

**SB**

**265**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 265  
(S) Publish Date: 2/23/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Alaska Municipal Bond Bank Authority Bond Cap RDU Revenue Programs and Services  
Component Alaska Municipal Bond Bank  
Sponsor Senator Stedman  
Requester Senator Stedman Component No. 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual	50.0	100.0	100.0	100.0	100.0	100.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>50.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond Bank Investment Earnings	50.0	100.0	100.0	100.0	100.0	100.0
<b>TOTAL</b>	<b>50.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The Bond Bank is a self supporting public corporation of the State of Alaska. The Bond Bank saves communities, and often the state through reduced reimbursements, by borrowing more efficiently and with enhanced credit strength compared to individual communities borrowing capability.

Increasing the statutory cap on borrowing from \$500 million to \$750 million will allow the Bond Bank to continue to meet the capital needs of Alaska's municipalities. The contractual cost noted above reflects an anticipated continued increased use of the Bond Bank by communities. The costs incurred will be directly correlated to future increased borrowing activity of the Bond Bank due to the increase in the borrowing cap. All costs will be funded from Bond Bank fund earnings.

Prepared by: Deven Mitchell  
Division: Alaska Municipal Bond Bank Authority  
Approved by: Jerry Burnett  
Agency: Department of Revenue

Phone: 465-3409  
Date/Time: 2/10/06 12:00 AM  
Date: 2/10/2006

# ALASKA STATE LEGISLATURE

## SESSION

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## SENATOR BERT N. STEDMAN

### SPONSOR STATEMENT SB 265

**"An Act increasing the total amount of bonds and notes that the Alaska Municipal Bond Bank Authority may have outstanding; and providing for an effective date."**

Senate Bill 265 seeks to increase the bond authority of the Municipal Bond Bank from \$500,000,000 to \$750,000,000.

The Alaska Municipal Bond Bank was statutorily created to offer Alaskan communities more efficient and cost effective bonds. By pooling communities together in packaged bond sales, the Bond Bank realizes savings for communities by reducing the cost of issuance and enhancing underwriter interest. Thirty-five communities representing every region of the state use the Bond Bank. Over the last three years alone, the Bond Bank has issued over \$298 million in bonds to fund 37 loans to Alaskan communities and saved Alaskans over \$25 million.

The Bond Bank results in real financial benefits to municipalities and the state by lowering the overhead costs of bond issuances: (1) **Fixed costs are reduced.** For example, when three communities combine their bond issuance into one combined Bond Bank issue, fixed costs are paid once as opposed to each community paying them individually; (2) **Investor interest is increased.** Bond sales of less than \$5 million tend to receive less interest from underwriting firms. The Bond Bank combines communities into larger transactions resulting in more investor interest; (3) **Credit rating is improved.** The Bond Bank also maintains a credit rating that is better than almost all the communities in Alaska. A better credit rating means less risk to investors correlating to less interest expense to municipalities. The state also realizes savings in reimbursement costs for its share of bonded debt service.

The Bond Bank bonding authority has been increased several times in the last thirty years. Most recently, in 2003, the limit increased from \$300 million to \$500 million. As of February 2006 the Bond Bank had \$449,985,878 in outstanding bonds. Thus, only \$50,014,122 is available for additional loans to communities. Applications to the Bond Bank over the next six months will total approximately \$80 million. Without passage of SB 265, municipalities will not be able to take advantage of the program. This is important legislation for our communities and the state. I ask for your support in seeing swift passage of this bill.

*Contact: Miles Baker, Aide to Senator Bert Stedman at (907) 465-3873*

#### DISTRICT A

*Ketchikan • Sitka • Petersburg • Wrangell  
Pelican • Elfin Cove • Port Alexander • Saxman • Meyers Chuck • Thorne Bay • Coffman Cove • Hollis*



## Alaska State Legislature

Senate Majority Web: [www.akrepublicans.org](http://www.akrepublicans.org)

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Sponsor: Senator Bert Stedman  
Current Version: SB 265  
Contact: Miles Baker, 465-3873

### Fact Sheet for: Senate Bill 265

Short Title: BONDS OF BOND BANK AUTHORITY

**Summary:**

- Increases the bond authority of the Alaska Municipal Bond Bank from \$500 million to \$750 million.

**Benefits:**

- Allows Alaskan communities to borrow funds for necessary capital improvements.

