

HB

285

STATE OF ALASKA
THE LEGISLATURE

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JUNEAU, ALASKA 99811
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May, 1988

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Mary Van Nimwegen

H. JUD.

4-28-87

1:30 p.m.

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

TO: Representative John Sund, Chair
Members of the House Judiciary Committee

FROM: Scott A. Burgess, Executive Director 

DATE: April 28, 1987

SUBJECT: HB 285 - Private Activity Bonds

The Alaska Municipal League is opposed to HB 285 unless a fair allocation of the federal volume limitation for the issuance of tax-exempt private activity bonds (PAB's) is insured for municipalities. A fair allocation of capacity is provided for in federal law, and must continue for potential economic growth of our communities. The AML believes that such provisions can be made and still meet the intent of the Governor's bill.

Relevant policies from the AML's 1987 Policy Statement include:

"The League urges that legislation be enacted to encourage local municipalities to adopt and implement incentives for economic development, such as joint public/private sector economic development corporations and tax increment financing authorities."

Legislation is needed to establish a state policy with regard to the allocation of authorization to issue industrial development bonds (IDB's)."

Priority should be given to local governments for no less than 50% of the available IDB authority."

As stated in Governor Cowper's Letter of Transmittal on HB 285 (House Journal, pages 917-918), the Tax Reform Act of 1986 combined the \$200 million limit on IDB's and mortgage subsidy bonds to a single \$200 million limit for PAB's. This will result in a 32% cut in bond activity in Alaska from 1985. The law provides that unless the Legislature, at the request of the Governor, does not act by December 31, 1987, the limit will be allocated fairly between the State and the municipalities, 50-50. While the AML may agree that many of our municipalities will not take advantage of PAB's, and that distributing the limit on a per capita basis does not make sense, we do not agree that the sole authority for allocation should rest with the state bond bank, on which the municipalities have no representation.

AML would support HB 285 only if it is amended to insure that municipalities are assured a fair allocation is reserved, 50% for municipalities, and municipalities, through appointment by the AML, are represented on the state bond committee for the purposes of insuring the allocation to municipalities. With a clear reserving of a municipal

House Judiciary Committee Testimony on HB 285

April 28, 1987

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allocation under the the State's PAB cap, municipalities may be able to offer PAB funding to attract projects in their communities and offer such funding at a lower cost (e.g. administrative fees etc.) than through the state bond committee and Alaska Development Authority (AIDA). In addition, we would suggest that policy and criteria be developed by the State and municipalities to delineate which projects are authorized to receive PAB authority under the cap, e.g. jobs created etc. Finally, the AML would agree that a provision be made that if no municipality is interested or qualified (the project), the cap not be wasted and be released to the State for use or to be carried forward.

While many municipalities have not used bonding in recent years because of the State's oil wealth, we are experiencing reductions in state and federal funding at a time when economic growth and diversification is very important. Authority under the PAB cap for municipalities must be reserved as one mechanism to provide for economic development, now and in the future. The AML looks forward to working with the Committee and the Administration on reaching a mutually beneficial compromise on HB 285. Thank you.

ALASKA PUBLIC DEBT 1986



State of Alaska
Department of Revenue
April, 1987

EXECUTIVE SUMMARY

C. Federal Legislation

On October 22, 1986, Public Law 99-514, the Tax Reform Act of 1986 ("the Act") was signed into law by the President. The Act makes significant changes in the types of state and local debt that qualify for tax-exemption, establishes new statewide volume limitations on the amounts of certain types of tax-exempt debt that may be issued, extends arbitrage rules to all types of tax-exempt debt and tightens the rules further, limits advance refundings for all types of tax-exempt debt, and limits the use of bond proceeds to pay issuance costs of certain types of tax-exempt debt. Issuance of debt for most traditional public purposes such as schools, roads, public buildings, and water, sewer, and solid waste facilities would continue to be tax-exempt under the bill and free from volume ceilings. The effective date for most of the bond provisions of the Act is August 15, 1986.

The main provisions of the Act which are of some consequence to Alaska include the new volume cap on Private Activity Bonds ("PAB's"), the liberalization of the requirements for tax-exemption of student loan bonds which would permit Alaska to bond for its student loan program, and the extension of the sunset for Qualified Mortgage bonds by one year to December 31, 1988. The new annual volume cap for Alaska would be \$250 million through 1987 and \$150 million thereafter. It would include the Qualified Mortgage Bonds (Home Mortgage Bonds for first time home-buyers) issued by Alaska Housing Finance Corporation, some of the debt that might be issued by the Alaska Industrial Development Authority and Alaska Power Authority, and student loan bonds if Alaska should enact such a program. During 1986, the amount of debt issued to which the ceiling would have applied totalled \$21,680,000. Certain types of debt subject to the new ceiling are currently subject to two ceilings totalling \$400 million.

