenditure limit, such as is being currently discussed, is established.

ISSUE II - IMPACT ON BOND RATING:

There are several elements which in combination are used to establish the State's credit rating. These include per capita debt levels, general economic health (both current and prospective), and expectations regarding the future tax climate. Thus, the reduction of G. O. bonding and the resultant decline (over time) of per capita debt might contribute positively to the State's credit rating as well as those of its political subdivisions. It is also possible

that there would result positive spillover effects on revenue bond ratings, since the ability of the State to meet any "moral obligation" would appear to be strengthened. However, if the State intends to forego bonding, then the direct benefit of an improved rating is lessened. The possible spillover effects are still relevant, although quantification of this impact would be difficult.

The State's credit rating has improved over the last 20 years from a Baa rating (medium grade with speculative characteristics) to Aa (high grade) in 1980. The State's financial reputation has been carefully established, and significantly decreasing market involvement could result in a loss of market familiarity with Alaskan conditions. If the State's good credit rating were to decline, it would fall to future generations to reconstruct this relationship, perhaps in more difficult times.

The exposure of our financing plans to credit rating agencies and bond buyers offers a slight incentive for fiscal planning and self-discipline. The removal of even this minimal exposure, may leave less reason for caution against the "over-building" and long-term operation and maintenance impacts of capital facilities.

ISSUE III - PUBLIC INPUT AND EXECUTIVE CONTROL:

Bonds have the positive aspect of requiring voter approval. It is unconstitutional for the State to incur general obligation indebtedness without a vote of the people. This requirement assures public participation in the bonding decision.

The spending of cash for capital facilities would require no such public vote. Governor Hammond has, however, introduced legislation which would require a public vote on capital expenditures above a limited level as part of his expenditure limitation proposal (SJR 4). If this, or similar legislation were to become law, the loss of this public input would be avoided.

From the viewpoint of executive control of expenditures, the use of cash has more appeal since appropriations of general funds are subject to line item veto by the Governor. Thus, specific projects which were felt to be unworthy could be selectively eliminated. Conversely, the projects to be included in a bond issue are established by statute which must be accepted by the Governor as passed or vetoed in whole.

ISSUE IV - THE DISTRIBUTION OF THE COST OF PUBLIC FACILITIES:

One of the standard rationales for bonding for long-lived public assets is that those who benefit from public facilities (the users) should pay for them. Bonding meets this objective

by spreading the payments for facilities out over the asset life. Thus, in a general sense, the people who receive the benefits are those who pay the cost. If the State pays cash for these facilities, future users (be they immigrants or future generations) will not be directly paying their share of the cost.

The user pay approach loses some of its validity however when the source of the cash payment is considered. In essence, neither present nor future users (other than oil companies) are directly paying for capital facilities. However, looked at somewhat differently, both future and present residents would pay indirectly for capital facilities through the cost of the opportunity to use the funds for alternative purposes. Since present residents are not directly responsible for the existence of "surplus" revenues, it might be argued that intergenerational equity would be served by spending these funds on projects which will offer future as well as current benefits.

ISSUE V - EXTERNAL PERCEPTIONS OF STATE WEALTH MANAGEMENT:

Some have voiced concern that large general fund balances ("surplus" revenues) represent a serious perceptual problem at the federal level and in the national press. Congressional actions to limit the State's taxing power or to reduce federal revenues to Alaska have been discussed. The existence of the risk of unfavorable Internal Revenue Service rulings on tax or bonding questions has also been suggested.

The question thus arises as to whether a State policy of paying cash for capital facilities would improve the external perceptions regarding Alaska's financial position. Paying cash would reduce the general fund balance, as it increased direct expenditure levels. If the general fund balance is the major indicator looked at by outsiders this might reduce the criticism regarding the State's "surplus" wealth. Or, if paying cash reduces the total level of expenditures by reducing overall fund availability (as discussed in Issue II.B.2 above), this might improve the external view. Likewise, it can be argued that it is fiscally responsible to pay cash and thus refrain from burdening future generations with debt to be repaid when the oil revenues are declining or gone.

On the other hand, since bond costs are often not included in expenditure reports, the use of general funds for previously bonded projects would result in inflated expenditure figures. Those from outside of Alaska who wish to "share" some portion of the State's wealth, could look at increasing expenditures per capita as evidence of profligate behavior. Further, it is possible that individuals with some financial sophistication could view the state's willingness to incur the loss of arbitrage revenues by paying cash, as further evidence that Alaska's current income is indeed "surplus."

- To eschew bonding would not necessarily be seen as fiscally responsible, since substantial revenue losses would result from such a policy, and per capita expenditures would appear higher.
- Market exposure of State capital financing and the benefits of the State's carefully achieved credit status, would be reduced by eliminating bonding.

GENERAL OBLIGATION BOND DEFEASANCE

A second topic of this paper is the possibility of "paying off" the State's existing general obligation indebtedness. Defeasance of existing debt could be accomplished by making a current appropriation of the amount which will be required to retire the debt as it comes due. The Department of Revenue would use this appropriation to purchase a portfolio of securities which would generate sufficient cash flow to meet principal and interest payments on the portion of State G. O. debt which was to be advance funded. This portfolio would then be deposited with the State's principal paying agent according to an escrow and trust agreement.