**Background:**

- The Alaska Municipal Bond Bank was formed to bring communities together so bond sales could be packaged in a manner that lowers the overhead costs to communities and reduces risk for investors. The bond bank only has the legal authority to loan out an additional \$50 million. However, it will receive applications for bonds totaling \$80 million over the next six months. SB 265 increases the bank's bonding authority and allows those communities to issue bonds and receive adequate funding for capital improvements.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

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Senator Bert Stedman  
Chair, Senate Community and Regional Affairs Committee  
State Capitol, Room 30  
Alaska State Legislature  
Juneau, AK 99801

February 13, 2006

Dear Senator Stedman,

I am writing in support of Senate Bill 265, an act increasing the overall debt limit for the Alaska Municipal Bond Bank Authority. Unless we act quickly on this legislation, the Bond Bank will reach its statutory debt issuance limit this year and municipalities could lose the opportunity to proceed on schedule with capital projects this year.

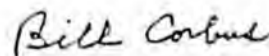
The Alaska Municipal Bond Bank Authority was created in 1975 to assist Alaska municipalities issue bonds for local projects. The Bond Bank Authority is able to realize savings for municipalities by pooling bonds in large numbers and obtaining lower interest rates that result in reduced costs, and often better terms overall, than municipalities could obtain on their own.

Senate Bill 265 will raise the limit on the total outstanding bond debt the Authority may carry on its books from \$500 million to \$750 million. The Legislature last raised this limit in 2003, and prior to that in 1984. An increase in the amount of the Authority's indebtedness limit will not have a fiscal impact on the state's General Fund. Bond Bank debt is not a direct liability of the state, and the municipalities that use the Authority pay all of the debt service on the bonds.

As of February 9, 2006, the Bond Bank has \$449,985,878 in bonds outstanding. The existing limit in statute is \$500 million in total bonds outstanding. Additional projects scheduled for funding in the next 12 months total up to \$90 million. Without the increase in the statutory cap, the Authority will be forced to turn away up to \$40 million in community loan applications.

Thank you for your consideration, and please let me know if you have any questions. Or you also may contact Deven Mitchell, Executive Director of the Authority, at 465-3750.

Sincerely,



William A. Corbus  
Commissioner

#### **D. Alaska Municipal Bond Bank**

The Alaska Municipal Bond Bank (Bond Bank) was created as a public corporation by the State in 1975 for the purpose of lending money to Alaska's governmental units for their capital projects. The Bond Bank is empowered to issue bonds, the proceeds of which are used to purchase bonds, notes or certificates of participation of State municipalities. Most of the Bond Bank bonds maintain a Capital Reserve Fund with the State's moral obligation attached. As of June 30, 2005 the total principal amount of outstanding bonds and notes of the Bond Bank was \$409,410,878. Of this total amount outstanding, \$303,920,000 represents general obligation bonds, \$94,485,000 represents revenue bonds, and \$11,005,878 represents notes issued under the Coastal Energy Loan Program. General obligation and revenue bonds are serviced by the Bond Bank and are secured, in part, by past State appropriations to the Bond Bank, certain revenue streams of the municipality borrowing the proceeds, and additional moneys of the Bond Bank placed in a statutory capital reserve fund. The

Bond Bank is covenanted to notify the State legislature of any failure to maintain the capital reserve fund at their required levels. The State legislature may appropriate funds to the Bond Bank to restore capital reserve funds to required amounts. (See "Moral Obligation Debt"). The Coastal Energy Loan Program notes do not have a claim on any capital reserve funds of the Bond Bank and are payable solely from the payments of the municipalities participating in the Program.

On May 22, 1997 the Bond Bank Board approved a proposal that staff support, office space and administrative service would be provided to the Bond Bank by the Alaska Department of Revenue, Treasury Division (DOR) effective July 1, 1997. An agreement between the Bond Bank and the DOR was finalized on August 29, 1997.

##### **a. Advantages to Municipalities**

The advantages to Alaska's municipalities of using the Bond Bank are several. Interest rates are lower because of the additional security achieved through the structure of the Bond Bank as well as the diversification of risk achieved by pooling municipal bond issues through the Bond Bank. The Bond Bank's general obligation program is currently rated A by Standard and Poor's and A2 by Moody's Investor Service; while the revenue program is rated A by Standard and Poor's and A by Fitch Ratings. These are higher ratings than most of Alaska's municipalities can achieve independently. The Bond Bank, carrying the name of the State of Alaska and being a more frequent issuer, is better known than many of Alaska's smaller units of government. This enhances the marketability of the bonds to investors nationally.