2. Volume Cap

The Act limits the aggregate amount of Qualified Bonds that can be issued on a tax-exempt basis during a calendar year. In Alaska's case, the ceiling is \$250 million for bonds issued during 1986 after August 15, 1986, \$250 million for 1987, and \$150 million for subsequent years.

Excluded from the ceiling are Veterans Mortgage Bonds, 501(c)(3) Bonds, and governmentally-owned airports, docks, wharves, and solid waste disposal Exempt Facility Bonds. Included under the ceiling, in addition to all other Qualified Bonds, is any private use portion of a governmental bond in excess of \$15,000,000.

The Act allocates half the ceiling to state agencies and half to local governments based on population. However, it allows a state to establish a different allocation by law or, for an interim period, by gubernatorial proclamation. An allocation by gubernatorial action is valid until an allocation by law is established or until the end of 1987, whichever occurs first.

The Act permits the unused portion of a volume cap for any year to be carried forward for three years for certain purposes that the issuer may elect. The authorized purposes for carryforwards are:

- 1) Exempt Facility Bonds
- 2) Qualified Mortgage Bonds
- 3) Qualified Student Loan Bonds
- 4) Qualified Redevelopment Bonds

Under prior law, Alaska was subject to a \$200 million annual ceiling for Qualified Mortgage Bonds and a separate \$200 million PAB ceiling applicable to Student Loan Bonds, Small Issue Bonds, and Exempt Facility Bonds (with certain exceptions). These ceilings are replaced by the new Qualified Bond Ceiling. The \$302.5 million ceiling for Alaska for Veterans Mortgage Bonds remains in effect under the Act.

Carryforward elections of the 1984 and 1985 PAB volume caps are not effective except as provided in the transition provisions of the Act. The 1986 PAB volume cap under prior law cannot be carried forward.

Although the Act and the Conference Report are silent on the specific point, it is understood to be the intent of Congress that for 1986, bonds issued prior to August 16, 1986 are not counted against the new unified volume cap.

B. Potential Effect on Alaska

The principal effects of the Act on Alaska are the new Qualified Bond volume cap, the reaffirmation of sunsets on Qualified Mortgage Bonds and Small Issue Bonds, and the liberalized requirements for Qualified Student Loan Bonds. Tax-exemption for several significant State projects or programs--the Delong Mountains Regional Transportation System, International Airport Revenue Bonds, the Alaska Railroad, and an Anchorage Court facility--are retained under the Act.

1. Volume Cap and Sunsets

For Alaska, a new annual ceiling on Qualified Bonds of \$250 million for 1986 and 1987, and \$150 million thereafter, replaces ceilings of \$200 million each--\$400 million total--for Qualified Mortgage Bonds and for certain PAB's under prior law.

An Executive Proclamation signed by the Governor on November 24, 1986 (Appendix D) allocated Alaska's \$250 million annual ceiling for 1986 and 1987 half to AHFC and half to AIDA, with provision for reallocation by AIDA to any other issuer. AHFC did not use any of its allocation for 1986 and elected to carryforward \$125 million for Qualified Mortgage Bonds by adopting Resolution No. 86-27 (Appendix E). AIDA utilized \$14,780,000 of its 1986 allocation and, by adopting Resolution No. CF 86-1 (Appendix F), elected to carryforward the remaining \$110,220,00 for Qualified Student Loan Bonds in the event the State enacts legislation establishing such a program.

AIDA had used only \$6,900,000 of the \$200 million PAB ceiling in effect under prior law until August 16, 1986. AHFC issued \$100 million of Collateralized Home Mortgage Bonds (Qualified Mortgage Bonds) on June 1, 1986 but they did not count against its prior law \$200 million Qualified Mortgage Bond ceiling because they were refunding bonds. No carryforward is allowed under the Act of the prior law 1986 ceilings.

Whether the new Qualified Bond ceiling provides any constraint on Alaska bond issuance remains to be seen. For Qualified Mortgage Bonds, AHFC, assuming the current allocation scheme is enacted into law, will have \$325 million under the cap before tax-exemption expires on December 31, 1988 (\$125 million 1986 carryforward, \$125 million 1987 allocation, and \$75 million 1988 allocation). During 1986, unused bond proceeds and mortgage demand were such that AHFC issued no "new money" Qualified Mortgage Bonds, only the refunding issues. AHFC does not expect to use the full \$325 million authority during the remaining two years of the program.

AIDA expects its ongoing allocation of \$125 million for 1987 and \$75 million thereafter to be more than ample, barring major development projects, unforeseen at this time, which would qualify for Exempt Facility Bonds. AIDA's total issuance of \$21,680,000 subject to the ceilings in 1986 is expected to dwindle to practically nothing in succeeding years due to the sunset on December 31, 1986 of Small Issue Bonds for commercial activities. AIDA issues very few Small Issue Bonds for manufacturing activities and even those sunset December 31, 1989.