There would be no financial disadvantage to the State in pursuing the defeasance of debt issued prior to May 2, 1978. However, Internal Revenue Service rulings in that year limited the yields on portfolios held for the purpose of defeasing debt issued after May 2, 1978. As a result, the State can purchase, or transfer, a high yielding portfolio to pay off the pre-May 2, 1978 debt owed, legally taking advantage of the interest differential between the State's investment earnings and the State's tax exempt borrowing costs. However, post-May 2, 1978 debt can be defeased only with securities earning little (if any) more than the bond rate. Thus, although the defeasance of debt incurred since the 1978 rulings could be handled similarly in a mechanical sense, any possible advantage from interest differentials would be insignificant.

Many of the general issues associated with the future of bonding apply also to the defeasance question. The major difference is that where paying cash in the future potentially represents a financial cost, defeasance of existing debt (at least that portion of the debt incurred prior to the May 2, 1978 effective date of the IRS regulations) does not represent a financial cost to the State.

A minor issue involves the windfall to investors from defeasance of State bonds. Defeasance would be accomplished by escrowing in trust United States Government Securities earning interest and maturing in amounts and time sufficient to retire the debt. The effect of this arrangement is to convert the State bonds defeased into debt with the same value as the United States Securities. When defeasance is accomplished, State bond holders will receive a windfall of increased price and a AAA rated bond. There is nothing counter to public policy in this result per se but it places a heavy burden on all "insiders" not to take advantage of special knowledge. It might be appropriate for those individuals who directly or indirectly might benefit from defeasance to disqualify themselves from participating in this decision.

Another consideration is that G. O. debt defeasance coupled with issuance of new debt, risks the Internal Revenue Service removal of the State's tax exempt bonding status. This would result if the Internal Revenue Service were to declare that new State general obligation bonds were arbitrage bonds and, hence, taxable. Therefore the State's bond counsels have cautioned the State that defeasance may require that the State refrain from issuing bonds, perhaps for one to three years.

In order to avoid undue repetition through restatement of the general arguments at length, the major pros and cons associated with defeasance are summarized below.

SHOULD THE STATE PURSUE DEFEASANCE (ADVANCE FUNDING) OF THE STATE'S GENERAL OBLIGATION DEBT?

Pro Defeasance

- ° The State could advance fund \$718,193,000 of indebtedness owed as of June 1981 at a cost of approximately \$562,527,000; or, if only pre-May 2, 1978 debt were advance funded, \$507,193,000 of indebtedness, at a cost of approximately \$351,527,000.
- ° The debt service period on outstanding bonds runs through the end of this century. Advance funding would relieve the debt service requirements which may become more burdensome as oil revenues decline over this period.
- ° Advance funding would remove a substantial amount of revenues from the general fund reducing the availability of funds to be spent, potentially on low valued projects.
- ° Defeasance would enhance the State's credit rating by reducing outstanding debt per capita. This could result in a lowering of borrowing costs by approximately twenty basis points (.2%). This improvement

might in turn heighten the probability of rating improvements for the State's political subdivisions and revenue bonding agencies.

- Defeasance would increase the State's debt capacity, perhaps for utilization in the future when borrowing may be increasingly important to fiscal health.
- Reduction of the general fund balance, and the removal of the debt service burden, might be viewed as conservative financial policies as compared with a large direct spending program, and thus could improve the external perceptions (at the federal level and in the national press) regarding Alaska's wealth and its management.

Con Defeasance

- The State could achieve the same interest differential by investing the funds necessary for defeasance through the Permanent Fund, some other account, or as general fund surplus. Or, there may be expenditures which offer a higher social rate of return (i.e., there may be higher valued alternative uses of the funds).
- Whether an actual credit rating change would result from advance funding of G. O. debt is uncertain. If there were a rating improvement, the maximum reduction in interest rates expected would be less than twenty basis points (.2%). The present value of this savings is relatively insignificant.
- Pre-funding of debt incurred after the 1978 IRS regulation would cost the State lost interest earnings, since under these rulings the interest on investments used for this purpose are limited to the tax exempt rate borne by the bonds in question.
- Defeasance may elicit a response from the Congress or the Internal Revenue Service declaring further State general obligation bonds, at least for a period of time, to be arbitrage bonds and, hence, taxable instead of tax-exempt bonds.