##### **b. Municipal Debt Purchased**

The Bond Bank has assisted 40 of Alaska's municipalities obtain financing for capital projects. These communities are geographically distributed throughout Alaska and represent virtually all sectors of the State's economy.

TABLE 3.7  
Alaska Municipal Bond Bank  
June 30, 2005 General Obligation Bond  
Outstanding Loans to Municipalities  
\$(thousands)

Governmental Unit	Outstanding Loan Amount	Percentage of Total
Northwest Arctic Borough	66,165	22.49%
Kenai Peninsula Borough	33,839	11.50%
City & Borough of Sitka	33,385	11.35%
Aleutians East Borough	30,196	10.27%
Kodiak Island Borough	23,680	8.05%
Ketchikan Gateway Borough	23,570	8.01%
City of Wasilla	16,070	5.46%
City of Fairbanks	12,255	4.17%
City of Petersburg	8,270	2.81%
City of Ketchikan	8,175	2.78%
City of Seward	7,660	2.60%
City of Valdez	4,924	1.67%
City of Nome	4,640	1.58%
City of Unalaska	4,565	1.55%
Lake and Peninsula Bor.	3,049	1.04%
City of Cordova	2,690	0.91%
City of Palmer	2,680	0.91%
City of Adak	1,500	0.51%
City of North Pole	1,350	0.46%
City of Homer	1,240	0.46%
City of Craig	1,035	0.35%
City of Haines	970	0.33%
City of Wrangell	854	0.29%
City of Soldotna	490	0.17%
City of Kaktovik	420	0.14%
City & Borough of Yukutat	265	0.09%
City of Hoonah	120	0.04%
<b>Total</b>	<b>\$ 294,157</b>	<b>100.00%</b>

Source: Alaska Municipal Bond Bank

c. Security for Bonds

Municipal general obligation bonds are usually issued to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. They are issued with the approval of the municipal voters and are secured by the full faith and credit of the municipality. Municipalities within the State of Alaska have no taxing limitations for debt service requirements.

The Bond Bank's mainstream program was created in 1976 by its General Bond Resolution (issuance of Bond Bank General Obligation Bonds). A total of 71 general obligation bond series have been issued in order to secure funds to purchase \$596.2 million in municipal debt.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- Full faith and credit of each respective community with no taxing limitation for the general bonded debt issued to the Bond Bank.

- The debt service reserve fund under the bond resolution for that issue of Bond Bank bonds. The reserve fund generally is funded in an amount equal to maximum annual debt service on the Bond Bank bonds.
- The statutory Bond Bank reserve fund monies available and not pledged to bond issues, which may be used to restore the debt service reserve fund under the bond resolution to an amount equal to maximum annual debt service to the Bond Bank bonds.
- The statutory right of the Bond Bank, in the event of default, to demand and receive from a State agency any funds held by that agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

d. Bond Authorization

The Bond Bank may not issue in excess of \$75 million in revenue bonds during any fiscal year without legislative approval.

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank bonds outstanding at any time to \$150 million. This statute was amended in 1983, 1984, and 2003 to raise the limit to \$200 million, \$300 million, and 500 million respectively. Total Bond Bank bonds and notes outstanding as of June 30, 2005, were \$409.4 million. Thus, the limit on additional bond issuance at that time was \$90.6 million.

e. Bonds Issued and Outstanding

The types of Bond Bank Bonds issued and outstanding are summarized in Table 3.8.

TABLE 3.8  
Alaska Municipal Bond Bank  
Summary of Bonds Types Issued and Outstanding  
\$(thousands)

Type	Amount Issued	Outstanding at 6/30/05
General Obligation Bonds	\$ 685,245	\$ 303,920
Revenue Bonds	174,805	94,485
Coastal Energy Bonds	21,348	-
Coastal Energy Loan Fund	20,525	11,006
	<u>\$ 901,923</u>	<u>\$ 409,411</u>

The Coastal Energy Reserve and Loan Bonds do not have the State's moral obligation attached. All Bond Bank general obligation and revenue bonds do.

Under the Coastal Energy Loan Fund, the Bond Bank issued \$5.0 million 1986 Series A Coastal Energy Bonds payable to the National Oceanic and Atmospheric Administration (NOAA). The proceeds of these bonds were used to purchase port revenue bonds from the City of Nome.

