

HB

161

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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

March 7th, 1983

The Honorable Mitchell E. Abood
Chairman, House State Affairs Committee
Alaska State Legislature
Pouch Y
Juneau, AK 99811

Re: HB 161

Dear Mr. Chairman:

Enclosed you will find the Department of Revenue's response to questions asked at the February 28, 1983 meeting of the House State Affairs Committee pertaining to HB 161. I hope this information is what you seek. If you would like any further information, please let me know.

Sincerely,



Robert D. Heath
Commissioner of Revenue

RDH:m11
Enclosure

POSITION PAPER ON HOUSE BILL 161

"An act establishing a defeasance fund in the Department of Revenue for the purpose of retiring State general obligation debt; transferring a portion of the income of the Alaska Permanent Fund to the defeasance fund and providing for an effective date."

This paper will explain certain aspects of a defeasance fund, highlight the issues surrounding its creation and present the position of the Department of Revenue.

A defeasance fund is a trust account which would be set up with an independent third party trustee such as a national bank. This account would be used to purchase a portfolio of securities whose maturities and cash flow income would correspond to the principal and interest payments of the G.O. bonds which are being defeased. Once the fund is established, the debt service on these bonds would not need to be appropriated from the General Fund.¹ A schedule of the yearly debt service on the pre-1978 bonds is attached. The reason the total appropriation is lower than the balance due on the G.O. bonds is because of the difference in interest rates which can presently be earned and the coupon rates of the bonds.

The bill refers to G.O. debt issued before May 2, 1978. The reason is that in 1978 the Internal Revenue Service issued a ruling limiting the amount of interest which can be earned on defeasance funds to the rate paid on the bonds. Thus, defeasance on bonds issued after 1978 offer little financial benefit.

In regard to the bill itself, the Department of Revenue sees possible legal problems. HB 161 is a temporary bill in that it attempts to take the earnings of the Permanent Fund for one year to create the defeasance fund. No attempt is made to repeal the current law governing the use of Permanent Fund income.

¹ Debt service is now an automatic appropriation (AS 37.15.012 by § 1 Ch. 100, SLA 1981).

The question must be addressed by law as to whether a temporary bill can override substantive law.

Another legal question deals with interest earned on the defeasance fund. The interest would go back into the fund by nature of the defeasance which could be viewed as a dedication of funds. Alaska's constitution prohibits dedication of funds. (Alaska Constitution Article IX, Section 7)

In analyzing the financial feasibility of the bill, the rate of interest paid on the G.O. bonds (see schedule attached) and the current rate of interest on investments must be compared. A majority of the bonds are below 6% interest and today's market will pay 8 1/2% to 10% interest depending on the type of security. Thus, there is little financial reason to pay off this low interest debt sooner than the current schedule specifies.

Also, to create this defeasance fund will restrict future legislative sessions' funding because once the fund is established, these monies are no longer available for appropriation.

Another problem connected with showing a surplus of funds is our national image. We are concerned that people in the "lower 48" may feel Alaska is not sharing its wealth with the nation. (Per letter dated February 3, 1983 to Representative Abood on this subject.)

The last point we wish to make concerns the status of future bonding issues. If the State of Alaska has the surplus funds to set up a defeasance fund, the IRS may view any future bond issues (at least for 18 months) as arbitrage bonds and declare them taxable. This would increase the interest rate considerably and could cost the State more money in interest payments.

For the reasons stated herein and in view of the Governor's policy concerning the use of Permanent Fund income, the Department of Revenue opposes HB 161. Our recommendation would be to continue paying the bonds on their established schedule.

Attachment

OUTSTANDING BALANCE ON PRE-MAY, 1978 G.O. BONDS
JUNE 30, 1983

<u>Bond Title</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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Ferries & Roads Bonds, 1961, Series A	3.82	6,130,000	1,115,870	7,245,870
"Composite 1/8/64 Sale", Series L	3.56	565,000	20,340	585,340
1964, Series B (1967 Issue)	3.75	7,277,000	1,741,932	9,018,932
1964, Series C (1967 Issue)	3.75	1,156,000	630,152	1,786,152
1967, First Series	4.50	9,190,000	2,316,125	11,506,125
1967, Second Series	4.90	8,550,000	2,222,270	10,772,270
1968, Series A	5.19	5,375,000	861,475	6,236,475
1968, Series B	5.24	4,250,000	672,657	4,922,657
1969, Series A	5.74	3,575,000	748,175	4,323,175
1969, Series D (1966 Univ. of Ak.)	3.00	1,380,000	380,100	1,760,100
1970, Series C	5.88	3,100,000	280,535	3,380,535
1971, Series A	5.07	10,285,000	2,924,680	13,209,680
1971, Series B	6.04	14,520,000	7,478,400	21,998,400
1971, Series C	6.04	2,950,000	1,509,000	4,459,000
1971, Series D	6.00	850,000	411,000	1,261,000
1972, Series A	5.24	15,800,000	5,958,000	21,758,000
1972, Series B	5.16	19,600,000	7,979,525	27,579,525
1973, Series A	5.12	15,000,000	5,890,500	20,890,500
1973, Series B	5.11	18,500,000	7,696,500	26,196,500
1973, Series C	5.80	26,500,000	13,319,375	39,819,375
1974, Series A	6.86	26,100,000	15,078,000	41,178,000
1975, Series A	5.99	33,200,000	16,552,100	49,752,100
1975, Series B	6.53	37,000,000	20,191,750	57,191,750
1975, Series C	6.86	32,250,000	16,298,075	48,548,075
1976, Series A	5.87	25,000,000	7,733,750	32,733,750
1976, Series B	5.80	25,000,000	7,672,500	32,672,500
1977, Series A	5.08	27,500,000	8,406,250	35,906,250
1977, Series B	4.51	24,000,000	3,283,000	27,283,000
1978, Series A (4/1/78)	4.87%	25,000,000	3,650,000	28,650,000
		<u>\$429,913,000</u>	<u>\$163,050,386</u>	<u>\$592,963,386</u>

163,050,386

66,857,614

214.

DEBT SERVICE ON OUTSTANDING G.O. BONDS BY YEAR

<u>Years Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Debt Service</u> <u>on pre 5/78</u> <u>Bonds</u>
1984	\$100,175,000	\$63,240,329	\$163,415,329	\$60,539,165
1985	100,060,000	56,149,274	156,209,274	58,370,860
1986	101,465,000	49,119,762	150,584,762	57,707,763
1987	100,580,000	42,225,846	142,809,846	54,769,221
1988	100,885,000	35,449,255	136,334,255	53,044,505
1989	95,927,000	28,547,971	124,474,971	46,006,721
1990	87,760,000	22,063,090	109,823,090	40,131,590
1991	69,699,000	15,870,180	85,569,180	38,947,430
1992	48,349,000	10,523,425	58,872,425	38,152,425
1993	43,563,000	7,396,987	50,959,987	31,719,987
1994	20,598,000	5,219,975	25,817,975	25,817,975
1995	19,096,000	3,987,625	23,083,625	23,083,625
1996	18,610,000	2,864,412	21,474,412	21,474,412
1997	14,865,000	1,800,418	16,665,418	16,665,419
1998	13,380,000	1,008,193	14,388,193	14,388,194
1999	8,640,000	368,931	9,008,931	9,008,931
2000	2,531,000	69,081	2,600,081	2,600,081
June 30, 1983	<u>\$946,183,000</u>	<u>\$345,908,754</u>	<u>\$1,292,091,754</u>	<u>\$592,428,304</u>

STATE OF ALASKA
PRELIMINARY STATEMENT OF FISCAL IMPACT

RECEIVED
FEB 21 1983

Bill No: HB 161 Date on Bill: 2/4/83
 Title: "An act establishing a defeasance fund in the Dept. of Rev.
 Sponsor: Ward & Liska
 Requestor: House State Affairs Committee

1. Estimated fiscal impacts on:

a. Expenditures:

(Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86
Capital		From P.F.		
Operating	\$100,000	-363.0 mill.	-14.5 mill.	
Total	\$100,000	To Def. Fund		
		+363.0 mill.	+14.5 mill.	

b. Revenues:

Revenue				

2. Source of funds to offset fiscal impact of bill:

Permanent Fund Earnings

COPY

3. Assumptions:

The \$100,000 is for Financial Advising and legal fees related to establishment of the fund. The \$377,000,000 is a transfer of monies from the Permanent Fund earnings account to the Defeasance Fund. This transfer is made over two fiscal years. Once the Fund has been established, the G.O. bond debt of \$654,000,000 before May of 1978 can be deducted from the State's books. The Defeasance Fund would reduce the appropriation to the State debt service by \$60,539,000 in FY 84, \$58,371,000 in FY 85, and 57,708,000 in FY 86.

Creation of this Fund would eliminate the Permanent Fund dividend, inflation proofing, and undistributed accounts for FY 83.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It therefore does not represent the final estimate of fiscal impact.

Prepared By: _____ Phone: _____
 Division: _____ Date: _____

Approved by Commissioner: Joseph K. Donohue Robert Heath Date: 2/20/83
 Department: Revenues

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

2/15/83

What Percentage of Interest
are we Paying on these
Bonds?

What Percentage of Interest
are we Presently earning
with our P. F. Investments?

11 1/2%

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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

March 7, 1983

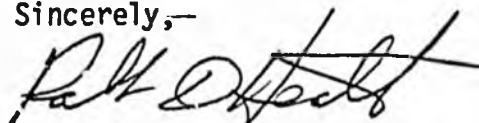
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hitch:

Ask this question

Governor has proposed
spending \$464 million
for revenue sharing,
municipal assistance
and longevity bonus.
Why does spending
\$376 million, or \$28
million less, jeopardize
the fund more? →

Bache

Bache Halsey Stuart Shields Incorporated

**Municipal Bond
Research Department**

A Special Report

April 5, 1982

THE STATE OF ALASKA

**Prepared by: Helen Raffel
(212) 791-3633**

THE STATE OF ALASKA

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I. Summary and Opinion

Alaska has a land area one-fifth the size of the continental United States, but the total population is smaller than that of the city of Seattle and is chiefly clustered in a handful of urban areas. Migration from the "Lower 48" states has been successively drawn to Alaska by the gold rush, military build-ups during two World Wars and, most recently, North Slope oil.

Since the completion of the Trans Alaska Pipeline that runs from the North Slope oil fields to the southern port of Valdez, the oil and gas industry has overshadowed all other Alaskan industries in terms of revenue produced. Four-fifths of total General Fund revenues come from oil and gas taxes, rents, royalties and bonuses. With U.S. decontrol of oil prices at the end of the 1970s, Alaskan revenues soared. During the past year, however, world oil prices have weakened, lowering State revenues and reversing the earlier rising trend in General Fund balances.

Alaskans are conscious of the sensitivity of their economy to fluctuations in world demand for Alaska's depletable resources. In 1976 the voters had the foresight to approve a State constitutional amendment creating a Permanent Fund to receive and maintain in perpetuity a large share of oil and gas industry payments to the State. In Fiscal 1981 and 1982 large transfers from the General Fund were appropriated to the Permanent Fund, over and above the direct oil and gas revenue payments that are constitutionally mandated. Earned investment income from the Permanent Fund (which now aggregates over \$3 billion) supplies significant supplementary revenue to the General Fund.

Alaskan general expenditures normally include a large amount of capital outlays, as may be expected in an underdeveloped land experiencing rapid economic growth. ~~Conventional capital financing through bond issuance has also been relatively large. As a consequence, per capita tax-supported State debt is over ten times that of the median state, and debt is very high relative to personal income.~~ However, these measures of ability to pay are at present irrelevant for Alaska, since almost all State revenues are derived directly from minerals production and processing. ~~General obligation bond maturities are timed to match projected depletion of petroleum resources, and by that time new petroleum and non-petroleum mineral resources are likely to have been developed.~~ The instability of petroleum prices remains a cloud on the short run horizon because of the dependence of State revenues on oil and gas earnings.

On the basis of all of these considerations, we rate the State of Alaska in the mid-range of the "double A" (AA) quality rating scale.

Key Statistical Comparisons: Alaska and U.S., 1980

	Alaska	U.S.
Population	401,851	226,545,805
Per capita personal income	\$12,790	\$9,521
% employed in government (1978)	39.0%	17.9%
Unemployment rate (1981)	9.3%	7.6%
Total State revenue per capita	\$ 8,064	\$1,223
% General Fund revenue from oil & gas industry (1981)	81.0%	NA
Total State expenditure per capita	\$ 5,058	\$1,138
Tax-related State debt per capita (1982)	\$ 2,314	\$ 203 ^a
Debt service as % of total revenue (1981)	2.3%	4.0%

^aMoody's state median

BACHE: AA
 MOODY'S: Aa
 STANDARD & POOR'S: AA-

II. Demographic and Economic Trends

POPULATION AND LAND OWNERSHIP

Between roughly B.C. 20,000 and A.D. 1700 Alaska was populated by only a few thousand Indians and Eskimos, descendants of Ice Age migrants who had crossed the Bering Strait land bridge while the sea was captured by the expansive Polar Ice Cap. The advent of Russian fur-traders brought the first Europeans to the land. In 1867 the Russian claim was sold to the United States, and only 23 years ago, in 1959, Alaska achieved Statehood. Even now, however, on a land area one-fifth the size of the continental United States, the entire population is only slightly over 400,000, a population smaller than that of the city of Seattle.

Table 1. Alaska and U.S. Decennial Population: Actual 1950-1980 and Projected 1990-2000

<u>Year</u>	<u>Alaska Population</u>	<u>Alaska % Change</u>	<u>U.S. Population</u>	<u>U.S. % Change</u>	<u>Alaska/ U.S.</u>
1950	128,643		151,325,798		0.1%
1960	226,167	75.8%	179,323,175	18.5%	0.1
1970	302,583	33.8	203,302,031	13.4	0.2
1980	401,851 ^a	32.8	226,545,805 ^a	11.4	0.2
1990	532,000	32.4	247,859,000	9.4	0.2
2000	665,000	25.0	264,726,000	6.8	0.3

^aRevised 1980 Census figure, September, 1981.

Sources: Decennial Census Figures from Bureau of the Census, "Census of Population and Housing: Alaska" (September, 1981 and "Number of Inhabitants - Alaska"; 1990 and 2000 adjusted projections from Regional Economic Analysis Division, Bureau of Economic Analysis, U.S. Department of Commerce.

