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# NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

## Don Oberg, President

Claudia Douglas  
Vice President  
P.O. Box 74837  
Fairbanks, AK 99707

Judy Salo  
NEA Director  
4510 Kenaltze Court  
Kenai, AK 99611

Paul Jarvi  
Region I Director  
P.O. Box 5876  
Ketchikan, AK 99901

Deedle Sorensen  
Region I Director  
6903 Sunny Dr.  
Juneau, AK 99801

Mary Bohanan  
Region II Director  
P.O. Box 1164  
Delta Junction, AK 99737

Trena Richardson  
Region III Director  
Box 2278  
Soldotna, AK 99689

Olaf Allison  
Region IV Director  
Box 44  
Kiana, AK 99749

Kathy Gross  
Region IV Director  
P.O. Box 1652  
Bethel, AK 99559

Susan Annis  
Region V Director  
2118 Cushman Street  
Fairbanks, AK 99701

Carole Evans  
Region V Director  
2118 Cushman Street  
Fairbanks, AK 99701

Gayle Harbo  
Region V Director  
Box 80522  
College, AK 99708

Loretta B. Christie  
Region VI Director  
2220 Yorkshire Lane  
Anchorage, AK 99504

Richard Kronberg  
Region VI Director  
3511 Chiniak Bay Dr.  
Anchorage, AK 99515

Pam McCarl  
Region VI Director  
2116 Sorbus Way  
Anchorage, AK 99508

Kathi McCord  
Region VI Director  
1601 Hidden Lane  
Anchorage, AK 99501

John Cyr  
Region VII Director  
P.O. Box 873663  
Wasilla, AK 99687

Sandy Pevan  
Region VII Director  
Box 871256  
Wasilla, AK 99687

Dorothy Wells  
Region R Director  
2529 Nelson Road  
North Pole, AK 99705

## ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE  
ANCHORAGE, ALASKA 99503  
(907) 274-0536  
FAX: (907) 274-0551

## JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302  
JUNEAU, ALASKA 99801  
(907) 586-3090  
FAX: (907) 586-2744

## FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
(907) 456-4435  
FAX: (907) 456-2159

April 21, 1992

TO: Rep. Pat Carney & Rep. Georgianna Lincoln, Co-Chairs and members of the House HES Committee.

FROM: Don Oberg *Don*

RE: HB 581 & HB 582

NEA-Alaska is supportive of HB 581 & HB 582, establishing and appropriating needed funds for an education facilities financing authority as a public corporation of the State of Alaska within the Department of Education.

It is well known that there are many school districts facing serious building needs, including overdue and necessary building repairs to meet student housing needs.

HB 581 provides a viable and responsible mechanism to assist school districts to meet those needs.

NEA-AK believes Sec. 44.27.140(b)(1), which provides for reimbursements of up to 70 percent of net payments for retirement of principal and interest on bonds, should be raised to a higher level so that more districts will be able to make the needed commitment.

In summary, this is a positive step toward meeting the financial obligations of Alaska toward providing adequate public school for Alaska students.

Thank you for your consideration of our position.

## SUMMARY

### Alaska Education Facilities Financing Program - HB581/582

#### OBJECTIVES:

1. Provide for the funding of critical projects from DOE's school construction priority list that otherwise could not occur in this year's capital budget.
2. Resume funding of net debt service for school bonds of organized municipalities at the 70% level, so that these communities (which are generally not at the top of the priority list) can receive necessary State assistance in school construction. Create a mechanism so that this funding is "credited" to the municipality's bond rating as it was not in the past.
3. Keep this funding off the budget, which can't accommodate it in any event (hence the talk of G.O. bonding).
4. Continue the policy that municipalities not be allowed to utilize the State's credit for future debt service at will, but only for school facilities that have been expressly approved by the DOE and the Legislature.
5. Fund necessary school construction by means other than G.O. bonds.
6. Protect the Permanent Fund Earnings Reserve Account from growing pressure to dissipate it on operating budget shortfalls.

The legislation meets all these goals. Similar mechanisms are used in other States (Texas) and in many municipal situations in the Midwest.