TABLE 1.12

State of Alaska
State General Obligation Bond Sales
Since 1973

<u>Date of Bonds</u>	<u>Amount of Issue (Millions)</u>	<u>Maturities</u>	<u>Average Life in Years</u>	<u>Effective Interest Rate</u>	<u>Salomon Brothers Monthly Average ^{1/}</u>	<u>Ratings (at the time of issuance) Moody's/ Standard & Poors</u>
Jan. 13, 1973	\$ 20.0	1976-1998	15.3	5.12%	5.10%	Baa1/A
Jan. 13, 1973	27.0	1976-1998	14.8	5.10	5.20	Baa1/A
Aug. 1, 1973	31.0	1977-1998	16.7	5.80	5.65	Baa1/A
Sept. 1, 1974	30.0	1978-1998	15.6	6.85	6.40	A1/A
Feb. 1, 1975	40.3	1978-1998	14.6	5.98	6.10	A1/A+
May 1, 1975	42.0	1979-1999	15.1	6.52	6.40	A1/A+
Oct. 1, 1975	42.9	1978-1997	12.5	6.85	6.00	A1/A+
Mar. 1, 1976	40.0	1978-1993	9.5	5.86	5.30	A1/A+
July 1, 1976	40.0	1978-1993	9.5	5.80	5.15	A1/A+
Feb. 1, 1977	40.0	1979-1988	9.5	5.08	4.50	A1/A+
Oct. 1, 1977	40.0	1979-1988	7.0	4.50	4.45	A1/A+
Apr. 1, 1978	45.0	1980-1988	7.0	4.86	4.85	A1/A+
Jan. 1, 1979	40.0	1979-1989	5.5	5.52	5.50	A1/A+
May 1, 1979	60.0	1979-1989	5.5	5.59	5.30	A1/A+
July 1, 1980	125.0	1981-1990	5.5	5.76	5.50	Aa/AA-
Apr. 1, 1982	200.0	1983-1992	5.0	9.98	10.25	Aa/AA-
Nov. 1, 1982	185.0	1983-1992	5.0	7.72	7.50	Aa/AA-
Oct. 1, 1983	78.0	1984-1993	5.0	7.47	7.20	Aa/AA-

Source: John Nuveen & Co., Alaska: A New Look, 1981; and Department of Administration, Bonded Debt and Debt Service, Fiscal Year 1984.

^{1/} Salomon Brothers Monthly Average is for "Good Grade" bonds of similar average maturity.

STATE OF ALASKA
THE LEGISLATURE

FOUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907.465.3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 12, 1986

SUBJECT: Defeasance of G.O. Bonds (Work Order 14-1836)

TO: Senator Bettye Fahrenkamp
Chairman, Health, Education and Social
Services Committee

FROM: David R. Dierdorff *[Signature]*
Revisor of Statutes

Enclosed is the draft you requested providing appropriations related to the defeasance of certain general obligation bonds.

I want to call your attention to AS 37.15.050, which provides:

Spoke of Dierdorff Not applicable

Sec. 37.15.050. REDEMPTION. The state bond committee may determine whether the bonds are subject to redemption before their fixed maturities and may fix the premium for and all other terms of the redemption. No bond may be subject to redemption before its fixed maturity date unless the right to so redeem the bond is expressly mentioned on the face of the bond.

I do not know whether the bonds that you propose to defease have the required right to early redemption language on their face. I mention this statute only to alert you to the possibility that the bonds may not be redeemable before the fixed maturity date.

DRD:mkr
M3:020

Enclosure

\$380 M is not for early redemption. Put in escrow + pay off according to schedule.

Milt Barber 2350

Don't know if the bonds we specify are available for early redemption, but that's not what we're proposing. ~~would depend on what premium~~

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

FEB
BILL SHEFFIELD, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

2350

January 31, 1986

purpose: lighten debt load
improve bond rating

The Honorable Bettye Fahrenkamp
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Fahrenkamp:

At your request, I am enclosing a set of tables that detail the State's existing debt service burden (Table I), the burden if the State were to issue additional debt (Tables II and III), and the burden if the State were to defease certain State general obligation (GO) bonds (Tables IV - VI).

The amounts of additional lease-financing and State GO debt assumed to be issued in the tables are arbitrary and are chosen solely to illustrate the burden of additional debt issuance.

The enclosed discussion paper provides a background on the issue of defeasance. As explained in the paper the State would generally incur a financial loss with respect to defeasance of bonds issued after May 2, 1978. This is because the funds escrowed to defease such bonds cannot be invested at a yield greater than the yield on the bonds being defeased. Examination of the enclosed Table 1.12 indicates that only the April 1, 1982 GO bonds had an interest rate that is above the current rates at which the escrow fund could be invested.

Thus, Tables IV - VI assume that only the pre-May 2, 1978 GO bonds and the 1982 Series A GO bond are defeased. As of June 30, 1986 the bonds outstanding which would be defeased will total \$429,008,000 with total debt service to maturity being \$560,209,515. The appropriation required to defease these bonds would be approximately \$386 million based on January 16, 1986 interest rates on U.S. Treasury securities.

actually goes into escrow acct. - bonds still paid off according to schedule, but \$1M escrow earns interest.

It would be important to keep in mind that defeasance of any bonds could preclude additional bond issuance for some period of time. This is because the IRS might rule that any bonds issued in conjunction with the defeasance are arbitrage bonds. They could be arbitrage bonds because the bond proceeds would replace funds (the funds escrowed for defeasance) that are invested at a higher yield than the yield on the newly-issued bonds. Interest on arbitrage bonds is taxable.

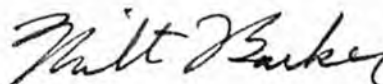
Bonds defeased immediately earn AAA rating.