New arrivals from the "Lower 48" have come to Alaska in accordion-like waves. Until 1880 the non-native population of Alaska still consisted primarily of fur traders. In 1880, however, Richard Harris and Joe Juneau discovered gold in the Southeast Panhandle below Canada's Yukon Territory, and the first large wave of white migration began.* The gold rush was over by the early 20th century, and although the territorial capital was transferred from Sitka to the new city of Juneau in 1900, Juneau's population remains less than 20,000. It will become smaller still if the capital is moved to Willow, north of Anchorage, as approved in a 1976 State-wide referendum but subject to a confirming referendum in November, 1982.

*As a result of the gold rush, Juneau was the first city to be founded in Alaska since its purchase from Russia.

The establishment of military bases in Alaska during the two World Wars brought more inhabitants from the mainland. Military installations in Anchorage, on the south-central coast of Alaska, and Fairbanks in the interior are but one of the elements that have made these cities the two largest in the State. The 1980 population of Anchorage was 173,017, or 43% of the State total, and the population of Fairbanks was 22,645. The most recent wave of migration to Alaska, attracted by the huge North Slope oil find in 1968, has helped to swell the population of Fairbanks, a major supply depot and staging point for the North Slope. All told, successive waves of migration from the Lower 48 have brought the non-native population up to 77% of the total, most of it clustered in a handful of urban areas.

The Statehood Act of 1958 granted Alaska the right to select 103.4 million acres as State lands -- 27% of the total area of the State -- subject to the claims of the native Eskimos, Aleuts and Indians. The Alaska Native Claims Settlement Act of 1971 delayed State land selection until thirteen regional Native Corporations were established and had selected their own 44 million acres (including subsurface rights), 12% of the total land area. Under the terms of the Settlement Act, the Native Corporations have also received \$462 million from the Federal Government and joint payment by the Federal and State governments of \$500 million derived from royalties, rentals and bonuses related to mineral production. Monetary payments were completed in 1981, but land selection is still under way.

A further restraint on Alaskan State land selection is the Alaska National Interest Lands Conservation Act of 1980 (the "Lands Act") which set aside 120 million acres (32% of the total Alaskan land area) for National Parks, refuges and other conservation systems.

When State and Native selection has been completed, the Federal Government will still own about 60% of the total Alaskan land area. Beyond the land area proper, however, the State has received an estimated 35 to 45 million acres of submerged territory, some of which contains producing oil and gas fields or has high potential for such production.

INDUSTRY AND EMPLOYMENT

The oil and gas industry overshadows all other Alaskan industries in terms of revenue produced. When measured in terms of total employment, however, the predominant industry in Alaska is government. Almost two-fifths of the employed labor force is in the government sector (Table 2).

Table 2. Alaska and U.S. Employment Distribution by Industry:
Actual 1978 and Projected 1990 and 2000

Industry	Alaska			U.S.		
	1978	1990	2000	1978	1990	2000
Trade	14.8%	17.5%	19.7%	21.2%	21.8%	22.0%
Services	17.1	20.9	23.0	20.4	22.4	23.5
Government	39.0	31.6	27.7	17.9	16.4	15.9
Manufacturing	5.7	5.4	5.3	20.7	19.8	19.3
Construction	6.7	6.4	6.1	5.3	5.4	5.3
Finance ^a	4.3	5.4	5.9	5.1	5.7	5.9
Transportation ^b	8.1	7.4	7.2	5.1	4.9	4.8
Agriculture ^c	1.4	1.0	1.1	3.4	2.6	2.4
Mining	2.9	3.7	3.7	0.9	0.9	0.8
Total ^d	100.0	100.0	100.0	100.0	100.0	100.0

^a Finance, Insurance and Real Estate

^b Transportation, Communication and Public Utilities

^c Farm, Agricultural Services, Forestry, Fisheries and Other

^d Columns may not sum to 100% due to rounding

Source: Survey of Current Business (November, 1980)
pp. 56 and 70.

Juneau is the official seat of State government, and the economy of the Southeast region, where Juneau is located, is heavily dependent upon government employment. Fishing, forestry, tourism and trade are also important to the region, although at present the forestry industry is depressed by a fall-off in construction activity in Japan, the prime market for Alaskan timber and pulp. New mineral production in the Southeast may provide substantial employment opportunities by the mid-1980s. A silver-zinc-lead mine near Juneau and a molybdenum mine near Ketchikan are expected to be operative in a few years, as environmental and financial problems are worked out.

Two time zones westward from Juneau on the southern coast is the thriving city of Anchorage, the financial and commercial hub of Alaska. The city is an important seaport, an air transportation center, headquarters for many of the national and international firms participating in North Slope oil and natural gas development, and the site of Fort Richardson and Elmendorf Air Force Base. Although Juneau is the capital, many State government offices are located in Anchorage. Governmental operations, including the 2800 civilians

employed at Federal military installations, accounted for an estimated 27% of total wage and salary jobs in Anchorage in 1980, a high percentage by average U.S. standards, but a lower dependency on government employment than in the other two major Alaskan cities.

Anchorage is at the center of a growing and diversified region of Alaska. The Kenai Peninsula forms the southeastern coast of Cook Inlet, the 200-mile long entrance to the port of Anchorage. Oil and gas production and refining on the Peninsula and in Cook Inlet account for about 50% of the Kenai tax base; the Kenai National Moose Range provides an example of "compatible use" between a wildlife preserve and the first oil field in Alaska. At the southern end of the Peninsula is the port of Seward on the Gulf of Alaska, the southern terminus of the 470-mile long Federally owned Alaska Railroad which runs north to Anchorage, on through the agricultural Matanuska-Susitna ("MatSu") river valleys where a giant hydroelectric plant may eventually be built, through Mt. McKinley National Park past the highest mountain in North America, and past the Nenana coal field with the only operating mine in a State that has purported coal reserves of almost 2 trillion tons. The northern terminus of the railroad is Fairbanks.

In addition to being a government and military center (Fort Wainwright, Fort Greeley and Eilson Air Force Base) and host to the main campus of the University of Alaska, Fairbanks is the service and distribution center for the interior and northern portions of the State. It has both benefited and suffered from the construction of the Trans Alaska oil pipeline that runs from the Arctic Ocean to the port of Valdez, just east of the Kenai Peninsula. Fairbanks benefited from the trade and employment generated by pipeline construction activity during the mid-1970s. But with the completion of the line in 1977, unemployed construction workers flooded into the city looking for work.

Even before completion of the oil pipeline, Fairbanks in particular and Alaska in general experienced high unemployment rates. The climate and the predominance of outdoor or seasonal productive activities like fishing, mining, drilling, lumbering and construction work cause unemployment to be exceedingly high for many months each year. More importantly, chronic rather than seasonal unemployment is caused by the widespread impression in the Lower 48 that jobs and wealth are available in plenty in Alaska. The result is that job-seekers, often with the wrong skills, pour into Alaska in greater numbers than can be accommodated. Except for 1975, one of the years of major pipeline construction, the average annual unemployment rate in Alaska has been above the national average since 1970, and frequently highest in the nation.

Table 3. Average Annual Unemployment Rate, Alaska and U.S.

	<u>Alaska</u>	<u>U.S.</u>
1970	10.3%	4.9%
1971	11.9	5.9
1972	10.4	5.6
1973	10.4	4.9
1974	10.5	5.6
1975	6.9	8.5
1976	8.0	7.7
1977	9.4	7.0
1978	11.2	6.0
1979	9.2	5.8
1980	9.7	7.1
1981	9.3 ^a	7.6

^aPreliminary figure.

Source: U.S. Bureau of Labor Statistics;
U.S. Bureau of the Census, Statistical Abstract of the United States, for 1970-74
Alaskan unemployment rates.

Since the completion of the Trans Alaska oil pipeline, North Slope petroleum production has been a major factor in the Alaskan economy. Pipeline capacity increased from 720,000 barrels per day in 1977 to 1.5 million barrels per day in 1980. Maximum design capacity is 2 million barrels per day. In the older Kenai fields, oil production averages 100,000 barrels per day. It has been conservatively estimated that at least one-third of the labor force employed in Alaska is in one way or another dependent on the petroleum industry.* This estimate takes into account the fact that approximately 90% of State government revenues are derived from oil and gas taxes, rents and royalties. Thus in the near term Alaska's economic strength and State financial resources will be greatly influenced by trends in the world price of petroleum. In the longer run, new mining operations, oil and gas field discoveries and increased earnings from the Permanent Fund of accumulated set-asides from the State's mineral-based revenues are expected to extend the benefits of Alaska's depletable wealth far into the future.

PROSPECTS FOR ALASKAN MINERAL DEVELOPMENT

With the 1968 discovery of a large oil and gas reservoir near Prudhoe Bay on the North Slope of the Brooks Mountain Range, Alaska jumped to second place among the states in oil reserves and third place in natural gas. The principal Prudhoe Bay reservoir, with remaining recoverable reserves of approximately 8.4 billion barrels of oil and 27 trillion cubic feet of gas, is larger than any oil field previously found in North America. Prudhoe Bay oil currently supplies almost one-fifth of total U.S. oil production.

*Alaska Office of the Governor, The Alaska Economic Information and Reporting System (Quarterly Report, October 1981).

West of Prudhoe Bay on the North Slope, the Kuparuk field began operating in December, 1981. It is now producing 80,000 barrels per day and is expected to reach 250,000 barrels per day by 1986. Known recoverable reserves at Kuparuk are close to a billion barrels; total Kuparuk reserves are estimated at 4-5 billion barrels.

Additional substantial oil finds are also anticipated in the State-owned shallow waters of the Beaufort Sea to the east of Prudhoe Bay, but formations here have yet to be proven.

At the present time the natural gas produced in conjunction with North Slope oil operations is being injected back into the Prudhoe Bay reservoir. A project to pipe the gas through Canada along the Alcan Highway to the Lower 48 has been devised, an agreement between the U.S. and Canada was concluded in 1977, and gas is already flowing from Canada to the Western U.S. through completed segments. If the entire pipeline is completed, the Alaskan Natural Gas Transportation System would be the largest privately financed project ever undertaken in the world. Certain enabling legislation, including a waiver package to permit precompletion billing, rolled-in pricing, producer equity participation and other conditions submitted by the pipeline sponsors has been passed by Congress, but escalating cost estimates and financing problems continue to cause delay. Recent weakness in world petroleum prices has raised additional doubts about the profitability of investing in the high-cost Alaskan segment.

Alaskan non-petroleum mineral development was held up for many years by uncertainties about land ownership, but Congressional passage of the Lands Act in 1980 cleared the way for accelerated development. The largest of the projects now proceeding involves exploitation of an estimated 2 billion pound deposit of molybdenum sulfide located 75 miles from Ketchikan in the Southeast. Production startup is currently scheduled for 1987.

Coal reserves in Alaska are estimated as high as 1.9 trillion tons. Most Alaskan coal is found in four areas of the State: on the North Slope, in the Nenana field south of Fairbanks, in the Susitna River Basin north of Anchorage and on the southeastern side of the Alaska Peninsula (including the northwestern shore of Cook Inlet). The North Slope alone is estimated to contain 1.8 trillion tons of coal, but 83% of the proven resources occur in the other areas, chiefly the Nenana field where the producing Usibelli mine is located and the Beluga field on Cook Inlet. Compared to the coal of Montana and Wyoming, Alaskan coal is slightly lower in sulfur content but also lower in heating value and much higher in ash and moisture content. The chief advantage over mainland coal of proven Alaskan reserves is relative nearness to marine ports and to Far Eastern markets, thus compensating for lower quality with lower transportation costs.

III. Fiscal Trends

Alaskan State revenues are strongly dependent on the world price of petroleum. During the late 1970s, as oil prices rose so did State revenues. However, weakening oil prices during the past two years have generated net deficits in the State budget and reduced the large General Fund balances that had accumulated by 1980. The Governor has therefore recommended that State appropriations be cut back in Fiscal 1983.

Because of the projected decrease in oil and gas revenues, coupled with a large relative amount of outstanding tax-supported debt, the Governor's Fiscal 1983 budget also recommends that further general obligation borrowing be suspended during the next two fiscal years, and that capital outlays be financed solely from general revenues. Fortunately, voters had the foresight in 1976 to approve a constitutional amendment creating a Permanent Fund which receives a large percentage of mineral-based State revenues.* The principal of the Fund is constitutionally required to be maintained in perpetuity;** investment earnings from the Permanent Fund, however, are transferred to the General Fund and are available for capital as well as operating expenditures.*** Income from the Permanent Fund should enable the State to implement the Governor's Fiscal 1983 budget recommendations.****

*The original amendment provided that at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses received by the State be placed in the Permanent Fund. Subsequent legislation increased the Permanent Fund's share to 50% for rents and royalties on mineral leases issued after December 1, 1979 and to 50% for bonuses on mineral leases issued after February 15, 1980. The principal balance of the Permanent Fund as of December 31, 1981 totaled \$2,960,670,000, including a required deposit of nearly \$1.3 billion during Fiscal 1981 and a special appropriation of \$900 million from the General Fund. A second legislative appropriation to the Permanent Fund of \$1.8 billion requires that at least \$1.4 billion be transferred during Fiscal 1982 and any remainder during Fiscal 1983.

**No systematic prescription for maintaining the value of the principal in terms of real purchasing power has yet been adopted.

***Permanent Fund income is unlikely to be available for debt service because of U.S. Internal Revenue Service arbitrage rules. (See also Revenue Ruling 82-101, issued by the IRS on April 30, 1982, in connection with indirect support for State of Alabama G.O. bonds by income from the State's Heritage Trust, an oil and gas revenue trust fund similar to the Alaska Permanent Fund.)

****The 1980 Legislature appropriated 50% of distributable Permanent Fund income as a direct dividend payment to Alaskan residents based on length of State residency. However, the legislation has been challenged on constitutional grounds and has not yet been implemented pending a decision by the U.S. Supreme Court. The recent drop in oil-related revenues may induce reconsideration of the proportional allocation of Permanent Fund income between private and public purposes.

REVENUES, EXPENDITURES AND FUND BALANCES

Because of a State constitutional prohibition against dedicating the proceeds of State taxes and licenses, appropriations from the General Fund are required for almost every program in Alaska. General Fund revenues increased strongly in Fiscal 1980 and Fiscal 1981, and responsive increases in spending were legislated for Fiscal 1981 and Fiscal 1982. A drop in projected revenues for Fiscal 1982 presages a large decrease in the General Fund balance, although the total will still be substantial (Table 4).