#### SUMMARY

1. Establish the Education Facilities Finance Authority (EFFA) within the Department of Education, and the Education Facilities Fund ("EF Fund") as an asset of the authority, subject to reappropriation. The EFFA would:
  - a. Sell EFFA revenue bonds (which could carry the State's Moral Obligation) to finance construction of rural schools upon approval of specific projects by the State Board of Education and by the Legislature.
  - b. Pay up to 70% of net debt service on municipal bonds issued to finance municipal school facilities and up to 100% of net debt service on University of Alaska bonds, provided that each specific facility has been approved by the Legislature for a specified level of reimbursement, and by the State Board of Education (in the case of municipal projects).
  - c. Receive appropriated funds from the Legislature annually and apply these proceeds to debt service on EFFA bonds and to the specified percentage of net debt service on authorized municipal school bonds and University bonds.

d. Pledge EF Fund earnings (only) as for EFFA bonds and for the EFFA's obligation to pay the specified percentage of municipal school bond and University bond debt service, to be invoked only in the event that Legislative appropriations are insufficient to meet these obligations.

2. The EF Fund will be managed by the Permanent Fund Corporation. Its initial capitalization would come from the Permanent Fund Earnings Reserve Account, with possible additional deposits at any time in the future from other sources.

3. Legislative intent would be to annually enact school debt service appropriations sufficient to cover the Authority's obligations. If such debt service were ever shortfunded, the EFFA would apply earnings (only) of the EF Fund to make up the shortfall.

4. The appropriation of the PF Earnings Reserve Account to the Fund will not become effective until the Lt. Governor certifies that an advisory vote in the November, 1992 general election has expressed a preference for the deposit. The authority could neither issue bonds nor agree to pay debt service on municipal or university bonds until the balance in the Fund is at least \$700 million ..... which would occur only after the positive advisory vote.

5. The bill could authorize specific projects from the existing DOE priority list for EFFA bonds and municipal debt service reimbursement, and for university debt service reimbursement. The EFFA could not act on these authorizations until the Fund balance reaches \$700 million after the advisory vote. The draft bill presently contains all DOE priority I and Priority II projects, and additional University projects

Municipalities (70% reimbursement)	40 projects	\$216 million
REAA's (EFFA Bonds)	32 projects	\$120 million
University Bonds	<u>16 projects</u>	<u>\$71 million</u>
	88 projects	<u>\$407 million</u>

Future legislatures could authorize more bonds and reimbursement agreements within the financial capabilities of the education facilities fund.

REL:jlc

# NEWS RELEASE

STATE OF ALASKA

OFFICE OF THE GOVERNOR  
P.O. BOX 110001  
JUNEAU, AK 99811-0001

WALTER J. HICKEL  
GOVERNOR



FOR INFORMATION CONTACT

JOHN MANLY  
PRESS SECRETARY

JOHN HENDRICKSON  
ASSISTANT PRESS SECRETARY

(907) 465-3500  
FAX (907) 586-8369

FOR RELEASE: April 9, 1992  
No. 92-060

## MOODY'S AFFIRMS ALASKA BOND RATING

JUNEAU--Moody's Investors Service (Moody's), a nationally-recognized credit rating firm, has informed the State of Alaska that the rating of Aa assigned to the general obligation debt of the state has been affirmed.

"We are pleased with the end result of this rating process," said Governor Walter J. Hickel. "We made a strong case for a rating upgrade by emphasizing our financial reserves, our prudent debt management, and the state's huge, untapped natural resource potential."

\* In a Municipal Credit Report of April 8, 1992, Moody's said, "Strong security is provided by conservative fiscal policies and the availability of substantial reserves." Reserves discussed in the report are the \$13 billion Permanent Fund and a recently-adopted constitutional budget reserve fund.

\* Also cited, however, is the state's heavy reliance on petroleum revenues and the ongoing decline in petroleum production and revenues. Moody's describes the Alaskan economy as "at a crossroads with the impending depletion of North Slope oil reserves." The report continues, "the looming decline in the petroleum sector could subject the state to long-term economic dislocation."

The rapid retirement of outstanding debt is cited throughout the report as a key factor in the rating.

"Ratings are a single determining factor in the cost we must pay on borrowed funds," said Revenue Commissioner Darrel Rexwinkel. "While the state does not have any voter authorized general obligation debt to issue, many everyday financial needs are financed using public debt--buildings, public enterprise projects, home mortgages, and student loans, to name a few." Rexwinkel is Secretary to the State Bond Committee.

- more -

April 9, 1992

The general obligation debt rating is the underlying rating for state and state agency debt. The borrowing cost to the state and its agencies, and to some extent political subdivisions, relies on the underlying general obligation rating. Likewise, the value of outstanding bonds, many held by Alaskans, relies upon the maintenance of a high rating. The last rating change was an upgrade to Aa in 1980.

"People think that because we have the Permanent Fund, we'll have a good credit rating," Rexwinkel said. "The Permanent Fund is one important factor, but what it really tells the credit analysts is that Alaskans realize our oil revenues will not always support the current level of state government spending."