The Honorable Bettye Fahrenkamp
January 31, 1986
Page #

It also would be possible for the State to appropriate funds to defease some or all of its share of outstanding municipal school debt. Again, only those bonds issued prior to May 2, 1978 could be defeased without financial loss. The arbitrage questions in this case might be more of a problem since municipalities may be more likely to be ongoing issuers of debt than the State.

A different approach to alleviating the State's debt service burden resulting from school debt would be to appropriate State funds for school construction for some or all of the projects that otherwise would be bonded. Early action to keep this option open would be required because \$230.2 million of school debt is scheduled for issuance during the remainder of FY 86. These bonds, once issued, would not be attractive candidates for defeasance because their issuance postdates May 2, 1978.

Sincerely,



Milt Barker
Deputy Commissioner

MB/gb
86-13

Enclosures

Table I

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	313	15.1	313	15.1
89	150	7.9	109	5.7	259	13.6	313	16.4	323	16.9
90	135	7.5	90	5.0	225	12.5	276	15.3	286	15.9
91	110	6.5	78	4.6	188	11.1	238	14.1	248	14.7
92	82	4.8	72	4.2	154	9.0	201	11.8	211	12.4
93	73	4.3	63	3.7	136	8.0	182	10.7	192	11.3
94	44	2.8	56	3.6	100	6.4	143	9.2	153	9.8
95	32	2.1	47	3.1	79	5.2	119	7.8	129	8.5
96	28	2.0	33	2.4	61	4.4	100	7.2	110	7.9
97	24	1.6	16	1.1	40	2.7	57	3.9	67	4.6
98	21	1.5	14	1.0	35	2.5	42	3.0	52	3.7
99	16	1.1	14	1.0	30	2.3	37	2.6	47	3.3
00	9	.7	12	.9	21	1.6	27	2.1	37	2.9

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table II

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming \$200 Million Additional Lease-Financing Authorized and Issued
in Columns 4 and 5

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	318	15.3	318	15.3
89	150	7.9	109	5.7	259	13.6	328	17.2	338	17.7
90	135	7.5	90	5.0	225	12.5	301	16.7	311	17.3
91	110	6.5	78	4.6	188	11.1	262	15.5	272	16.1
92	82	4.8	72	4.2	154	9.0	224	13.1	234	13.7
93	73	4.3	63	3.7	136	8.0	205	12.0	215	12.6
94	44	2.8	56	3.6	100	6.4	165	10.6	175	11.2
95	32	2.1	47	3.1	79	5.2	140	9.2	150	9.9
96	28	2.0	33	2.4	61	4.4	121	8.7	131	9.4
97	24	1.6	16	1.1	40	2.7	76	5.2	86	5.9
98	21	1.5	14	1.0	35	2.5	61	4.4	71	5.1
99	16	1.1	14	1.0	30	2.1	55	3.9	65	4.6
00	9	.7	12	.9	21	1.6	44	3.4	54	4.2

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table III

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming Additional \$500 Million General Obligation Debt
(\$100 Million Issued Per Year for the Next Five Years)
and \$200 Million Lease-Financing Authorized and Issued
in Columns 4 and 5

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	335	16.2	335	16.2
89	150	7.9	109	5.7	259	13.6	362	19.0	372	19.5
90	135	7.5	90	5.0	225	12.5	351	19.5	361	20.1
91	110	6.5	78	4.6	188	11.1	327	19.3	337	19.9
92	82	4.8	72	4.2	154	9.0	303	17.8	313	18.4
93	73	4.3	63	3.7	136	8.0	281	16.5	291	17.1
94	44	2.8	56	3.6	100	6.4	237	15.2	247	15.9
95	32	2.1	47	3.1	79	5.2	208	13.6	218	14.3
96	28	2.0	33	2.4	61	4.4	186	13.4	196	14.1
97	24	1.6	16	1.1	40	2.7	138	9.4	148	10.1
98	21	1.5	14	1.0	35	2.5	109	7.8	119	8.5
99	16	1.1	14	1.0	30	2.1	90	6.3	100	7.0
00	9	.7	12	.9	21	1.6	67	5.2	77	6.0

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table IV

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	80	3.3	105	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	229	11.1	229	11.1
89	75	4.0	109	5.7	184	9.7	238	12.5	248	13.0
90	68	3.8	90	5.0	158	8.8	209	11.6	219	12.2
91	46	2.7	78	4.6	124	7.3	174	10.3	184	10.9
92	44	2.6	72	4.2	116	6.8	163	9.6	173	10.2
93	41	2.4	63	3.7	104	6.1	150	8.8	160	9.4
94	18	1.1	56	3.6	74	4.7	117	7.5	127	8.1
95	9	.6	47	3.1	56	3.7	96	6.3	105	7.0
96	7	.5	33	2.4	40	2.9	79	5.7	89	6.4
97	7	.5	16	1.1	23	1.6	40	2.7	50	3.4
98	7	.5	14	1.0	21	1.5	28	2.0	38	2.7
99	7	.5	14	1.0	21	1.4	28	2.0	38	2.7
00	6	.5	12	.9	18	1.4	24	1.9	34	2.7