Table 4. State of Alaska General Fund Revenues, Expenditures and Balances, Fiscal 1977-82^a
(Millions of Dollars)

	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>January Projection FY 1982^b</u>
Total Receipts	\$1,206	\$1,099	\$1,458	\$2,793	\$4,500	\$4,336 ^b
Total Expenditures	1,036	1,097	1,236	1,477	4,613	5,259 ^b
Ending General Fund Balance	760	761	984	2,300	2,187	1,264

^aState of Alaska fiscal year runs from July 1 to June 30.

^bIncludes \$1.4 billion appropriated for transfer to the Permanent Fund over and above the constitutionally mandated amount.

Sources: State of Alaska Official Statement, February 26, 1982, and Alaska Executive Budget Fiscal 1983.

Sources of State revenue, detailed in Table 5, are predominantly oil and gas-related. The State has no sales tax. The State personal income tax was repealed in September, 1980, retroactive to calendar year 1979, and income taxes already paid or withheld were refunded in Fiscal 1981. Table 6 highlights the sharp contrast between Alaskan revenue sources and the U.S. average distribution. Alaska receives negligible sales tax revenue (none at the State level) and transfer payments from the Federal Government provide a relatively small proportion of the total.* The Alaskan revenue distribution is clearly overwhelmed by oil and gas corporate** and severance taxes,*** royalties, leases and bonus payments from the sale of mineral leaseholds.

*Alaska, however, receives a larger amount of Federal outlays than its citizens pay to the Federal Government in taxes. U.S. Department of Interior expenditures in Alaska were fourth highest among the states in 1979 and Federal defense is also a prime source of Alaskan income. In 1979, U.S. Department of Defense expenditures in Alaska were over \$1,500 per resident, three times the national average.

**The constitutionality of the oil and gas corporation income tax is under litigation but the companies continue to pay the tax under protest. An adverse court ruling could require repayment of more than \$1 billion. Furthermore, recent legislation has significantly reduced the future amounts that will be derived from this tax.

***Oil and gas severance taxes were raised in Fiscal 1982 according to a phased-in formula, and the severance tax was extended to other mineral production.

Table 5. Alaska General Fund Receipts and Expenditures, Fiscal 1977-81
(Millions of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81
Unrestricted Revenue	\$ 877	\$ 768	\$1,117	\$2,467	\$3,702
Taxes	752	542	799	1,411	2,293
Oil & Gas Corporate Income ^a	-	-	233	547	860
Oil & Gas Production	24	108	174	306	1,170
Petroleum Real Property	139	173	163	169	144
Oil & Gas Reserves	271	-	-	-	-
Individual Income	210	146	117	100	7 ^d
Other Corporate Income	36	34	25	18	39
Fuel	20	23	22	26	23
Fish	4	6	12	15	21
Other Taxes ^e	48	53	53	29	29
Natural Resource Revenues	45	139	207	339	1,150
Oil & Gas Royalties	34	127	188	306	1,118
Sale of State Land	2	2	8	4	4
Federal Shared Resource Revenues	1	4	4	5	9
Lease Rentals, Bonuses & Royalties	4	2	2	320 ^f	12
Other Natural Resource Revenues	3	3	4	4	6
Other Unrestricted Revenues	91	88	111	218	259
Interest Earned	37	43	59	147	154
Licenses & Permits	18	19	20	19	21
Transportation Fees	18	16	20	22	25
Other	8	10	13	10	59
Restricted Revenue	244	246	235	242	219
Federal Grants-in-Aid	230	233	220	224	201
Other Restricted Revenue	15	13	14	18	18
TOTAL GENERAL FUND REVENUE	1,122	1,014	1,352	2,709	3,921
INTERAGENCY RECEIPTS	65	59	74	72	153
NET TRANSFERS & ADJUSTMENTS	20	25	23	12	426
TOTAL GENERAL FUND NET RECEIPTS	1,206	1,099	1,448	2,793	4,500
Operating Expenditures (Current FY Appropriations)	778	853	983	1,126	3,129
Education	306	333	389	446	556
Social Services	90	101	114	131	167
Health	47	61	71	73	100
Natural Resources	59	63	68	83	118
Public Protection	20	25	26	29	36
Administration of Justice	67	71	80	85	101
Development	41	43	50	63	162
Transportation	97	96	113	130	152
General Government	51	61	71	86	1,737 ^g
Capital Expenditures (Current FY Appropriations)	190	192	178	249	1,370
Education	6	3	25	50	51
Social Services	1	negligible	1	2	6
Health	2	1	1	1	6
Natural Resources	5	4	8	18	42
Public Protection	negligible	negligible	3	2	3
Administration of Justice	1	1	1	1	9
Development	6	7	3	39	403
Transportation	135	147	104	82	172
General Government	34	18	28	55	677 ^h
TOTAL GENERAL FUND EXPENDITURES OF CURRENT FY APPROPRIATIONS	968	1,035	1,161	1,376	4,499
EXPENDITURES OF PRIOR FY APPROPRIATIONSⁱ	68	62	75	101	114
TOTAL GENERAL FUND EXPENDITURES	1,036	1,097	1,236	1,477	4,613
EXCESS (DEFICIENCY) OF RECEIPTS OVER EXPENDITURES	170	2	222	1,316	(113)

^aThe "separate accounting" formula for allocating production and pipeline income to Alaska has been modified effective January 1, 1982. Future revenues from this source are expected to be significantly reduced by the modification, but the reductions should be largely offset by 1981 legislation that increased the severance tax.

^bSeverance Tax.

^cTax on mineral reserves was eliminated after FY 1977.

^dIndividual income tax was repealed in September, 1980, and will not be a source of revenue after FY 1981.

^eIncludes Insurance Premium, Alcoholic Beverage Tax, Business License Tax, Cigarette Tax, School Tax and Other.

^fIncludes \$317 million Mineral Lease Bonus. In December, 1979, the State of Alaska and the United States held a joint oil and gas lease sale in the Beaufort Sea from which the State received a bonus payment of \$457 million for un-leased State lands. (Most of the \$140 million remainder was credited to the Alaska Permanent Fund.)

^gComprised of (a) the Permanent Fund deposit of 5900 million, (b) the payment to Alaska Housing Finance Corporation of \$550 million, (c) the refund of State income taxes previously withheld of \$162 million and (d) other expenditures of \$127 million. Items (a) and (b) are essentially capital investments despite the accounting classification.

^hIncludes \$292 million Native Claims Settlement final payment and the original Rainy Day Fund transfer of \$350 million.

ⁱPrior year appropriations may be encumbered during July and August but lapse on September 1. (Note: Sums may not equal totals due to rounding. "Negligible" means less than \$500,000.)

Source: State of Alaska Official Statement, February 26, 1982.

Table 6. Fiscal 1980 State Revenue Comparisons: Alaska and U.S. Average

	Alaska		U.S.	
	State	State & Localities	States	States & Localities
Revenue (\$Millions) ^a	3,230	3,846	276,962	451,537
Distribution by Source (%): ^b				
Federal Government	12%	11%	22%	18%
Property Tax	5	9	1	15
General Sales Tax	-	1	16	11
Motor Fuels Tax	1	1	4	3
Motor Vehicle License	negligible	negligible	2	.
Income Tax (Personal & Corporate)	21	17	18	
Other Tax ^c	18	15	9	
Fees	3	5	6	10
Interest	6	6	3	4
Insurance Trust Revenue	7	6	14	10
Liquor Store Revenue	-	negligible	1	1
Utility Revenue	-	1	negligible	5
Other ^d	28	26	2	3
Tax Revenue per capita ^e	\$3,590	\$4,184	\$ 605	\$ 987
Total Revenue per capita ^e	8,064	9,603	1,223	1,993
Tax Revenue per \$1000 personal income ^f	280	326	63	103
Total Revenue per \$1000 personal income ^f	629	749	128	209

^aIncludes employee retirement trust revenues and certain other revenues not included in Tables 4 and 5.

^bColumns may not sum to 100% due to rounding.

^cFor Alaska, includes the oil production (severance) tax (\$496 million in FY 1980).

^dFor Alaska, includes the oil production royalty (\$552 million in FY 1980) and the mineral leases bonus (\$340 million in FY 1980).

^eCalendar 1980 population.

^fCalendar 1980 personal income.

Source: U.S. Bureau of the Census, Governmental Finances 1979-80 (1981).

From Table 5 once again, it can be seen that the expenditure pattern for Fiscal 1981 was unusual. In that year, operating expenditures were augmented by a \$900 million transfer from the General Fund to the Permanent Fund, a mortgage portfolio transfer from the State Treasury and other large payments to the Alaska Housing Finance Corporation, and refunding of personal income taxes. Before 1981, the more normal distribution of General Fund current operating expenditures allocated roughly 40% to education, over 10% each to transportation and social services, and lesser amounts to the other program categories. On the capital expenditures side, well over half of the total went to transportation projects in the earlier years, with economic and natural resource development receiving increasing allocations during the 1980s. Fiscal 1981 capital expenditures were augmented by the Native Claims Settlement final payment (pursuant to the Alaska Native Claims Settlement Act of 1971) and the establishment of a Rainy Day Fund within the General Fund as a contingency reserve for emergencies.*

Transportation is a particularly significant budget item in Alaska because of the State's extended expanse, formidable terrain, and wide dispersion of its population. Alaska has only 2,100 miles of paved highway and approximately 600 miles of railroad track.** Far and away the most important means of transportation in Alaska is the airplane, an expensive but essential mode of travel. Airports serve not only the resident population but also the international traffic that passes over the polar routes between Europe or North America and the Orient with refueling stops at Fairbanks or Anchorage. Second in importance to air transport is shipping; construction and maintenance of port and harbor facilities also comprise large items in the Alaska State budget.

In July, 1981, a special session of the Alaska State Legislature passed a joint resolution proposing a constitutional amendment to limit annual State appropriations to not more than \$2.5 billion, with formula adjustments for increases in population and inflation.*** The limit may be exceeded, subject to voter approval, for appropriations to the Permanent Fund and for capital outlays. The amendment will be submitted to the voters in November, 1982, to be effective in Fiscal 1984, and must be reaffirmed by referendum in November, 1986, for permanent ratification.

*Of the \$340 million currently in the Rainy Day Fund, \$5 million apiece may be transferred annually, without further legislative appropriation, to the Disaster Relief Fund and the Fire Suppression Fund.

**The principal highway system consists of two widely separated routes between Anchorage and Fairbanks. The Federally-owned Alaska Railroad also runs through Anchorage to Fairbanks, and another railroad runs from Skagway in the Southeast into British Columbia.

***Certain expenditures, including General Obligation bond debt service and appropriations of revenue bond proceeds, are exempted from the ceiling.

Table 7 compares Fiscal 1980 Alaskan expenditures and their programmatic distribution with the U.S. state averages for that year. Per capita State expenditures in Alaska were four and a half times as large as the U.S. state average in 1980, and local Alaskan governmental expenditures were more than twice the average. Higher than average proportions of the Alaska State budget were spent on education, environment and general administration, while lower than average proportions (but not per capita dollar amounts) were allocated to welfare payments and transfers to local governments. Above all, the distribution of Alaskan State expenditures was strongly tilted toward capital outlays, as may be expected in an underdeveloped land experiencing rapid economic growth.

Table 7. Fiscal 1980 State Expenditure Comparisons: Alaska and U.S. Average^a

	Alaska		U.S.	
	State	State & Localities	States	States & Localities
Total Expenditure (\$Millions)	2,033	2,723	257,812	434,073
Distribution by Function (%) ^b				
To Federal Government	^c	^c	1%	^c
To Local Government	17%	-	32	-
Education	18	27%	14	31%
Public Welfare	6	4	13	11
Health & Hospitals	2	2	6	7
Other Social Services	1	1	1	1
Highways	9	8	8	8
Other Transportation	3	2	^c	1
Public Safety	3	5	3	6
Environment & Sanitation	6	7	^c	6
Housing & Urban Renewal	1	2	^c	1
Governmental Administration	6	7	3	4
Interest on General Debt	4	8	3	3
Insurance Trust Expenditure	5	4	10	7
Liquor Store Expenditure	-	^c	1	1
Utility Expenditure	-	4 ^d	1	8
Other	21 ^d	19 ^d	3	5
Expenditure per capita ^e	\$5,058	\$6,776	\$1,138	\$1,916

^aIncludes certain expenditures not included in Tables 4 and 5.

^bColumns may not sum to 100% due to rounding.

^cNegligible.

^dFor Alaska, "Other Expenditures" are primarily direct capital outlays.

^eCalendar 1980 population.

Source: U.S. Bureau of the Census, Governmental Finances 1979-80 (1981).

DEBT

The large amount of general revenue appropriated for capital expenditures in Alaska has been additional to conventional capital financing through bond issuance.

Since Statehood was achieved in 1957, Alaska has issued \$1.13 billion in General Obligation bonds.* Of the \$810 million issued during the past ten years, 42% has been for transportation projects and 29% for schools (including the University of Alaska).

Table 8. Functional Distribution of General Obligation Bonds Issued Since 1972^a
(Thousands of Dollars)

Transportation ^b	\$343,211
Schools (incl. Univ. of Alaska)	235,835
Natural Resource Management & Parks	77,965
Water & Sewer	70,890
Health & Housing	43,515
Fire Protection & Correctional Facilities	<u>38,214</u>
Total	\$809,630

^aIncluding \$200,000,000 issue dated April 1, 1982.

^bIncludes airports, highways, roads, ferries, flood control structures, port facilities and small boat landings.

Sources: State of Alaska, Annual Financial Report (Fiscal 1981) and Official Statement, February 26, 1982.

State agency issues outstanding during the past three years are itemized in Table 9.** All of the agency issues are self-supporting except for the State Housing Authority Lease Revenue Bonds, for which debt service is paid entirely from State rental appropriations, and the University of Alaska Revenue Bonds, some of which are nominally serviced from student fees and charges but which are also supported by State appropriations for general operations of the University.

*Including the most recent \$200 million G.O. bond dated April 1, 1982.

**"Stand-alone" issues of the Alaska Industrial Development Authority, bonds issued by the Alaska State Housing Authority for housing and urban renewal projects, and certain other agency bond issues are not included in Table 9. See Table 9 footnotes for details.