The only other possible uses of Alaska's Qualified Bond ceiling that can be identified at this time are a Student Loan Bond program which is generally expected to not exceed approximately \$40 million in bond issuance annually if such a program is enacted, and a financing in the neighborhood of \$70 million for the purchase of the Snettisham hydroelectric project from the federal government, if difficulties of rate shock for users versus a fair (market) price to the federal government can be resolved.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 19, 1987

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

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will permit the state bond committee to allocate the federal volume limitation for the issuance of tax-exempt private activity bonds in Alaska.

Before passage of the Tax Reform Act of 1986 (P.L. 99-514) by Congress last year, there was a \$200,000,000 limit on the amount of tax-exempt industrial development bonds that could be issued in Alaska each year (26 U.S.C. 103(n)(4)) and a separate \$200,000,000 limit on the amount of tax-exempt mortgage subsidy bonds (not including veterans' mortgage bonds) that could be issued in Alaska each year (26 U.S.C. 103A(g)(4)). The Tax Reform Act of 1986 combined those two amounts into a single limit which for 1987 and 1988 will be \$200,000,000 and for subsequent years will decline below that amount. 26 U.S.C. 146(d).

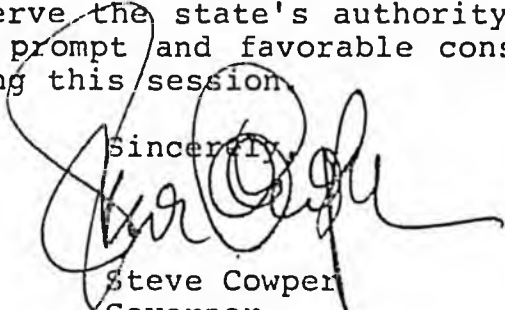
In sec. 1 of the attached bill, proposed AS 37.15.600 gives the state bond committee the authority to allocate the \$200,000,000 cap among eligible entities in Alaska, including municipalities. This changes the practice established by Governor Sheffield's November 24, 1986 executive proclamation, which allocated the cap equally between the Alaska Industrial Development Authority (AIDA) and the Alaska Housing Finance Corporation (AHFC). The amount of tax-exempt bonds actually issued each year by each of the eligible entities could be greater than that allocated by the bond committee because of various exemptions permitted by federal tax law. For example, under 26 U.S.C. 143(1), AHFC may issue \$302,500,000 of tax-exempt veterans' mortgage bonds per year, which, as mentioned earlier, are not included in the \$200,000,000 cap, and under 26 U.S.C. 142, AIDA may issue unlimited amounts of tax-exempt bonds, not included in the cap, for certain types of "exempt facilities" -- subject, of course, to the limitations of state law.

AS 18.56.104 is repealed by sec. 2 of the bill. That statute allocates to AHFC, under 26 U.S.C. 103A, the amount of tax-exempt mortgage revenue bonds that may be issued in the state. Because that allocation is inconsistent with proposed AS 37.15.600 (sec. 1 of the bill), and because 26 U.S.C. 103A itself was repealed by the Tax Reform Act of 1986, AS 18.56.104 should be repealed.

Passage of this legislation during this legislative session is necessary to preserve the state's authority under 26 U.S.C. 146(e) over bond activity allocations. Under 26 U.S.C. 146(e)(2), the governor's authority to "proclaim" a bond activity allocation different from the one set under 26 U.S.C. 146(b) and (c) terminates on December 31, 1987. In the absence of enactment of a law this year, the allocation formula, by default, will revert to the federal formula, which allocates one-half of the total volume cap to the state and one-half, on a per capita basis, to other issuers in the state, including municipalities. 26 U.S.C. 146(b) and (c).

Under the federal formula, therefore, \$125,000,000 would, for the most part, be scattered among the 150 or so municipal entities of Alaska. Because of the small population of most of those entities, very little could be accomplished. The federally allocated caps for the 113 second class cities would, for example, range from \$113.89 for Kupreanof to \$10,225 for Bethel. The result of falling under the federal formula would be simply to waste a large part of the volume cap in Alaska. To preserve the state's authority over the allocation, I urge your prompt and favorable consideration of this legislation during this session.

Sincerely,



Steve Cowper
Governor

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 285
Publish Date: HOUSE 4/21/87

REQUEST:

Revision Date: _____
Title: Issuance of Private Activity
Bonds _____
Sponsor: Rules by Request of Governor
Requestor: _____

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<u>OPERATING</u>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<u>TOTAL OPERATING</u>	-	-	-	-	-	-
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<u>TOTAL</u>	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350
Date: April 16, 1987

Approved by Commissioner: *J. Mulcahy*
Agency: Department of Revenue

Date: 4/19/87

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