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table V

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming \$200 Million Additional Lease-Financing Authorized and Issued
in Column 4 and 5 and
Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7%	\$283	9.7%	\$283	9.7%
87	80	3.3	109	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	234	11.3	234	11.3
89	75	4.0	109	5.7	184	9.7	253	13.3	263	13.8
90	68	3.8	90	5.0	158	8.8	234	13.0	244	13.6
91	46	2.7	78	4.6	124	7.3	198	11.7	208	12.3
92	44	2.6	72	4.2	116	6.8	186	10.9	196	11.4
93	41	2.4	63	3.7	104	6.1	173	10.1	183	10.7
94	18	1.1	56	3.6	74	4.7	139	8.9	149	9.5
95	9	.6	47	3.1	56	3.7	117	7.7	127	8.4
96	7	.5	33	2.4	40	2.9	100	7.2	110	7.9
97	7	.5	16	1.1	23	1.6	59	4.0	69	4.7
98	7	.5	14	1.0	21	1.5	47	3.4	57	4.1
99	7	.5	14	1.0	21	1.4	46	3.3	56	4.0
00	6	.5	12	.9	18	1.4	41	3.2	51	4.0

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Table VI

State Debt Service Burden
in \$ Millions and as a % of Unrestricted Revenues ^{1/}
Assuming Additional \$500 Million General Obligation Debt
(\$100 Million Issued Per Year for the Next Five Years)
and \$200 Million Lease-Financing Authorized and Issued
in Column 4 and 5 and
Assuming Pre-1978 and 1982 Series A State GO Bonds are Defeased

Fiscal Year	1		2		3		4		5	
	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Minimum Under Existing Law		Maximum Under HB 520	
86	\$178	6.1%	\$105	3.6%	\$283	9.7	\$283	9.7%	\$283	9.7%
87	80	3.3	109	4.5	189	7.8	224	9.3	224	9.3
88	77	3.7	100	4.8	177	8.5	251	12.1	251	12.1
89	75	4.0	109	5.7	184	9.7	287	15.1	297	15.6
90	68	3.8	90	5.0	158	8.8	284	15.8	294	16.4
91	46	2.7	78	4.6	124	7.3	263	15.5	273	16.1
92	44	2.6	72	4.2	116	6.8	265	15.6	275	16.2
93	41	2.4	63	3.7	104	6.1	249	14.6	259	15.2
94	18	1.1	56	3.6	74	4.7	211	13.5	221	14.1
95	9	.6	47	3.1	56	3.7	185	12.1	195	12.8
96	7	.5	33	2.4	40	2.9	165	11.9	175	12.6
97	7	.5	16	1.1	23	1.6	121	8.2	131	8.9
98	7	.5	14	1.0	21	1.5	95	6.8	105	7.5
99	7	.5	14	1.0	21	1.4	81	5.7	91	6.4
00	6	.5	12	.9	18	1.4	64	5.0	74	5.8

^{1/} Unrestricted revenues are September 1985 30th percentile estimates.

Column Key

1. Debt service on State general obligation bonds, University of Alaska revenue bonds, ASHA lease revenue bonds, and lease payments on Seward Student Service Center and Correctional Center.
2. 80%, 90%, or 100% State reimbursement of debt service paid by municipalities on school debt outstanding as of December 31, 1985.
3. Total of columns 1 and 2.
4. Column 3 plus lease payments on Anchorage Court Building plus State reimbursement on \$312.5 million of authorized but unissued school debt and \$31.4 million of school debt to be authorized by the voters in January and March of 1986. Of this \$343.9 million new school debt, \$230.2 million is scheduled for issuance in FY 86. Reimbursement of school debt is 80% of current debt service payments on 10 year debt with level principal payments.
5. Column 4 plus maximum additional State reimbursement of \$10 million per year for school debt authorized after March 31, 1986. Reimbursement of school debt under this cap would be 100% of principal paid two years prior on 10 year debt with level principal payments.

Prepared by: Department of Revenue
January 31, 1986

Discussion Paper:

General Obligation Bonding Policy and Debt Defeasance

Division of Policy Development
and Planning
Office of the Governor
February 23, 1981

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The State of Alaska is receiving (and over the next few years, expects to continue to receive) revenues in excess of current expenditures. It has been suggested that under these conditions it might be appropriate to pay for capital facilities with cash (general funding) rather than to borrow funds for these purposes through the general obligation bond method. Further, it has been suggested that the State consider the advance funding of the general obligation debt owed, thus, in essence, "paying off" and eliminating the State's bonded indebtedness. This process is known as "defeasance" in municipal bond parlance. The purpose of this memorandum is to outline the issues which need to be considered in weighing the pros and cons of these proposals.

The two proposals, paying cash in the future and defeasance of existing G. O. bonds are closely related, although the arguments surrounding each are somewhat different. The initial discussion here will focus on future G. O. bonding, since if it is decided that bonding should continue without interruption, this could constrain the State's ability to forward fund its existing indebtedness.