Table 9. State of Alaska State-Related Bonds Outstanding FY 1980-FY 1982^a
(Thousands of Dollars)

	June 30, 1980	June 30, 1981	April 30, 1982	Projected June 30, 1982
General Obligation	\$631,723	\$701,178	\$846,783 ^b	\$842,413
International Airports Revenue Bonds ^c	29,460	28,270	27,059	26,985
Alaska State Housing Authority Lease Revenue Bonds ^d	78,550	73,015	67,125	67,125
University of Alaska Revenue Bonds ^e	22,251	21,363	20,360	20,305 ^a
Alaska Housing Finance Corp.	618,065	1,220,240	1,763,570	1,902,975
Alaska Municipal Bond Bank Authority	48,478	63,832	124,804 ^g	122,189
Alaska Industrial Development Authority ^h	-	17,640	74,900	74,900
Alaska Medical Facility Authority	12,000	11,715	11,410	11,410 ⁱ
Alaska Power Authority	35,000	35,000	85,000	85,000 ^j
Total	\$1,475,527	\$2,172,253	\$3,021,011	\$3,153,302

^aState of Alaska fiscal year ends June 30.

^bIncludes \$200,000,000 issue dated April 1, 1982. No further G.O. issues are expected during FY 1982.

^cPayable solely from gross revenues of the Anchorage and Fairbanks International Airports. Of the amount currently outstanding, \$8.7 million remains in escrow exclusively for the benefit of the Series E Revenue Bonds.

^dLease Revenue Bonds of the Alaska State Housing Authority are serviced through annual lease rental appropriations by the State. Proceeds of these bonds are used to construct or purchase public buildings which are operated and maintained by the State as tenant. Title to the properties passes to the State as the bonds mature. Legal authority for the issuance of additional State lease rental debt, however, has been repealed and further issuance is dependent upon subsequent enabling legislation. In addition to Lease Revenue Bonds, ASHA issues revenue bonds for low and middle income housing and urban renewal projects, none of which are obligations of the State.

^eAs of June 30, 1982, University of Alaska Revenue Bonds will be distributed among specific programs as follows:

Anchorage Campus Student Center	\$4,680,000
Anchorage Energy Utility System	665,000
Fairbanks Campus Housing	8,010,000
University of Alaska Heating Corporation	6,950,000

Debt service on these bonds may be paid from appropriations by the State to the University for general operating purposes. In addition to the above issues, the University also has outstanding \$2,077,632 in FHA-insured notes, the proceeds of which were used to construct faculty/student housing that is self-supporting.

^fState appropriations to the AHFC totalled \$828 million in FY81 and 82. These appropriations included pledged coverage of two special mandatory redemptions necessitated by withdrawal of Federal tax-exempt status of the bond issues consequent to passage of the Mortgage Guaranty Bond Tax Act of 1980 (the "Ullman Bill") by the U.S. Congress. The remainder of the appropriated amount was authorized for overcollateralization of certain AHFC bond issues in order to allow the purchase of residential mortgages at below market interest rates. In addition to this assistance, the State has debt service reserve and insurance fund deficiency make-up arrangements for several AHFC issues. These arrangements, however, have never been utilized. The AHFC is authorized to issue up to \$592 million additional bonds during FY 1982 and a like amount each year thereafter until superceded by further legislation.

^gIncludes \$26.4 million Coastal Energy Impact Program Bonds sold to the U.S. Department of Commerce, proceeds of which are loaned to Alaskan municipalities in conformity with the Federal Coastal Zone Management Act of 1972. (The entire amount has been committed, but only \$19.2 million has thus far been disbursed by the U.S. Treasury.) Total outstanding indebtedness of the Alaska Municipal Bond Bank may not exceed \$150 million, as prescribed by the bank's original authorizing legislation.

^hOnly includes general obligations of AIDA ("Umbrella Program" bond issues). In addition, since its inception in 1967, AIDA has financed 15 "stand-alone" projects under its Revenue Bond Program, aggregating \$120.5 million in low-cost loans to private Alaskan companies. As of August 31, 1981, AIDA's loan portfolio had a total unamortized principal balance of \$142.1 million. In FY 1981, the State legislature appropriated to AIDA an additional portfolio of \$166 million in small business loans previously held by the State Treasury. AIDA is authorized to issue up to \$400 million additional bonds each year until superceded by further legislation. The Medical Facility Authority may issue up to \$52 million additional bonds or bond anticipation notes during the remainder of FY 1982 or during FY 1983, but as of the date of this report issuance plans are not yet firm. Legislation in July, 1981, appropriated this sum to the Alaska Department of Revenue to form a special bond guarantee account to secure such bonds and any unused portion of the appropriation lapses back to the General Fund after June 30, 1983.

^jThe Power Authority issued \$35 million G.O. bonds to finance the Swan Lake hydroelectric project and \$50 million variable rate demand notes towards financing the Lake Iyee hydroelectric project. A further bond issue of up to \$120 million may possibly be forthcoming before the end of FY 1982, for completion of the Terror Lake project on Kodiak Island.

Sources: State of Alaska, Annual Financial Report, various dates; State and agency official statements, various dates; and private communication with State and agency officials.

Compared to other states, Alaskan debt per capita is extremely high. Combined State and local debt is equal to almost four-fifths of the personal income of Alaskan residents; tax-supported State debt alone is close to one-fifth of personal income. However, these measures of ability to pay are irrelevant for Alaska, at least at present, since almost all State revenues are derived directly from minerals production and processing.

Table 10. Long-Term Debt Comparisons, FY 1980

	Alaska		U.S. State Average	
	Per Capita	Percent of Personal Income	Per Capita	Percent of Personal Income
Total State Debt ^a	\$3,844	30.1%	\$ 529 ^b	5.6%
Total State & Local Debt:	20,090	78.6	1,424	15.0
State G.O. Debt:	1,372	12.3	218	2.3
Net Tax-Supported State Debt (1982) ^b	2,314	18.1	203 ^c	2.5

^aG.O. and agency debt.

^bState G.O. bonds, Alaska State Housing Authority lease revenue bonds and University of Alaska revenue bonds.

^cMoody's state median.

Sources: U.S. Bureau of the Census, Governmental Finances 1979-80 (1981) and Table 8, above.

As a proportion of total State revenue, debt service requirements in Fiscal 1981 dropped to an all-time low of 2.3% (Table 11). Prior to 1980 the relationship of debt service to revenue ranged between 4% and 10%. Oil price decontrol coupled with the enormous rise in production that accompanied the commissioning of the Trans Alaska Pipeline greatly enhanced revenues relative to debt, but recent weakening of petroleum prices -- not a slack in Alaskan oil output -- may cause this debt ratio to rise.

Table 11. Debt Service As Percent of Total Revenues, FY 1979 - FY 1983

	FY 79	FY 80	FY 81	FY 82 ^a	FY 83 ^a
Debt Service (\$Millions)	\$ 58.9	\$ 76.2	\$ 97.7	\$102.4	\$141.7
Total Revenues (\$Millions)	1497	2929	4232	4336	4134
Debt Service as % of Revenue	3.9%	2.6%	2.3%	2.4%	3.4%

^aEstimates provided in the Alaska Executive Budget Fiscal 1983.

Sources: State of Alaska Annual Financial Report (Fiscal Years 1980 and 1981) and Alaska Executive Budget Fiscal 1983.

With continued prudent investment of Permanent Fund assets, constitutional constraints on State expenditures, and the established pattern of transferring money from the General Fund to the Permanent Fund when oil prices are high, prospects for prolonged Alaskan fiscal stability appear to be good. General Obligation bond maturities are timed to match projected depletion of current petroleum sources, and by that time new petroleum and non-petroleum mineral resources are likely to have been developed. The only small cloud on the horizon is the possibility that both interest rates and oil prices might fall in the near term -- both events devoutly hoped for in the Lower 48 -- in which case Alaskan Permanent Fund earnings* and General Fund Revenues would be simultaneously depressed.

*The Permanent Fund is heavily invested in short term securities, which minimizes the potential for capital gains as interest rates fall.

Bache
Bache Halsey Stuart Shields Incorporated

IF WE DON'T BEGIN TO ADDRESS THE ISSUES OF OUR LONG-TERM NEEDS AND OUR EVER-INCREASING BONDED INDEBTEDNESS, WE WILL NOT NEED TO WORRY ABOUT CONTROLLING CRIME ; PROVIDING BETTER ROADS OR MANY OTHER ISSUES AND SOCIAL PROGRAMS WE SPEAK ABOUT TODAY. WE WILL NOT HAVE TO WORRY ABOUT IT, BECAUSE WE WILL HAVE LOST THE ABILITY AND THE REVENUES TO DO SOMETHING ABOUT IT. THE LEGACY WE ARE PROVIDING OUR CHILDREN ^{IS} ~~WILL BE~~ A RE-INSTALEMENT OF STATE TAXES TO AN EXTENT THAT OUR OWN PAST TAXES WILL BE INSIGNIFICANT IN COMPARISON.

THE TOTAL BONDED DEBT OF THE STATE OF ALASKA AND ITS AGENCIES IN 1981, WAS OVER 2 BILLION DOLLARS. THE INTEREST WE WILL ULTIMATELY PAY ON THE MATURITY OF THIS DEBT WILL AMOUNT TO ANOTHER 2.5 BILLION DOLLARS. AND YET WE CONTINUE TO INVEST IN PROJECTS AND FACILITIES WHICH SERVE THE IMMEDIATE NEEDS OF ^{OUR} CONSTITUENTS WITHOUT PROVIDING A FIRM BASE FOR SUSTAINED GROWTH. WE HAVE GRABBED FOR THE IMMEDIATE GRATIFICATION WHILE PLUNGING OURSELVES AND OUR CHILDREN INTO LONG-TERM DEBT.

SOMEONE WILL HAVE TO PAY THE PIPER.

- more -

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

(m) Certificates of deposit or the equivalent instruments which are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) — (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued satisfaction of the requirements set out in this subsection. (§ 5 ch 18 SLA 1980; am §§ 5 — 7 ch 81 SLA 1982)

Effect of amendments. — The 1982 amendment, effective July 1, 1982, in subsection (g), substituted "contained in this section" for "in (h) and (i) of this section" and inserted "at such competitive national market rates or prices as are applicable to each investment only" in the introductory language, rewrote paragraphs (3) — (11) and (16), substituted "Federal Veterans Administration" for "Federal Veterans Association" in paragraph (13), and added paragraphs (17) — (20). The amendment also rewrote subsection (i) and added subsection (m).

Editor's notes. — Section 9, ch. 18, SLA 1980 provides: "TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this act after request for transfer is made by the board of trustees of the corporation. Notwithstanding AS 37.10.065(a) [now repealed], the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i)."

Sec. 37.13.130. Gains and losses.

Repealed by § 13 ch 81 SLA 1982, effective July 1, 1982.

Editor's notes. — The repealed section derived from § 5, ch. 18, SLA 1980.

Sec. 37.13.140. Income. Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145. (§ 5 ch 18 SLA 1980; am § 8 ch 81 SLA 1982)

Effect of amendments. — The 1982 amendment, effective July 1, 1982, rewrote this section.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 19, 1982

MEMORANDUM

TO: Representative Mitch Ahoon

FROM: David Teal
Research Staff

RE: Bonded Indebtedness
Research Request Number 82-17

This memorandum addresses your questions pertaining to the extent of Alaska's bonded indebtedness and ways of reducing that debt. We have requested additional information on this topic and will update this preliminary response when the information is received.

Outstanding Debt

Total State bonds outstanding as of June 30, 1981 were \$2.128 billion. This total includes general obligation bonds, revenue bonds, and agency obligations. The Annual Financial Report for fiscal year 1981 contains a detailed account (reproduced in part as an attachment to this memorandum) of outstanding debt. Another recent publication of the Department of Administration, Bonded Debt and Debt Service, also contains much information on this subject. Carol Horos has both of these publications so this memorandum presents only a brief summary of State debt.

General Obligation Bonds. As of June 30, 1981, the State of Alaska had \$701.1 million in general obligation bonds outstanding. No new bonds have been authorized or issued since that date, but \$200 million in bond anticipation notes were issued on December 16, 1981. Notes are generally issued prior to a bond issue and proceeds from the bond issue are used to repurchase the notes. The notes in question are due April 16, 1982. Bonds are expected to be issued on April 1.

Revenue Bonds. In addition to general obligation bonds, the State has issued bonds secured by a pledge of gross revenues derived from the operation of the international airports at Anchorage and Fairbanks. The interest and principal on these bonds is to be paid from airport operating revenues. Current outstanding balance of revenue bonds is \$19 million.

Agency Obligations. A number of agencies have a legal existence independent of the State and have the authority to issue bonds of their own. The Alaska Housing Finance Corporation had issued \$1.22 billion (87 percent) of the total \$1.408 billion in agency bonds outstanding on June 30, 1981. Other agencies with bonded debt are listed in an attachment to this memorandum. Bonds of these agencies are self-liquidating. That is, both principal and interest are payable from earnings derived from user charges.

Both the Alaska Housing Finance Corporation (AHFC) and the Alaska Industrial Development Authority (AIDA) have issued bonds since June 30, 1981 and both agencies have plans for future bond issues. The AHFC now has \$1.722 million outstanding and recently postponed a \$60 million issue due to market conditions. The AHFC has a specialist on contract to determine bonding policy. The AIDA has issued an additional \$57 million of debt and now has \$74 million outstanding. The AIDA is beginning the process for an additional issue, but the amount and date have not been set.

Both agencies said that there is no formal coordination of bond issues, but stated that informal communication and coordination does occur. To the best of my knowledge, other agencies have not issued additional debt since June 30, 1981 and have no plans to issue debt in the near future.

Reduction of Debt.

As discussed with Carol Horos, the National Conference of State Legislatures (NCSL) recently held a conference on bonding. Ken Kirkland, of the NCSL, will send us a copy of the proceedings of that conference as soon as the report is printed. We will forward the report to you when it is received.

Mr. Kirkland mentioned that most states appear to be attempting to increase, not reduce, bonded indebtedness. He provided the names of four states which he felt might aid our research on ways to reduce debt. Deb Pomeroy contacted those states to determine what actions had been taken. Her summary of discussions with personnel in the four states follows.