"Credit analysts know that no bond issuer can ever save itself into prosperity," Rexwinkel said. "Alaska needs to diversify its economic base and develop its natural resource potential in order to offset the depletion of petroleum reserves currently in production."

In assessing credit worthiness, analysts look to those economic strengths which are reflected in positive financial assessment factors: debt management and an effective program for capital improvements, the administration of government and the ability to implement plans and fulfill obligations, and fiscal performance.

Moody's says debt which qualifies for the rating assigned to Alaska general obligation bonds is judged to be of high quality by all standards, differing from debt rated Aaa, the highest rating, by the margin of protection, the degree of long-term risk or the extent of fluctuations in protective elements.

Nine states are rated Aaa. No states have been upgraded by Moody's since 1990, although two states have been downgraded since then. Massachusetts has the lowest state rating at Baa, just above speculative or "junk bonds."

Bonds issued by the State of Alaska, agencies, and municipalities can be purchased from many commercial and investment banks which do business in the state. The Treasury Division of the Department of Revenue can provide a schedule of upcoming state and municipal issues to interested investors.

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# HOUSE COMMITTEE REPORT

(7)  
 Date Referred: April 10, 1992 FURTHER REFERRALS: Finance

Date of Committee Action: 4/21/92

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered: HB 581

HOUSE BILL NO. 581 EDUCATION BOND AUTHORITY

"An Act relating to the Education Facilities Financing Authority; and providing for an effective date."

- RECOMMENDATIONS:  the same title  
 be replaced with \_\_\_\_\_  a new title
- have attached amendments(s)  
 do pass  
 do not pass  
 no recommendations  
 individual recommendations  
 additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

fiscal impact \_\_\_\_\_  fiscal note(s) \_\_\_\_\_

zero fiscal note \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
		<i>Mark Penley</i>			X
		<i>Cheri Davis</i>		✓	
		<i>J. J. Gonzalez</i>			X
		<i>John Lee</i>		✓	
		<i>Mary Miller</i>			✓

*[Signature]*  
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. HB 581

Revision Date: \_\_\_\_\_  
Title: An Act relating to education facilities financing authority.  
Sponsor: House State Affairs  
Requestor: (H) HESS

Department Affected: Education  
BRU: School Debt Reimbursement  
Component: School Debt Reimbursement

COMPONENT SERIAL NO. 

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	219.8	227.0	234.5	242.2	250.1	258.4
TRAVEL	46.0	46.0	46.0	46.0	46.0	46.0
CONTRACTUAL	207.0	207.0	207.0	207.0	207.0	207.0
SUPPLIES	3.0	3.0	3.0	3.0	3.0	3.0
EQUIPMENT	24.0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>499.8</b>	<b>483.0</b>	<b>490.5</b>	<b>498.2</b>	<b>506.1</b>	<b>514.4</b>

<b>CAPITAL</b>						
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<b>REVENUE FUND SOURCE:</b>						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE: PFD Earnings Reserve Account - 1041	499.8	483.0	490.5	498.2	506.1	514.4
<b>TOTAL</b>	<b>499.8</b>	<b>483.0</b>	<b>490.5</b>	<b>498.2</b>	<b>506.1</b>	<b>514.4</b>

POSITIONS:

FULL-TIME	4	4	4	4	4	4
PART-TIME						
TEMPORARY						

Estimate of current year impact: \_\_\_\_\_

ANALYSIS: (Attach a separate page if necessary.)

**Assumes the GFFA will become effective July 1, 1992.**

**See attached**

Prepared by: Duane Guiley  
Division: Educational Finance and Support Services

Phone: 465-2865  
Date: 4-20-92

Approved by Commissioner:   
Agency: Education

Jerry Covey  
Date: 4-20-92

FISCAL NOTE - HB 581

EDUCATION FACILITIES FINANCING AUTHORITY

Personal Services: \$219.8

Executive Director (26A)	\$90.1
Secretary I (10B)	\$36.3
Project Assistant (16B)	\$53.0
Accounting Technician II (12A)	\$40.4

Travel: \$46.0

Executive Director	\$12.0
Authority (4 meetings/year)	\$12.0
Project Manager	\$22.0

Contractual: \$207.0

Bond Council/Investment experts	\$50.0
Engineering	\$25.0
Actuarial/Audit	\$50.0
Legal Services	\$50.0
Office Space (10,000 ft @ \$2.00/ft)	\$24.0
Utilities/Phones	\$ 8.0

Supplies: \$3.0

Office Supplies	\$3.0
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Equipment: \$24.0

Telecopier	\$3.0
Computer/PCS wordprocessing	\$15.0
Furniture	\$7.0

**FY 93 Total: \$499.8**

## FORUM

# Education may be best way to protect fund

Sen. Rick Halford and columnist Mike Doogan no doubt consider themselves poles apart politically. Yet both agree any effort to cap, reduce or abolish dividends before cutting budgets or imposing taxes and user fees would be stupid, stupid, Stupid!