BONDING VERSUS PAYING CASH FOR CAPITAL FACILITIES

ISSUE I - FISCAL IMPACT:

A. Direct Impacts

1. The use of cash (general funds) instead of bonding would cost the State the opportunity to use the general funds for other purposes. The opportunity cost most easily measured is that of revenues which could have been earned by investing these funds. The State can borrow in the tax exempt market at a lower interest rate than that which it can earn on its investments. For every 1% spread on a 10 year \$100 million bond issue, the present value of this opportunity loss would be in excess of \$8 million. In nominal terms, a one percentage point spread would amount to more than \$22 million for each \$100 million of cash spent instead of borrowed.
2. There are other forms of legal arbitrage the loss of which would represent a cost to the State of paying cash. These include the allowable return on investment of borrowed funds during the lag between the time the funds are obtained and actually committed; and, the investment of 15% of the borrowed funds in certain reserve accounts.

3. On the other hand, use of cash would be administratively cheaper. The State Treasury Division estimates total bonding costs at approximately .35% of the value of bonds issued. These costs include such things as service fees, legal fees, preparation of prospecti, printing and advertising expenses.

B. Indirect Impacts

1. The major direct cost associated with paying cash (1 above) is relevant only if (a) the cash is invested at higher rates, or (b) is spent on projects which offer higher overall returns to the State (such returns being either economic or social in nature). However, if it is assumed that the funds will be spent on low valued activities, the State might be better off to spend the cash on the capital facilities and avoid creation of debt.
2. Another aspect of fiscal impact is concern over the total level of government spending. It has been contended by some, that bonded costs are not carefully considered as a part of overall State spending. A related concern is that there is tremendous pressure from special interest groups to spend all available cash and borrow in addition. Thus, to the extent that paying cash reduces the total fund availability (general funds plus borrowed funds), then overall spending will be reduced.
3. Even though bonding may not be considered by some as equivalent to other types of spending, debt service is a significant, non-discretionary element of the State's operating budget. The Governor's FY 1982 Budget Request contains \$128 million for debt service. Since policy makers have no choice but to pay debt service, it reduces their flexibility in directing and controlling operating expenditures. This issue becomes more important if an expenditure limit, such as is being currently discussed, is established.

ISSUE II - IMPACT ON BOND RATING:

There are several elements which in combination are used to establish the State's credit rating. These include per capita debt levels, general economic health (both current and prospective), and expectations regarding the future tax climate. Thus, the reduction of G. O. bonding and the resultant decline (over time) of per capita debt might contribute positively to the State's credit rating as well as those of its political subdivisions. It is also possible

that there would result positive spillover effects on revenue bond ratings, since the ability of the State to meet any "moral obligation" would appear to be strengthened. However, if the State intends to forego bonding, then the direct benefit of an improved rating is lessened. The possible spillover effects are still relevant, although quantification of this impact would be difficult.

The State's credit rating has improved over the last 20 years from a Baa rating (medium grade with speculative characteristics) to Aa (high grade) in 1980. The State's financial reputation has been carefully established, and significantly decreasing market involvement could result in a loss of market familiarity with Alaskan conditions. If the State's good credit rating were to decline, it would fall to future generations to reconstruct this relationship, perhaps in more difficult times.

The exposure of our financing plans to credit rating agencies and bond buyers offers a slight incentive for fiscal planning and self-discipline. The removal of even this minimal exposure, may leave less reason for caution against the "over-building" and long-term operation and maintenance impacts of capital facilities.

ISSUE III - PUBLIC INPUT AND EXECUTIVE CONTROL:

Bonds have the positive aspect of requiring voter approval. It is unconstitutional for the State to incur general obligation indebtedness without a vote of the people. This requirement assures public participation in the bonding decision.

The spending of cash for capital facilities would require no such public vote. Governor Hammond has, however, introduced legislation which would require a public vote on capital expenditures above a limited level as part of his expenditure limitation proposal (SJR 4). If this, or similar legislation were to become law, the loss of this public input would be avoided.

From the viewpoint of executive control of expenditures, the use of cash has more appeal since appropriations of general funds are subject to line item veto by the Governor. Thus, specific projects which were felt to be unworthy could be selectively eliminated. Conversely, the projects to be included in a bond issue are established by statute which must be accepted by the Governor as passed or vetoed in whole.

ISSUE IV - THE DISTRIBUTION OF THE COST OF PUBLIC FACILITIES:

One of the standard rationales for bonding for long-lived public assets is that those who benefit from public facilities (the users) should pay for them. Bonding meets this objective

by spreading the payments for facilities out over the asset life. Thus, in a general sense, the people who receive the benefits are those who pay the cost. If the State pays cash for these facilities, future users (be they immigrants or future generations) will not be directly paying their share of the cost.

The user pay approach loses some of its validity however when the source of the cash payment is considered. In essence, neither present nor future users (other than oil companies) are directly paying for capital facilities. However, looked at somewhat differently, both future and present residents would pay indirectly for capital facilities through the cost of the opportunity to use the funds for alternative purposes. Since present residents are not directly responsible for the existence of "surplus" revenues, it might be argued that intergenerational equity would be served by spending these funds on projects which will offer future as well as current benefits.

ISSUE V - EXTERNAL PERCEPTIONS OF STATE WEALTH MANAGEMENT:

Some have voiced concern that large general fund balances ("surplus" revenues) represent a serious perceptual problem at the federal level and in the national press. Congressional actions to limit the State's taxing power or to reduce federal revenues to Alaska have been discussed. The existence of the risk of unfavorable Internal Revenue Service rulings on tax or bonding questions has also been suggested.