Oregon. A law passed in 1981 requires the Governor to recommend biennial maximum general obligation bonding levels and requires the Legislature to determine maximum bonding levels for each program for each fiscal year. According to a report prepared by the the Governor's Bonded Debt Advisory Panel, the law was proposed primarily in response to a market saturation problem which was increasing the cost of borrowing. A copy of the Oregon law is attached to this memorandum and the report of the advisory panel is enclosed.

New Jersey. The State Constitution requires that 1) all bond issues be approved by voters; 2) bonds be authorized for a single project with specific objectives delineated; and 3) the ways and means of repaying the bonded debt be specified. The third requirement is usually met by designating certain tax revenues as the means of repayment. Because the State limits the amount of increase in both state and local income taxes, the level of bonded indebtedness is limited in an indirect manner. As an aside, the State also controls the bonding powers of municipalities and state agencies. Additional detail is being sent to this agency and will be forwarded to you when it is received.

Maryland. The Maryland Legislature created a Capital Debt Affordability Committee consisting of personnel from various state agencies. The Committee considers revenue projections and current debt levels and recommends a limit on bond issues for the upcoming year. The legislature has so far followed the recommendations of the Committee.

Maryland is considering two other options which are briefly described below. The report by the Capital Debt Affordability Committee discusses these options in detail. A copy has been requested and will be forwarded to you upon receipt.

- 1) Surplus funds will be used to reduce debt by cancelling bond issues and paying cash for capital projects or by depositing surplus cash in the annuity fund to pay off outstanding debt.
- 2) Bonded debt will be eliminated by gradually shifting to a "pay as you go" basis over the next 15 years. (Fifteen years is the maturity of Maryland bonds.) Currently, appropriations to retire debt are roughly equivalent to authorization for new debt. By appropriating an additional 1/15 of this amount each year, bonded debt would be eliminated in 15 years.

Massachusetts. Massachusetts has not imposed limits on bonded debt nor do they intend to take specific action to limit future bond issues. The State is simply attempting to remove authorized but unissued bonds from the books.

The options discussed above appear to be feasible means of reducing bonded indebtedness in Alaska. If you have any questions about the material in this memorandum, please feel free to call.

Attachments
Enclosure

STATE OF ALASKA

At the general election held on November 4, 1980, the people authorized \$289.7 million of new bond issues. The total of \$289.7 million was the largest amount authorized in any year since Alaska became a State in 1959.

On July 1, 1980 the State issued \$125.0 million of general obligation bonds. This was, by far, the largest single issue of general obligation bonds in the history of Alaska. The bonds bear an effective interest rate of 5.76% and, in keeping with current policy on the life of new issues, mature serially from July 1, 1981 to July 1, 1990 with an average life of 5.5 years. The practical effect of current policy on the life of new issues is that when proven reserves of oil are exhausted, the State will be debt-free.

In addition to general obligation bonds, the State has issued bonds secured by a pledge of gross revenues derived from the operations of the international airports at Anchorage and Fairbanks. Also, a number of agencies that have a legal existence independent of the State have issued their own obligations. Bonds of these agencies are self-liquidating — principal and interest are payable from earnings derived from user charges.

The following schedule is a summary of outstanding State and agency obligations as of June 30, 1981.

<u>Type of Bonds</u>	<u>Bonds Outstanding (Millions)</u>	<u>Interest to Maturity on O/S Bonds (Millions)</u>	<u>Total Debt Service to Maturity (Millions)</u>
State General Obligation Bonds	\$ 701.1	\$ 268.5	\$ 969.6
State International Airports Revenue Bonds	19.0	11.7	30.7
Bonds of State Agencies			
Alaska Housing Finance Corporation	\$1,220.2	\$2,102.9	\$3,323.1
Municipal Bond Book Authority	63.8	52.3	116.1
Alaska State Housing Authority	73.0	26.1	99.1
Alaska Industrial Development Authority	17.6	26.4	44.0
University of Alaska	21.4	14.4	35.8
Other	11.8	11.8	23.6
Total, State Agencies	\$1,407.8	\$2,233.9	\$3,641.7
Total, All Bonds	\$2,128.0	\$2,514.0	\$4,642.0

Source; Alaska Annual Financial Report for fiscal year 1981

B-Engrossed

House Bill 3146

Ordered by the Senate July 3
(Including Amendments by House May 19
and by Senate June 24 and July 3)

Sponsored by COMMITTEE ON HOUSING AND URBAN DEVELOPMENT (at the request of Governor's Bonded Debt Advisory Panel)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure.

Requires Governor to recommend biennial maximum general obligation bonding level. Requires Governor to allocate maximum bonding level among programs financed by bonds. Requires Governor to submit recommendation and Governor's allocation to Legislative Assembly with Governor's budget. Requires Legislative Assembly to determine maximum bonding level for each program for each fiscal year.

Requires state agency authorized to issue general obligation bonds to report to Governor biennially on agency plans for issuing bonded indebtedness.

Sets amounts allocated for general obligation bonds that may be issued during the 1981-1983 biennium. Sets total maximum for all state agencies at \$1,898,200,000.

Allows Emergency Board to modify authorized bond issuance amounts within program designation, between program designation or as to the total amount of general obligation bonds authorized by Legislative Assembly for the biennium.

Exempts refunding bonds from provisions of Act.

Prohibits interest rate increase above 6.9 percent for veterans' loans granted on or after May 27, 1971, with interest rate originally set at 5.9 percent. Prohibits interest rate increase above 8.2 percent for veterans' loans granted after January 1, 1981, with original rate of 7.2 percent. Prohibits interest rate increase above 8.9 percent for veterans' loans, for acquisition of a mobile home or house boat, granted after May 27, 1971, with original rate of 7.9 percent. Allows Director of Veterans' Affairs to fix variable interest rates at rate greater than specified limits to extent necessary to avoid invoking certain constitutional provisions.

Requires director to reserve amount of requested loan in Oregon War Veterans' Fund [*before notifying applicant of loan approval and*] before making a loan commitment.

Declares emergency, effective July 1, 1981.

A BILL FOR AN ACT

1
2 Relating to bonds; creating new provisions; amending ORS 407.012; and declaring an emergency.

3 Be It Enacted by the People of the State of Oregon:

4 SECTION 1. The Legislative Assembly finds that incurring of state debt by sale of bonds should be
5 subjected to the same process of executive recommendations and legislative approval as the process by which
6 the state biennial budget is recommended and approved.

7 SECTION 2. (1) The Governor shall recommend to the Legislative Assembly for each biennium, beginning
8 July 1, 1983, by fiscal year, the total maximum bonding level for all state programs for which general obligation
9 bonds are authorized. In making the recommendations, the Governor shall seek the advice of the Oregon
10 Investment Council on the total maximum bonding level for each biennium by fiscal year. The council's advice
11 shall be given at a time requested by the Governor and shall be based on the council's review of available
12 economic and financial data for the state. After reviewing the council's advice, the Governor shall present the
13 total maximum bonding level for each program to the Legislative Assembly as part of the Governor's budget
14 along with the figures advised by the council. The Legislative Assembly shall then determine the maximum
15 bonding level for each program for each fiscal year.

NOTE: Matter in bold face in an amended section is new; matter [*italic and bracketed*] is existing law to be omitted; complete new sections begin with SECTION.

(2) For biennia beginning on and after July 1, 1983, each state agency authorized to issue general obligation bonds shall report to the Governor biennially on a date determined by the Governor on agency plans for issuing bonded indebtedness during the coming biennium. The agency shall include any knowledge it has on refunding outstanding indebtedness during the following biennium or thereafter.

SECTION 3. For the 1981-1983 biennium, the following amounts are allocated for general obligation bonds of this state that may be issued during the biennium as follows:

Program Designation	<u>1981-82</u>	<u>1982-83</u>	<u>1981-83</u>
<u>GENERAL OBLIGATION BONDS</u>			
<u>General Fund Obligations</u>			
Forestry Dept. (Art. XI-E)	\$ 0	\$ 0	\$ 0
Dept. of Higher Education			
(Art. XI-G)	0	0	0
Dept. of Education (Art. XI-G)	0	0	0
Power Development Bonds			
(Art. XI-D)	0	0	0
Dept. of Environmental Quality			
(Art. XI-H)	20,000,000	30,000,000	50,000,000
Correctional Facilities	--	75,000,000	75,000,000
<u>Dedicated Fund Obligations</u>			
Dept. of Veterans' Affairs			
(Art. XI-E)	750,000,000	800,000,000	1,550,000,000
Dept. of Higher Education			
(Art. XI-F(1))	28,610,000	28,610,000	57,220,000
Highway Division (Art. XI(7))	--	--	--
Dept. of Commerce, Housing			
Division (Art. XI-I)	30,000,000	30,000,000	60,000,000
Water Resources Dept.			
(Art. XI-I)	12,000,000	14,000,000	26,000,000
Dept. of Energy (Art. XI-J)	<u>35,000,000</u>	<u>45,000,000</u>	<u>80,000,000</u>
Total General			
Obligation Bonds	\$875,610,000	\$1,022,610,000	\$1,898,220,000

SECTION 4. (1) The bond issuance amounts authorized by this Act may be modified by the Emergency Board within program designation, between program designation or as to the total amount of general obligation bonds authorized by the Legislative Assembly for the biennium.

(2) Nothing in this Act applies to refunding bonds authorized or required under any state general obligation bond program.

1 (3) The provisions of section 3 of this Act relating to bonds issued under Article XI-G of the Oregon
2 Constitution are controlling over any greater amount that may be appropriated therefor except as the amount
3 set forth in section 3 of this Act is subject to modification under this section.

4 Section 5. ORS 407.072 is amended to read:

5 407.072. (1) The director, with the advice of the committee, will periodically, during the term of the loan,
6 fix the variable interest rates to be paid by the applicant, taking into consideration the current value of the
7 money, the solvency of the loan program, and the rates' effect on veterans. If the director, after considering
8 the factors specified in this section, determines that there is an economic need for a higher rate of interest on
9 loans made for the acquisition of mobile homes and houseboats, the director shall fix the rate of interest for the
10 acquisition of a mobile home or houseboat at not higher than two percent more per annum than the basic rate
11 established by this section.

12 (2) Except as provided in subsection (3) of this section:

13 (a) The rate of interest on loans granted on or after May 27, 1971, and originally set at five and nine-tenths
14 percent per annum shall not be increased to more than six and nine-tenths percent per annum.

15 (b) The rate of interest on loans granted on or after January 1, 1981, and originally set at seven and two-tenths
16 percent per annum shall not be increased to more than eight and two-tenths percent per annum.

17 (c) The rate of interest on a loan granted on or after May 27, 1971, for the acquisition of a mobile home or
18 houseboat originally set at seven and nine-tenths percent per annum shall not be increased to more than eight and
19 nine-tenths percent per annum.

20 (3) The director may fix the variable interest rates to be paid by the applicant at a rate greater than the rates
21 described in subsection (2) of this section, but only to the extent necessary to avoid invoking the provisions of
22 section 4, Article XI-A of the Oregon Constitution.

23 SECTION 6. Section 7 of this Act is added to and made a part of ORS 407.010 to 407.210.

24 SECTION 7. (1) When the director determines that an applicant's loan may be approved in accordance with
25 ORS 407.010 to 407.210, the director, before making a loan commitment, shall reserve an amount of money in
26 the Oregon War Veterans' Fund equal to the amount requested by the applicant to be used only for payment to
27 the applicant which shall be set aside in the Direct Commitment Reserve Account.

28 (2) Moneys in the Oregon War Veterans' Fund Direct Commitment Reserve Account shall be reserved as
29 loan proceeds for an applicant under subsection (1) of this section and shall not be used for any other purpose
30 unless the applicant cancels the application for the loan prior to receipt of the loan proceeds.

31 SECTION 8. This Act being necessary for the immediate preservation of the public peace, health and
32 safety, an emergency is declared to exist, and this Act takes effect July 1, 1981.

LAST YEAR, THE COST OF OUR DEBT SERVICE, WHICH IS THE PAYMENTS FOR PRINCIPAL AND INTEREST, AMOUNTED TO 97.6 MILLION DOLLARS. THIS IS THE SUM WE PAY TO REDUCE OUR BONDED DEBT. EVERY YEAR, A PERCENTAGE OF OUR GENERAL UNRESTRICTED REVENUE GOES TO HELP PAY OFF OUR DEBT SERVICE. AND EVERY YEAR THAT PERCENTAGE GETS SMALLER. IN 1975, 9% OF OUR REVENUES WENT TOWARDS RETIRING OUR BONDED INDEBTEDNESS. LAST YEAR, WE ONLY TARGETED 2.6% OF OUR WEALTH TO PAY OFF OUR DEBT.

WE SPENT 97.6 MILLION TO HELP RETIRE OUR DEBT, WHILE ^{selling} ~~SPENDING~~ 289 MILLION IN NEW BONDS IN THE SAME YEAR, TO BRING US INTO EVEN GREATER DEBT.

THE QUESTION IS -- DO WE STOP IT, BEFORE IT STOPS US?



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 23, 1982

MEMORANDUM

TO: Representative Terry Gardiner

FROM: David Teal *Teal*
Research Staff

RE: General Obligation Bonds
Research Request Number 82-74

Clifford Groh submitted a request on your behalf for a graph showing real per capita growth in general obligation bonds issued by the state of Alaska. After a brief discussion with Cliff, the request was expanded to include several graphs.

All five of the enclosed graphs are on a per capita basis and show money values in 1970 dollars. The Anchorage consumer price index (CPI) was used to convert nominal dollar values to 1970 dollars. The CPI and statewide population for each year are shown in the table below. A brief explanation of each graph follows the table.

<u>Fiscal Year</u>	<u>Anchorage CPI</u>	<u>Statewide Population</u>
1970	107.3	302,580
1971	111.5	311,200
1972	114.4	324,000
1973	116.9	330,000
1974	123.8	344,000
1975	140.0	383,100
1976	157.4	410,700
1977	167.6	413,100
1978	177.3	403,100
1979	194.8	400,600
1980	211.8	401,850
1981	232.0	422,200

Source: Alaska Department of Labor, Research and Analysis 3/82

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Representative Gardiner
March 23, 1982
Page 3

Graph 4: General Obligation Bonds Outstanding. Real per capita bonded indebtedness increased steadily (except for slight declines in 1974 and 1976) throughout the 1970's. A decline in population during 1978 and 1979 was part of the reason for the per capita increase in the 1970 dollar value of bonds outstanding during those years. Population increases during 1980 and 1981 are partially responsible for the decline in real per capita bonded debt during the past two years. The 1970 dollar value of bonded debt was \$768 per capita in 1981.