Rick Halford asserts any reduction of dividends has precisely the same effect as would imposition of a regressive head tax on all Alaskans and *only* Alaskans. Doogan puts it a bit more tersely: Dumb! He recognizes dividends as means of creating a healthy citizen awareness of constraint upon runaway government spending by requiring politicians to recoup enough dividend dollars through user fees and taxes to fund programs people want badly enough to pay for.

Regrettably, such common sense seems all too uncommon in Juneau's cloistered halls.

Long before either cutting budgets or passing taxes some legislators would cap dividends and/or spend the \$700,000,000 now lodged in the Permanent Fund's Earnings Reserve. How asinine to



**JAY  
HAMMOND**

prematurely limit the one means by which Alaska residents can legally be granted special dispensations not granted non-residents.

For example, we can't tax Alaskans at a lesser rate, compel local hire or charge user fees to only folks from elsewhere. But, we can give dividends to Alaskans only and thereby help offset the inevitable user fee and tax increases which are thundering down upon us. How foolish to squander that advantage for short-term political gratification.

Some say their designs upon that \$700 million will not reduce dividends at all

since these funds are not required for dividends or inflation-proofing. In the short term that may be true. However, if that \$700 million is reinvested in the fund, as Sen. Halford wisely proposes, your future dividends will grow larger.

To exhaust the earnings reserves now to defer the moment of truth will simply make truth's impact less bearable for all Alaskans when it does arrive. But, alas, this is an election year. Stupidity may prevail over the Halford/Doogan wisdom.

Some sharing my concerns suggest an interesting alternative to at least protect the earnings reserve from total dissipation.

Three of Juneau's sharpest minds — Kent Dawson, Bob LeResche and John Sackett — recently asked to meet with me to test my reaction. Since these gentlemen are all top-gun lobbyists, my first knee-jerk response was to hunker down defensively and clutch my wallet. However, this proved not an effort to stick me with the dinner check or boost some rapacious developmental scheme which

might offend my posey-sniffing soul. Instead, they made a pretty good case that unless that \$700 million was removed from the legislative smorgasbord it would be devoured.

To foreclose that likelihood they proposed what may be the best on a list of lousy alternatives to depositing the \$700 million into the permanent fund.

Their proposal is embodied in a bill making its way through the legislature. This bill would establish an Education Facilities Fund into which, only upon an affirmative public vote, would be deposited the \$700 million.

This principal would be managed by the Permanent Fund Corp. and could not be spent. Instead it would be used to create an Education Facilities Financing Authority. The authority could sell bonds for rural schools and pay a portion of debt service on municipal and university bonds issued to build facilities specifically authorized by the legislature — but only after review by the state board of education in the case of rural and municipal schools. The money to

pay off bonds would come from annual legislative appropriations.

Should future legislatures not appropriate bond payments, the authority could use a portion of the fund's earnings only to meet its obligations. Before any bonds could be issued, the fund must be large enough to continue growing, even if the legislature ducked its responsibility and fund earnings were forced to cover obligations.

Proponents assert this approach has none of the inbred infirmities of the Cowper "Sacred Horse/Trojan Cow" Educational Endowment. Admittedly, future permanent fund dividends would be less than they otherwise would have been had the \$700 million been deposited into the fund itself ala the Halford approach (which they, as well as I would much prefer).

However, the likelihood of this occurring seems about on par with Alaska achieving independence.

The greatest frailty of this approach is the possibility the legislature will not — or

perhaps cannot — meet its commitment and thereby quickly exhausts earnings from this fund. To offset this, I propose a companion bill for a school tax, to be imposed only when and at the level required to help the legislature keep its word.

Such a program could protect the original \$700 million, provide badly needed school funding and capture 25 percent of its cost from non-resident transients, fishermen and workers who now pay virtually nothing for the price of admission.

Unfortunately, 100 percent protection of the permanent fund earnings reserve can never be assured. However, under the above approach, proponents feel the apple of temptation would no longer dangle within easy reach.

Rather it would require those who lusted after what should be forbidden fruit to climb precariously out upon a shaky limb.

□ Jay Hammond was governor of Alaska from 1974 to 1982.