The question thus arises as to whether a State policy of paying cash for capital facilities would improve the external perceptions regarding Alaska's financial position. Paying cash would reduce the general fund balance, as it increased direct expenditure levels. If the general fund balance is the major indicator looked at by outsiders this might reduce the criticism regarding the State's "surplus" wealth. Or, if paying cash reduces the total level of expenditures by reducing overall fund availability (as discussed in Issue II.B.2 above), this might improve the external view. Likewise, it can be argued that it is fiscally responsible to pay cash and thus refrain from burdening future generations with debt to be repaid when the oil revenues are declining or gone.

On the other hand, since bond costs are often not included in expenditure reports, the use of general funds for previously bonded projects would result in inflated expenditure figures. Those from outside of Alaska who wish to "share" some portion of the State's wealth, could look at increasing expenditures per capita as evidence of profligate behavior. Further, it is possible that individuals with some financial sophistication could view the state's willingness to incur the loss of arbitrage revenues by paying cash, as further evidence that Alaska's current income is indeed "surplus."

- To eschew bonding would not necessarily be seen as fiscally responsible, since substantial revenue losses would result from such a policy, and per capita expenditures would appear higher.
- Market exposure of State capital financing and the benefits of the State's carefully achieved credit status, would be reduced by eliminating bonding.

GENERAL OBLIGATION BOND DEFEASANCE

A second topic of this paper is the possibility of "paying off" the State's existing general obligation indebtedness. Defeasance of existing debt could be accomplished by making a current appropriation of the amount which will be required to retire the debt as it comes due. The Department of Revenue would use this appropriation to purchase a portfolio of securities which would generate sufficient cash flow to meet principal and interest payments on the portion of State G. O. debt which was to be advance funded. This portfolio would then be deposited with the State's principal paying agent according to an escrow and trust agreement.

There would be no financial disadvantage to the State in pursuing the defeasance of debt issued prior to May 2, 1978. However, Internal Revenue Service rulings in that year limited the yields on portfolios held for the purpose of defeasing debt issued after May 2, 1978. As a result, the State can purchase, or transfer, a high yielding portfolio to pay off the pre-May 2, 1978 debt owed, legally taking advantage of the interest differential between the State's investment earnings and the State's tax exempt borrowing costs. However, post-May 2, 1978 debt can be defeased only with securities earning little (if any) more than the bond rate. Thus, although the defeasance of debt incurred since the 1978 rulings could be handled similarly in a mechanical sense, any possible advantage from interest differentials would be insignificant.

Many of the general issues associated with the future of bonding apply also to the defeasance question. The major difference is that where paying cash in the future potentially represents a financial cost, defeasance of existing debt (at least that portion of the debt incurred prior to the May 2, 1978 effective date of the IRS regulations) does not represent a financial cost to the State.

A minor issue involves the windfall to investors from defeasance of State bonds. Defeasance would be accomplished by escrowing in trust United States Government Securities earning interest and maturing in amounts and time sufficient to retire the debt. The effect of this arrangement is to convert the State bonds defeased into debt with the same value as the United States Securities. When defeasance is accomplished, State bond holders will receive a windfall of increased price and a AAA rated bond. There is nothing counter to public policy in this result per se but it places a heavy burden on all "insiders" not to take advantage of special knowledge. It might be appropriate for those individuals who directly or indirectly might benefit from defeasance to disqualify themselves from participating in this decision.

Another consideration is that G. O. debt defeasance coupled with issuance of new debt, risks the Internal Revenue Service removal of the State's tax exempt bonding status. This would result if the Internal Revenue Service were to declare that new State general obligation bonds were arbitrage bonds and, hence, taxable. Therefore the State's bond counsels have cautioned the State that defeasance may require that the State refrain from issuing bonds, perhaps for one to three years.

In order to avoid undue repetition through restatement of the general arguments at length, the major pros and cons associated with defeasance are summarized below.

SHOULD THE STATE PURSUE DEFEASANCE (ADVANCE FUNDING) OF THE STATE'S GENERAL OBLIGATION DEBT?

Pro Defeasance

- ° The State could advance fund \$718,193,000 of indebtedness owed as of June 1981 at a cost of approximately \$562,527,000; or, if only pre-May 2, 1978 debt were advance funded, \$507,193,000 of indebtedness, at a cost of approximately \$351,527,000.
- ° The debt service period on outstanding bonds runs through the end of this century. Advance funding would relieve the debt service requirements which may become more burdensome as oil revenues decline over this period.
- ° Advance funding would remove a substantial amount of revenues from the general fund reducing the availability of funds to be spent, potentially on low valued projects.
- ° Defeasance would enhance the State's credit rating by reducing outstanding debt per capita. This could result in a lowering of borrowing costs by approximately twenty basis points (.2%). This improvement

might in turn heighten the probability of rating improvements for the State's political subdivisions and revenue bonding agencies.