Graph 5: Debt Servicing Costs of Outstanding General Obligation Bonds Issued by the State of Alaska. Graph 5 shows the amount each Alaskan would have paid (in 1970 dollars) in order to retire all general obligation bonds outstanding in each year. As noted in the description of graph 2, all coupon payments are attributed to the year of bond issue so the amount is somewhat overstated.

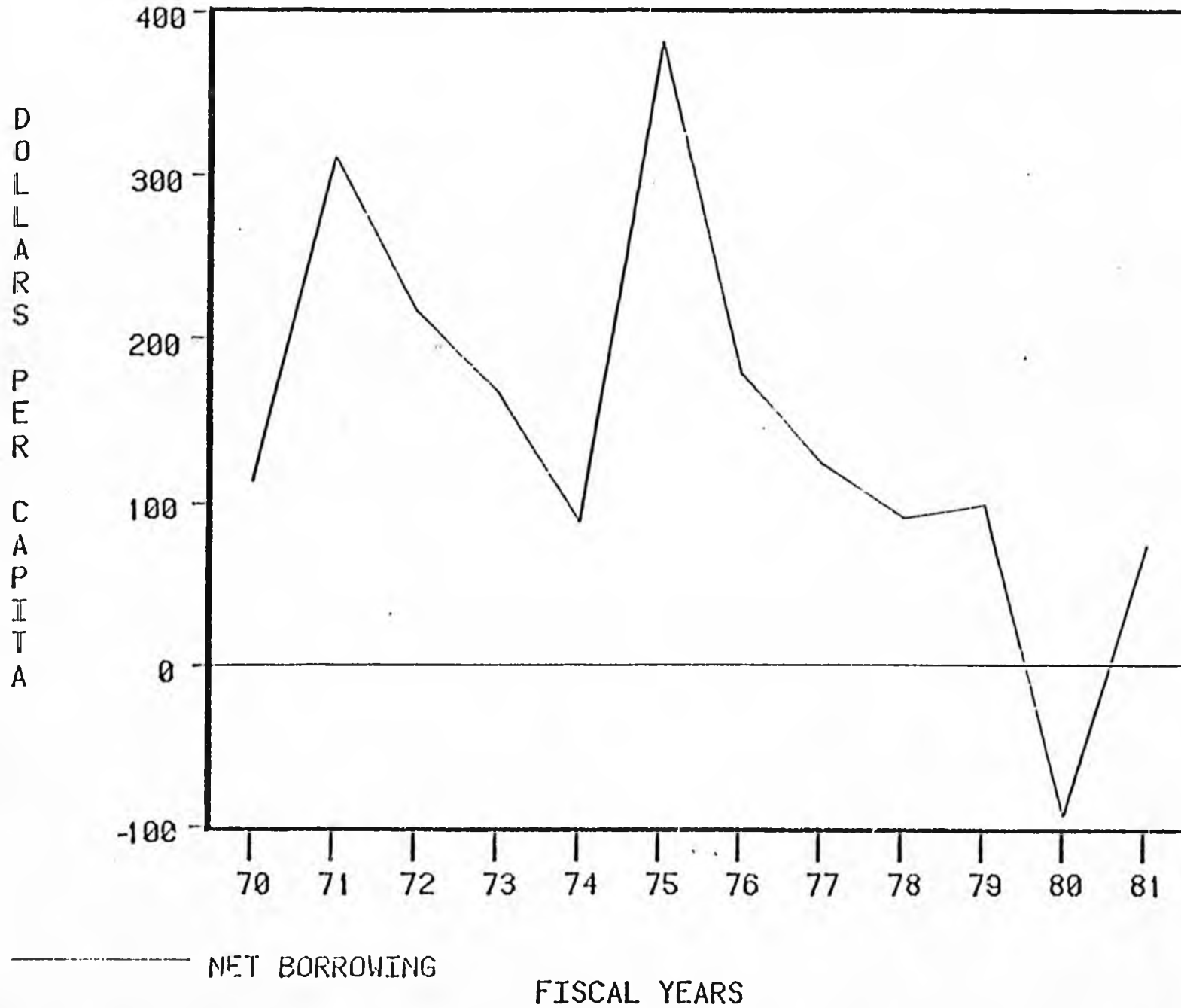
* * *

As discussed with Cliff, the most useful presentation of a set of numbers depends to a large extent on the intended use of the data. I would be happy to discuss the above data or its presentation at your convenience.

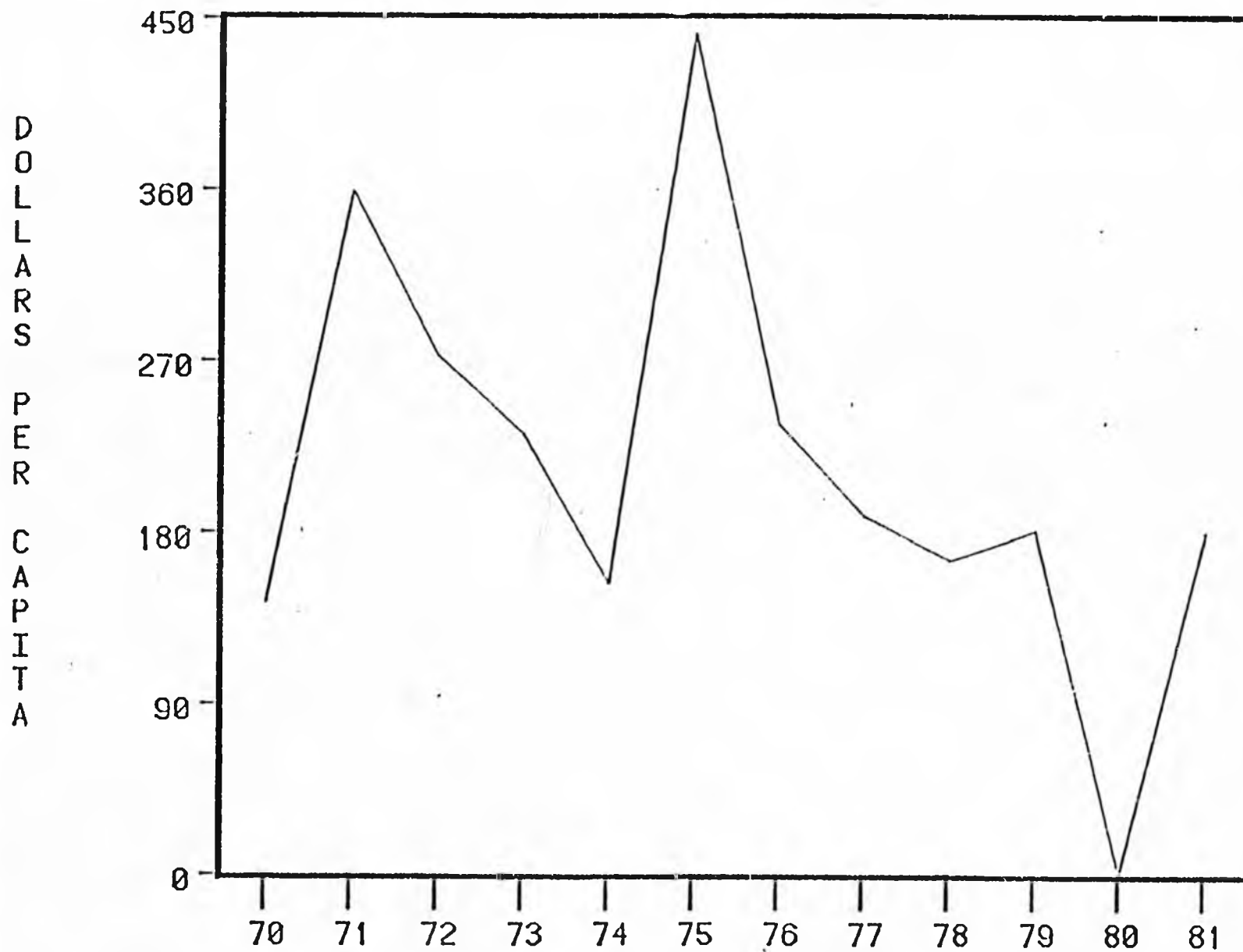
Enclosures

GRAPH 3

DEBT SERVICE ON G.O. BONDS ISSUED LESS REPAYMENTS OF MATURE ISSUES
PER CAPITA IN 1970 DOLLARS



DEBT SERVICING COSTS FOR G.O. BONDS, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS

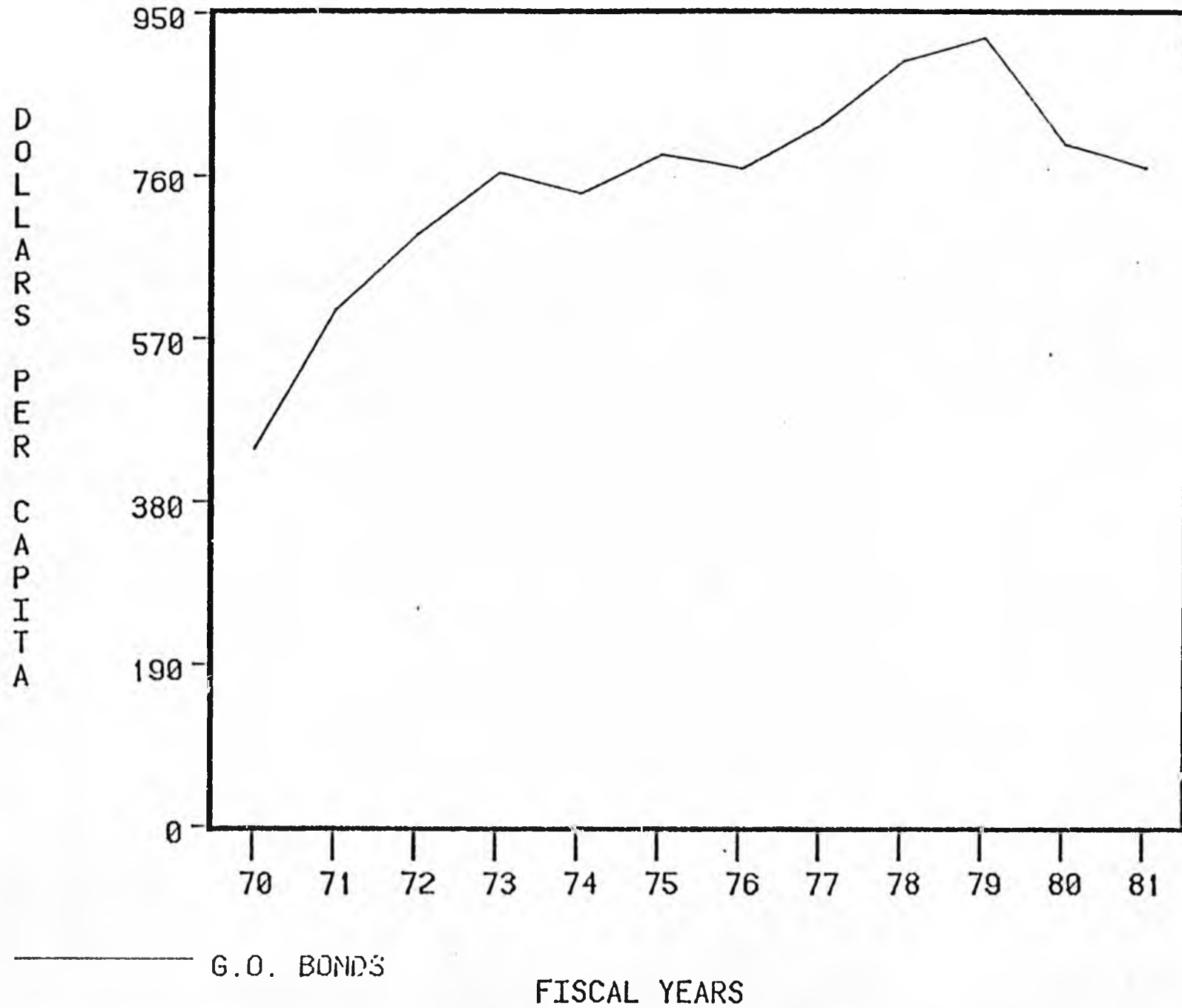


————— DEBT SERVICE
Interest payments are converted
to 1970 dollars at the discount factor
applicable in the year of bond issue