The 1986 Series A Bonds are not general obligations of the Bond Bank and are payable only from bond proceeds received from the City of Nome.

A complete listing of debt issued by the Bond Bank and outstanding is found in Table 3.9.

TABLE 3.9  
Alaska Municipal Bond Bank  
Debt Issued and Outstanding  
\$(thousands)

	Date	Amount Issued	Outstanding at 6/30/05
<b>1976 General Resolution General Obligation Bonds</b>			
1995 Series A	5/1/1995	13,975	2,330
1995 Series C	10/1/1995	5,110	1,090
1995 Series D	12/1/1995	1,985	90
1996 Series A	2/1/1996	5,000	610
1996 Series B	9/1/1996	7,705	895
1997 Series A	2/1/1997	1,605	385
1997 Series B	10/1/1997	12,185	1,435
1998 Series A	4/1/1998	7,950	6,500
1998 Series B	12/1/1998	3,715	1,830
1999 Series A	4/1/1999	13,385	10,045
2000 Series A	3/1/2000	9,805	2,830
2000 Series B	5/15/2000	10,730	2,960
2000 Series C	8/1/2000	21,645	6,360
2000 Series D	10/1/2000	1,800	1,580
2000 Series E	11/15/2000	16,390	11,050
2000 Series F	11/15/2000	1,175	810
2001 Series A	8/1/2001	15,475	14,270
2001 Series B	10/15/2001	3,835	3,480
2002 Series A	5/1/2002	15,445	12,470
2002 Series B	8/15/2002	11,590	11,055
2003 Series A	2/12/2003	9,305	8,745
2003 Series B	4/8/2003	3,075	2,035
2003 Series C	5/22/2003	8,250	6,800
2003 Series D	8/7/2003	14,520	13,965
2003 Series E	9/30/2003	32,020	31,125
2003 Series F	10/15/2003	3,235	1,690
2003 Series G	1/6/2004	24,110	22,825
2004 Series A	2/5/2004	20,270	19,190
2004 Series B	4/8/2004	17,425	16,690
2004 Series C	7/21/2004	14,575	14,575
2004 Series D	12/1/2004	13,925	13,925
2005 Series A	3/22/2005	32,655	32,655
2005 Series B	5/4/2005	27,625	27,625
<b>Total</b>		<b>401,495</b>	<b>303,920</b>

TABLE 3.9 (Continued)  
 Alaska Municipal Bond Bank  
 Debt Issued and Outstanding  
 \$(thousands)

<b>Total General Obligation Bonds</b>		<u>401,495</u>	<u>303,920</u>
<b>Revenue Bonds</b>			
1995 Series A Revenue Bonds	6/1/1995	3,225	2,265
1997 Series A Revenue Bonds	10/1/1997	15,225	13,935
1998 Series A Revenue Bonds	12/1/1998	13,210	6,170
1998 Series B Revenue Bonds	12/1/1998	2,525	1,105
1999 Series A Revenue Bonds	12/1/1999	1,865	1,660
2000 Series A Revenue Bonds	5/1/2000	2,430	445
2000 Series B Revenue Bonds	12/1/2000	3,000	2,725
2001 Series A Revenue Bonds	8/1/2001	1,725	1,550
2001 Series B Revenue Bonds	8/1/2001	2,525	2,285
2002 Series A Revenue Bonds	12/1/2002	6,250	5,380
2003 Series A Revenue Bonds	3/1/2003	5,685	2,935
2003 Series B Revenue Bonds	5/15/2003	19,000	19,000
2003 Series C Revenue Bonds	7/2/2003	1,015	820
2004 Series A Revenue Bonds	8/26/2004	28,845	28,845
2004 Series B Revenue Bonds	9/1/2004	5,365	5,365
<b>Total</b>		<u>111,890</u>	<u>94,485</u>
<b>Coastal Energy Loan Fund</b>			
City of Nome			
Port Authority	FY 86	5,000	5,000
City of St. Paul			
Fuel Tank Farm	FY 88	6,563	6,006
		<u>11,563</u>	<u>11,006</u>
<b>Total Alaska Municipal Bond Bank Debt</b>		<u>\$ 524,948</u>	<u>\$ 409,411</u>

Source: Alaska Municipal Bond Bank Authority