- Defeasance would increase the State's debt capacity, perhaps for utilization in the future when borrowing may be increasingly important to fiscal health.
- Reduction of the general fund balance, and the removal of the debt service burden, might be viewed as conservative financial policies as compared with a large direct spending program, and thus could improve the external perceptions (at the federal level and in the national press) regarding Alaska's wealth and its management.

Con Defeasance

- The State could achieve the same interest differential by investing the funds necessary for defeasance through the Permanent Fund, some other account, or as general fund surplus. Or, there may be expenditures which offer a higher social rate of return (i.e., there may be higher valued alternative uses of the funds).
- Whether an actual credit rating change would result from advance funding of G. O. debt is uncertain. If there were a rating improvement, the maximum reduction in interest rates expected would be less than twenty basis points (.2%). The present value of this savings is relatively insignificant.
- Pre-funding of debt incurred after the 1978 IRS regulation would cost the State lost interest earnings, since under these rulings the interest on investments used for this purpose are limited to the tax exempt rate borne by the bonds in question.
- Defeasance may elicit a response from the Congress or the Internal Revenue Service declaring further State general obligation bonds, at least for a period of time, to be arbitrage bonds and, hence, taxable instead of tax-exempt bonds.

TABLE 1.12

State of Alaska
State General Obligation Bond Sales
Since 1973

<u>Date of Bonds</u>	<u>Amount of Issue (Millions)</u>	<u>Maturities</u>	<u>Average Life in Years</u>	<u>Effective Interest Rate</u>	<u>Salomon Brothers Monthly Average</u> ^{1/}	<u>Ratings (at the time of issuance) Moody's/ Standard & Poors</u>
Jan. 13, 1973	\$ 20.0	1976-1998	15.3	5.12%	5.10%	Baal/A
Jan. 13, 1973	27.0	1976-1998	14.8	5.10	5.20	Baal/A
Aug. 1, 1973	31.0	1977-1998	16.7	5.80	5.65	Baal/A
Sept. 1, 1974	30.0	1978-1998	15.6	6.85	6.40	A1/A
Feb. 1, 1975	40.3	1978-1998	14.6	5.98	6.10	A1/A+
May 1, 1975	42.0	1979-1999	15.1	6.52	6.40	A1/A+
Oct. 1, 1975	42.9	1978-1997	12.5	6.85	6.00	A1/A+
Mar. 1, 1976	40.0	1978-1993	9.5	5.86	5.30	A1/A+
July 1, 1976	40.0	1978-1993	9.5	5.80	5.15	A1/A+
Feb. 1, 1977	40.0	1979-1988	9.5	5.08	4.50	A1/A+
Oct. 1, 1977	40.0	1979-1988	7.0	4.50	4.45	A1/A+
Apr. 1, 1978	45.0	1980-1988	7.0	4.86	4.85	A1/A+
Jan. 1, 1979	40.0	1979-1989	5.5	5.52	5.50	A1/A+
May 1, 1979	60.0	1979-1989	5.5	5.59	5.30	A1/A+
July 1, 1980	125.0	1981-1990	5.5	5.76	5.50	Aa/AA-
Apr. 1, 1982	200.0	1983-1992	5.0	9.98	10.25	Aa/AA-
Nov. 1, 1982	185.0	1983-1992	5.0	7.72	7.50	Aa/AA-
Oct. 1, 1983	78.0	1984-1993	5.0	7.47	7.20	Aa/AA-

Source: John Nuveen & Co., Alaska: A New Look, 1981; and Department of Administration, Bonded Debt and Debt Service, Fiscal Year 1984.

^{1/} Salomon Brothers Monthly Average is for "Good Grade" bonds of similar average maturity.

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Oct. 1, 1983	78.0	1984-1993	5.0	7.47	7.20	Aa/AA-

Source: John Nuveen & Co., Alaska: A New Look, 1981; and Department of Administration, Bonded Debt and Debt Service, Fiscal Year 1984.

^{1/} Salomon Brothers Monthly Average is for "Good Grade" bonds of similar average maturity.

E 77

for review
Purdue 5/7

for paper - this - Collier

Reagan / Herbacher
meeting - eyes long
Revolution in Non-
range as up

NA 7

14-1836
Dierdorff
2/12/86 ✓

DRAFT

Funding Information

General Fund	\$386,289,500
Other Funds	-0-
	<u>\$386,289,500</u>

1 IN THE SENATE

BY FAHRENKAMP

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the state
7 bond committee for the purpose of defeasance of out-
8 standing general obligation bonds; and providing for
9 an effective date."

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

11 * Section 1. The sum of \$386,000,000 is appropriated from the general
12 fund to the state bond committee for the purpose of defeasing outstanding
13 general obligation bonds that were issued under AS 37.15.010 - 37.15.220
14 (State Bonding Act) before May 1, 1978.

15 * Sec. 2. The sum of \$289,500, or as much of that amount as is neces-
16 sary, is appropriated from the general fund to the state bond committee to
17 administer the provisions of sec. 1 of this Act and to pay fees and ex-
18 penses incident to the defeasance of outstanding general obligation bonds.

19 * Sec. 3. This Act takes effect July 1, 1986.
20
21

22 *ordered in final 2/13/86*
23 *11:50am*
24 *ss*
25 *Dierdorff*
26
27
28
29