FISCAL YEARS

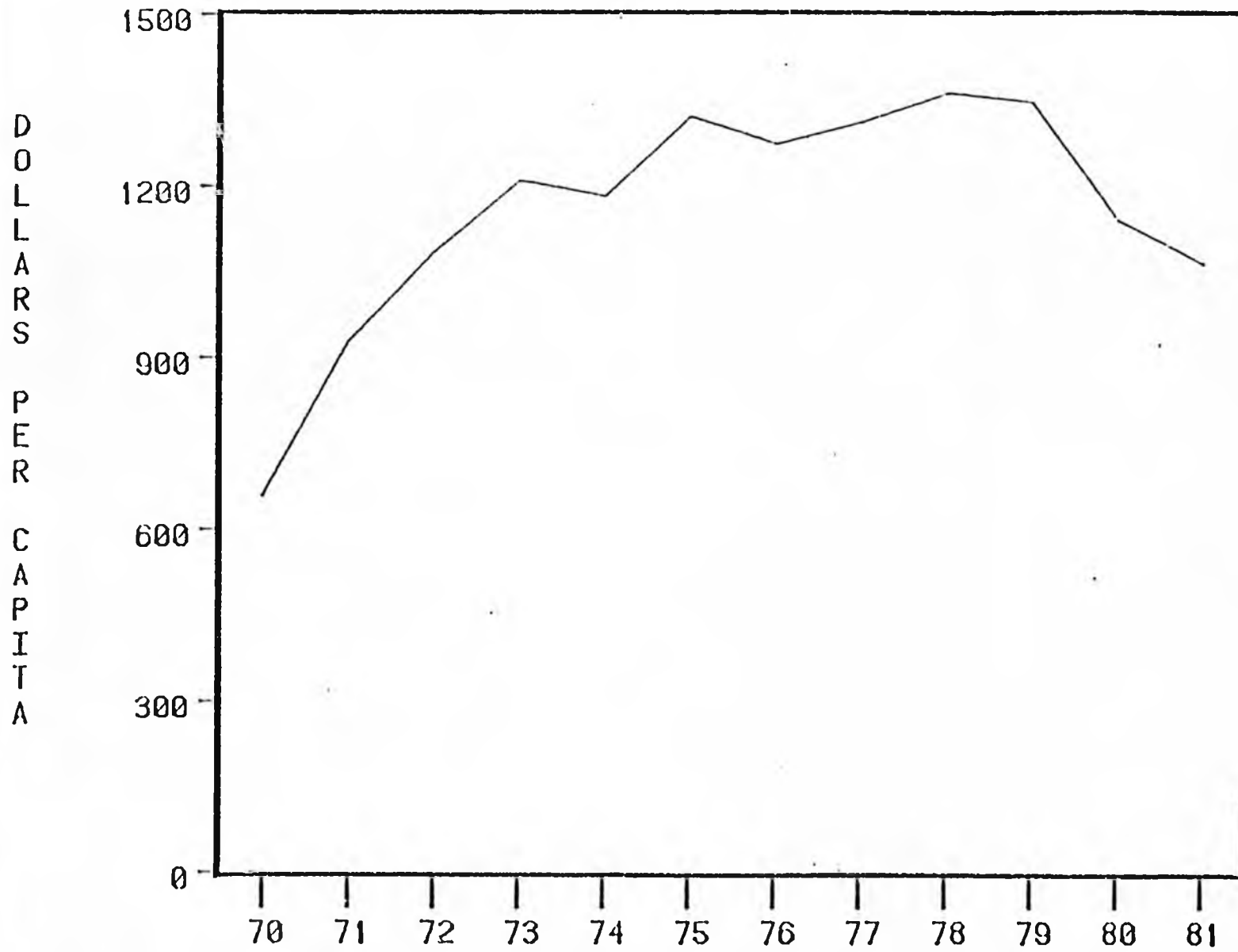
GRAPH 4

G.O. BONDS OUTSTANDING, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS



GRAPH 5

DEBT SERVICE ON OUTSTANDING G.O. BONDS, STATE OF ALASKA, 1970 - 1981
PER CAPITA IN 1970 DOLLARS



DEBT SERVICE
Interest payments are converted to 1970 dollars FISCAL YEARS



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 22, 1982

MEMORANDUM

TO: Representative Gardiner

FROM: David Teal Research Staff
Deb Pomeroy, Research Aide

RE: Bonded Debt
Research Request Number 82-109

You requested graphs showing the per capita debt servicing costs (in 1982 dollars) of outstanding bonds issued by the State of Alaska and by municipalities within the state. Three types of State bonds were considered in this analysis.

General Obligation Bonds are backed by the full faith, credit, and resources of the State. General obligation bonds must be authorized by legislation for capital improvements and be ratified by the electorate.

International Airports Revenue Bonds are special obligations of the State. They are payable from and secured by a first lien on gross revenues derived from operations of the Anchorage and Fairbanks International Airports.

Agency Bonds are issued by a number of agencies that have a legal existence independent of the State. The Alaska Housing Finance Corporation is responsible for about 90 percent of bonded debt held by State agencies. Agency debt is self-liquidating; principal and interest are payable from earnings derived from user fees.

Although municipalities may issue both general obligation and revenue bonds, I was unable to find a source which could provide aggregate information on 1) the debt servicing costs for municipal general obligation bonds; 2) the amount of municipal revenue bonds outstanding; or 3) debt servicing costs for municipal revenue bonds. This information could probably be obtained from the municipalities, but Gregg Erickson--speaking for Cliff Groh, of your staff--suggested that the effort would not be worthwhile at this time.

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There were similar data-gathering problems with bonds issued by State agencies. Gregg Erickson suggested graphing data only for years after 1971, which is when reports on agency bonds were incorporated into the State's annual financial report. Due to data problems and as a result of my conversation with Gregg Erickson, your request for graphs was modified slightly. The attached graphs are described briefly below.

Graph 1 shows the aggregate amount of State general obligation bonds, airport revenue bonds, and State agency bonds outstanding in the years 1972 through 1981. Nominal values were converted to 1982 dollars by applying a factor based the Anchorage consumer price index (CPI). The per capita values shown in the graph were obtained by dividing the 1982 dollar values by statewide population in each year. All values in graph 1 (and in the other attached graphs) appear in tables attached to this memorandum.

Graph 2 shows per capita debt servicing costs (in 1982 dollars) associated with the bonded debt shown in graph 1. Debt service includes both principal and interest payments. As emphasized in my memorandum of March 23, 1982 (research request number 82-74) on the subject of bonded debt, this treatment of debt servicing costs implicitly assumes that all principal and interest payments are made in the year shown rather than spread into the future. In an economy characterized by inflation, this treatment overstates constant (1982) dollar obligation because payments will be made in the future when the dollars are worth less. In addition, population growth would decrease the per capita repayment required to retire the debt.

The effect of attributing future payments to current time periods is to increase debt servicing costs in early years relative to debt servicing costs in later years. That is, the true trend is steeper than is indicated by graph 2. This effect is accentuated by the recent trend toward shorter maturity issues. The problem could be corrected by considering the timing of payments as well as the amount of payments, but some assumptions would be required to complete an analysis. If you wish, I would be happy to discuss the complexities of this issue with you or your staff.

Graph 3 shows the per capita amount (in 1982 dollars) of municipal general obligation bonds outstanding in the years 1972 through 1981. Note that municipal revenue bonds are not included in the figures and that statewide population is used to obtain per capita values.

You may be interested in the attached table which shows that municipal general obligation debt has increased faster in recent years than has general obligation debt issued by the State. Municipalities had \$1.09

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billion outstanding on July 1, 1981, compared to \$701.2 million in general obligation debt issued by the State.

The State has adopted a policy of short-term issues in response to current market conditions, but without further study of the terms of sale, it is impossible to determine whether municipalities have adopted the same approach. The potential risk for municipalities is substantial, and to the extent that municipal debt issues are school bonds (which are partially paid by the State), there is some cause for concern by the State.

Graph 4 shows the sum of municipal general obligation bonds and all State bonds outstanding, and graph 5 shows separate curves for municipal general obligation bonds, State general obligation bonds, and all State bonds outstanding in each year from 1972 through 1981. As in the graphs discussed previously, all lines depict per capita amounts in 1982 dollars.

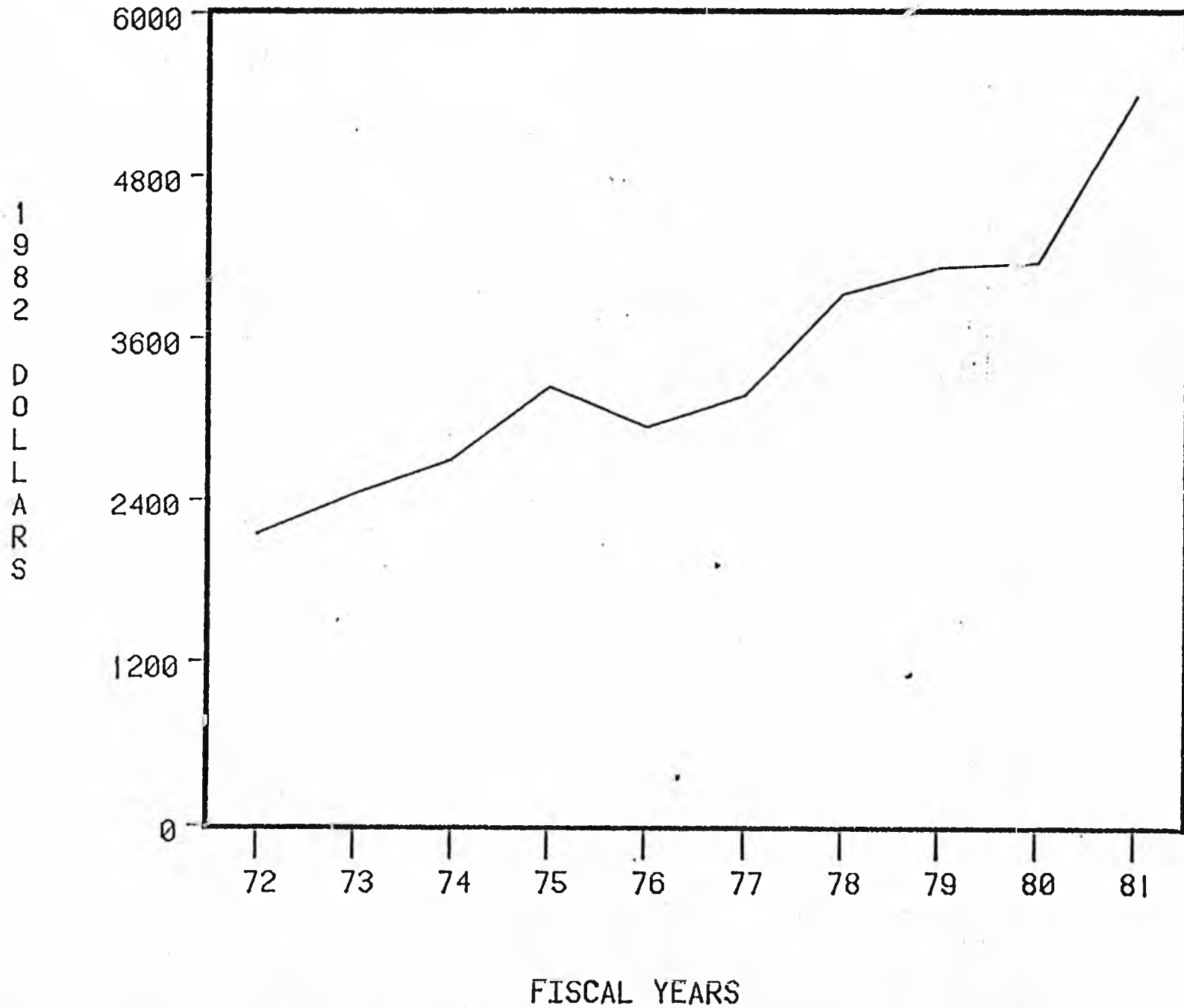
* * *

As always, the agency extends an offer to perform additional work or to discuss the material presented with you or your staff.

Attachments

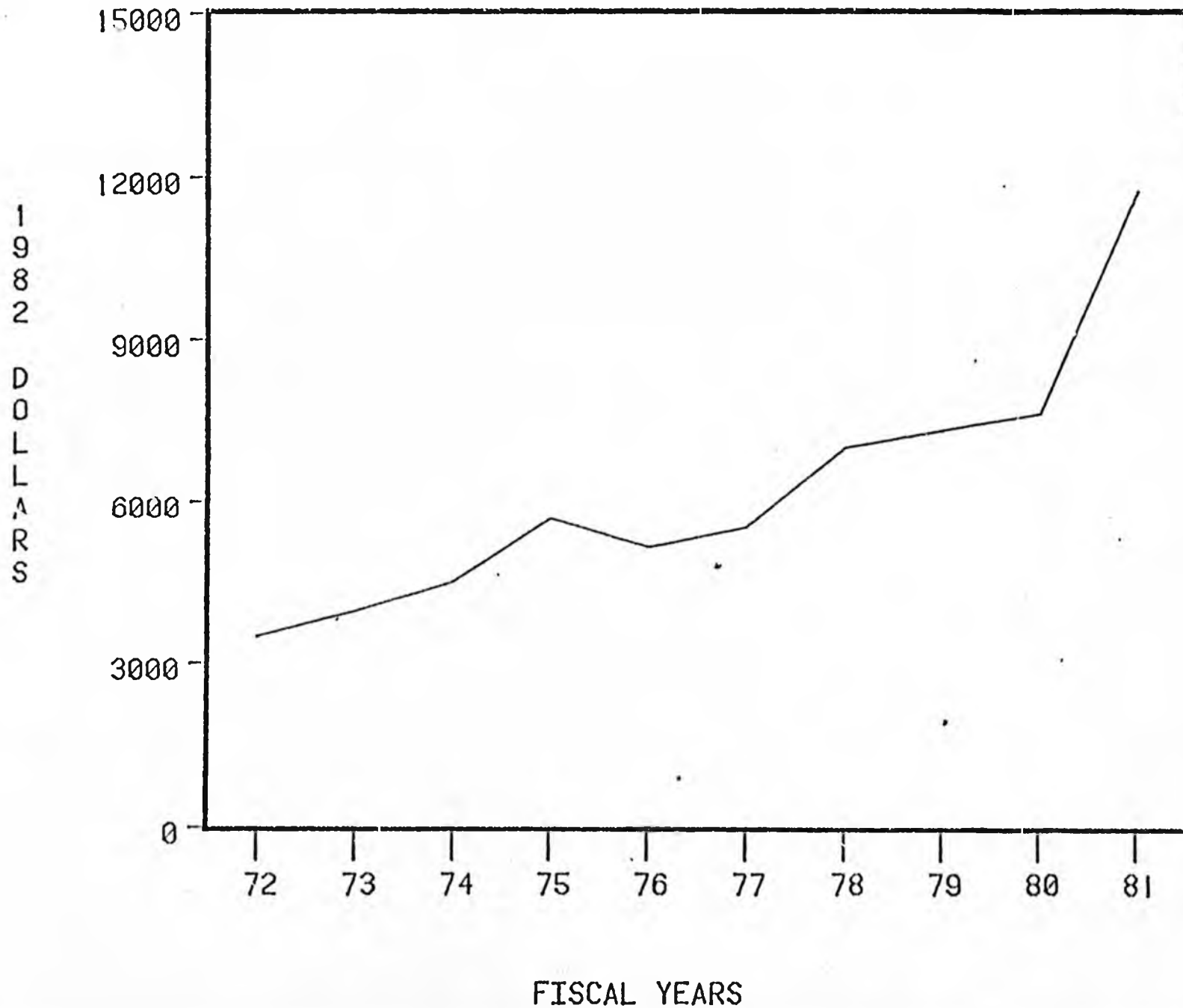
GRAPH 1

BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA



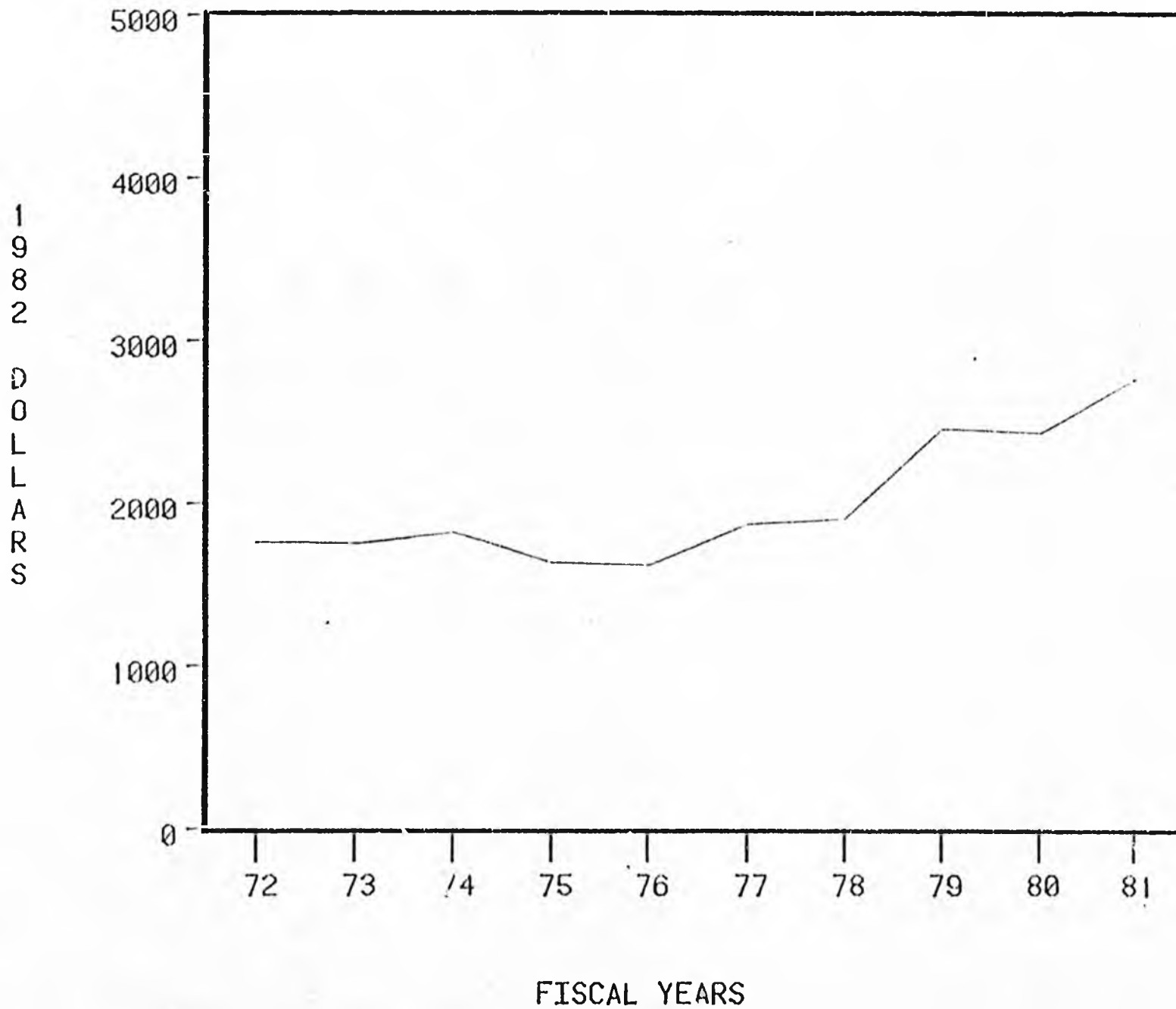
GRAPH 2

DEBT SERVICE ON OUTSTANDING BONDS--STATE OF ALASKA
1982 DOLLARS PER CAPITA

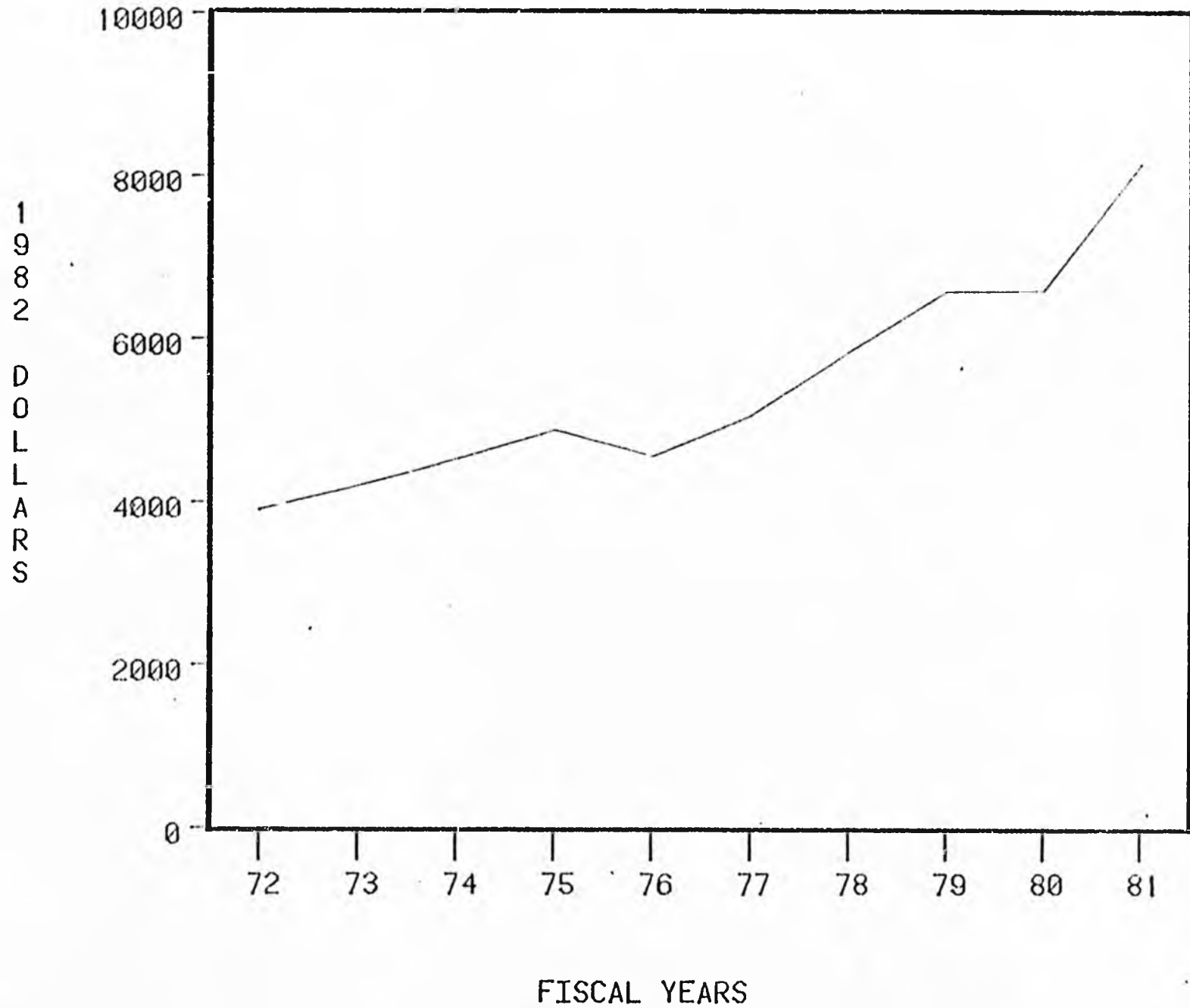


GRAPH 3

MUNICIPAL BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA

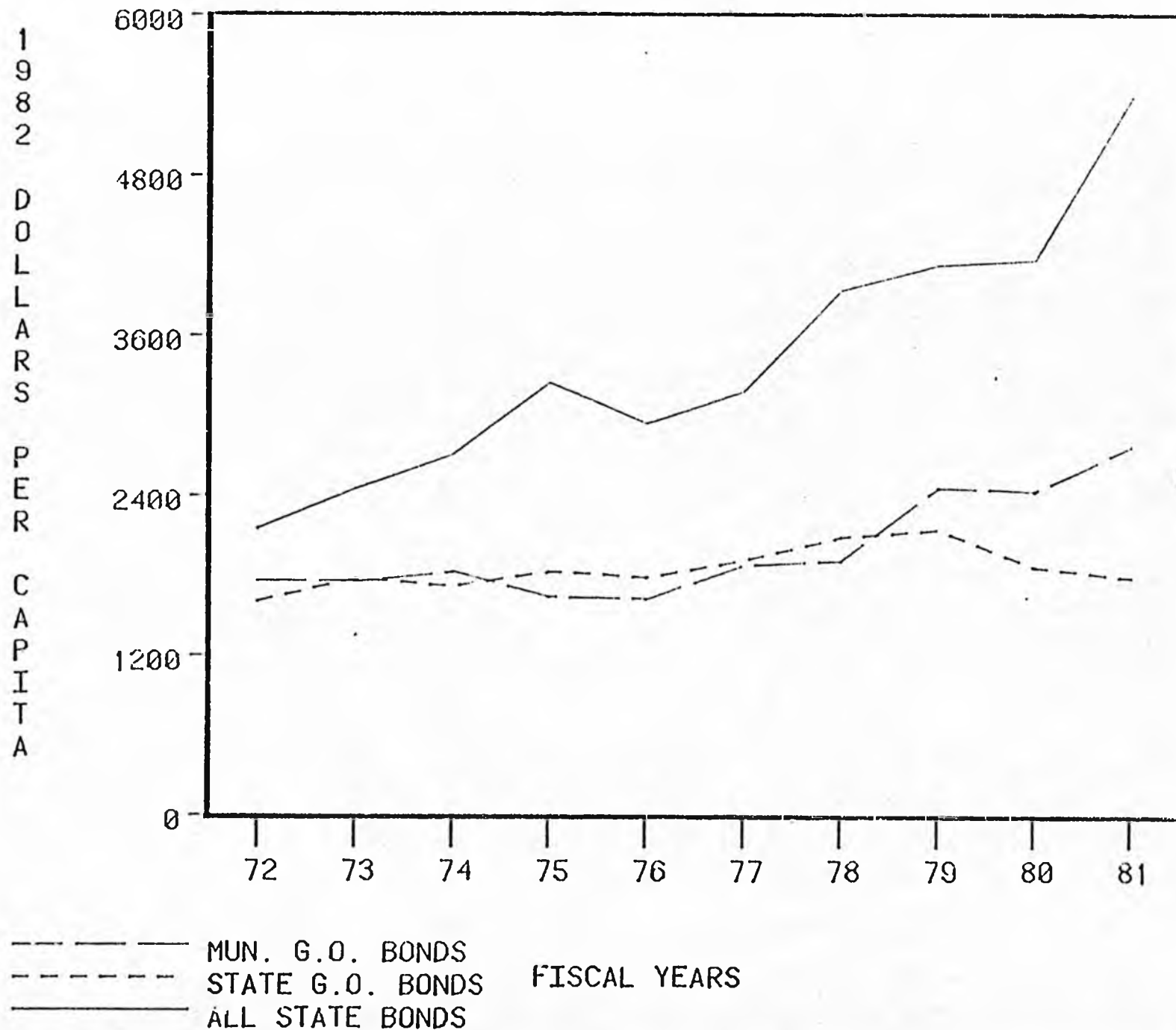


MUNICIPAL AND STATE BONDS OUTSTANDING--STATE OF ALASKA
1982 DOLLARS PER CAPITA



GRAPH 5

BONDS OUTSTANDING--STATE OF ALASKA
MUNICIPAL & STATE G.O. BONDS AND ALL STATE BONDS



BONDS OUTSTANDING AND DEBT SERVICE REQUIREMENTS
State of Alaska 1972 - 1981
(\$ in millions unless otherwise noted)

Fiscal Year	GEN OBLIGATION		STATE AGENCY		AIRPORT REVENUE		ALL BONDS		CPI Adj.	Popu- lation ¹	PER CAP. 1982 ²	
	Outs.	Debt Service	Outs.	Debt Service	Outs.	Debt Service	Outs.	Debt Service			Outs.	Debt Service
72	\$238.9	\$375.0	\$ 66.0	\$ 115.8	\$ 15.2	\$ 29.4	\$ 320.1	\$ 520.3	2.18	324.0	\$2,154	\$3,501
73	274.6	434.6	81.6	138.4	23.4	44.0	379.6	616.9	2.13	330.0	2,450	3,982
74	293.1	469.0	147.0	262.8	23.0	42.2	463.1	774.0	2.01	344.0	2,706	4,522
75	392.5	660.0	272.2	504.1*	33.2	62.2	697.7	1,226.4	1.78	383.1	3,242	5,698
76	462.9	767.0	267.5	514.4*	32.7	59.5	763.1	1,340.9	1.58	410.7	2,936	5,158
77	530.0	846.4	319.7	633.5	32.1	56.7	881.8	1,536.8	1.49	413.1	3,178	5,543
78	596.2	906.3	508.2	1,063.7	20.9	36.5	1,125.4	2,006.4	1.41	403.1	3,937	7,018
79	670.5	977.7	602.1	1,283.3	20.3	34.5	1,292.9	2,295.5	1.28	400.6	4,131	7,335
80	631.7	902.6	767.4	1,666.3	19.7	32.6	1,418.8	2,601.5	1.18	401.8	4,166	7,639
81	701.2	969.6	1,407.8	3,641.7	19.0	30.7	2,128.0	4,642.0	1.07	422.2	5,393	11,764

*estimated.

¹Population is in thousands.

²Per Capita figures are not in millions.

Source: House Research Agency 4/82

MUNICIPAL AND STATE BONDS OUTSTANDING
State of Alaska 1972 - 1981

<u>Fiscal Year</u>	<u>Mun. Bonds Outstanding (\$ Millions)</u>	<u>Per Capita (in 1982 dollars)</u>	<u>Municipal & State Bonds Outstanding (\$ Millions)</u>	<u>Per Capita (in 1982 dollars)</u>
72	\$ 262.2	\$ 1,764	\$ 582.3	\$ 3,918
73	271.5	1,752	651.1	4,203
74	312.2	1,824	775.3	4,530
75	351.4	1,633	1,049.1	4,875
76	420.8	1,619	1,183.9	4,555
77	519.6	1,874	1,401.4	5,055
78	545.2	1,907	1,670.6	5,844
79	768.5	2,456	2,061.4	6,587
80	827.1	2,429	2,245.9	6,595
81	1,091.0	2,765	3,219.0	8,158