

**HB**

**278**

# Representative Mike Hawker

## Alaska State Legislature

*Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 direct  
800 478-4950 toll free  
907 465-4979 fax

*Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

*Member:*

House Finance Committee  
Legislative Budget  
& Audit Committee

*House District 32:*

Eagle River  
Anchorage  
Rainbow  
Indian  
Bird  
Girdwood  
Portage  
Whittier  
Sunrise  
Hope

### House Bill 278

#### Changes In House Rules Work Draft Version Y

**Title changes:**

Reworded title to be more consistent with bill language.

**In sections 1 and 5:**

Improved readability, making clear that a participating employer can make a lump sum payment that pays only a portion of the unfunded liability, however the plan administrator can set a minimum amount. Substantive correction eliminating language that required payments to be "held separately" and inserting language requiring separate accounting.

**In section 2:**

Makes explicitly clear that municipalities have the authority to issue debt obligations without going through the Municipal Bond Bank.

Improved readability by replacing "bonds, notes, commercial paper, or other obligations" with "obligations" and added a definition for "obligation" that includes these instruments.

Removed language that required a state agency to give 30 days notice to the receiving party if a payment agreed to in a funds diversion agreement cannot be made and language that specified that a funds diversion agreement is irrevocable and remains in effect until the obligations are satisfied. These items would be covered in the agreement, and therefore are deleted in the House Rules CS.

**Technical changes throughout the bill to improve readability or conform language:**

Page 2, line 22, following "of the authority" **deleted** "under which the authority, subsidiary, or trustee will issue certificates of participation or contractual" **and inserted** "in connection with the issuance of"

Page 2, lines 26 through 27 **deleted** "by the trustee of the Alaska Municipal Bond Bank Authority or a subsidiary of the authority" **and inserted** "for the purposes described in the section"

Page 2, line 27, following "in the agreement" **inserted** "or under an authorizing ordinance"

Page 2, line 27, following "The agreement" **inserted** "or ordinance"

Page 2, line 28, following "provide for" **deleted** "lease reserves or other"

Page 2, lines 29- 30, following "municipality" **deleted** "under a lease or other agreement entered into" **and inserted** "in connection with obligations issued"

Page 3, line 7, following "lease" **deleted** "the payment of a lease or other contractual obligation of the municipality in connection with bonds, notes, commercial paper, certificates of participation, or contractual obligations issued under this section" **and inserted** "payments under a lease, other agreement, or obligation issued under this section."

Page 3, line 10, following "set out in the" **inserted** "funds diversion"

Page 3, line 12, following "subsidiary" **deleted** "that issued the bonds, notes, commercial paper, certificates of participation, or contractual obligations issued under this section"

Page 3, line 14, following "municipality's" **inserted** "payments under the lease, other agreement, or"

Page 5, line 28, following "notes" **replaced** "or commercial paper," **with** "commercial paper, or other obligations"

Page 6, line 28, following "commercial paper, or" **deleted** "contractual" **inserted** "other"

Page 10, line 12, following "or other" **deleted** "forms" **inserted** "obligations"

24-LS0883\Y  
Cook  
4/11/06

**CS FOR HOUSE BILL NO. 278( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-FOURTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVES HAWKER, Foster**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to accrued actuarial liabilities of government retirement systems;**  
2 **relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska**  
3 **Municipal Bond Bank Authority or a subsidiary of the authority to assist state and**  
4 **municipal governmental employers by issuing bonds, notes, commercial paper, or other**  
5 **obligations to enable the governmental employers to prepay all or a portion of the**  
6 **governmental employers' shares of the unfunded accrued actuarial liabilities of**  
7 **retirement systems, and authorizing a governmental employer to issue obligations to**  
8 **prepay all or a portion of the governmental employer's shares of the unfunded accrued**  
9 **actuarial liabilities of retirement systems and to enter into a lease or other contractual**  
10 **agreement with a trustee or the Alaska Municipal Bond Bank Authority or a subsidiary**  
11 **of the authority in connection with the issuance of obligations for that purpose; and**  
12 **providing for an effective date."**

1 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

2 \* **Section 1.** AS 14.25.070 is amended by adding a new subsection to read:

3 (d) An employer may prepay all or a portion of the employer's share of any  
4 accrued actuarial liability to the plan in a lump sum. The commissioner of  
5 administration may, by regulation, establish a minimum amount for the lump sum  
6 payment of a portion. The administrator shall charge to the employer appropriate and  
7 reasonable administrative costs to the plan attributable to a lump sum payment that are  
8 not greater than administrative costs applied to other employer contributions. If an  
9 employer is grouped with any other employer in accounting for contributions and the  
10 employer makes a lump sum payment, the lump sum payment shall be accounted for  
11 separately in accordance with regulations adopted by the commissioner. The  
12 regulations must provide for crediting to each lump sum payment account all earnings  
13 and losses received from investment of that lump sum payment. The lump sum  
14 payment shall be used solely to offset contributions under this section required of the  
15 employer that made the lump sum payment, taking into account earnings and losses  
16 from its investment. A payment made by an employer under this subsection, together  
17 with all earnings and losses from investment of that payment, may not be considered  
18 in calculating that employer's share of any discretionary payment authorized by the  
19 state that benefits multiple employers.

20 \* **Sec. 2.** AS 29.47 is amended by adding a new section to read:

21 **Sec. 29.47.480. Accrued actuarial liabilities of retirement systems.** (a) A  
22 municipality, or two or more municipalities jointly, may issue obligations to prepay all  
23 or a portion of each participating municipality's share of the accrued actuarial  
24 liabilities of retirement systems. A municipality, or two or more municipalities jointly,  
25 may enter into a lease or other contractual agreement with a trustee or the Alaska  
26 Municipal Bond Bank Authority or a subsidiary of the authority in connection with the  
27 issuance of obligations to prepay all or a portion of each participating municipality's  
28 share of the accrued actuarial liabilities of retirement systems. Obligations issued for  
29 purposes described in this subsection must be secured and payable as provided in the  
30 agreement or under an authorizing ordinance. The agreement or ordinance may  
31 provide for reserves and for protective covenants.

1 (b) Amounts paid by a participating municipality in connection with  
2 obligations issued under this section, together with proceeds of the obligations and  
3 interest or earnings, may be pooled into one or more funds or accounts, including one  
4 or more debt service funds. The assets in any of the funds or accounts may be pledged  
5 to the holders of the obligations.

6 (c) A municipality may enter into a funds diversion agreement with a state  
7 agency regarding payment of money on behalf of the municipality that may be applied  
8 to payments under a lease, other agreement, or obligation issued under this section.  
9 The funds diversion agreement must provide, subject to any conditions set out in the  
10 funds diversion agreement, that all or a portion of the funds otherwise payable to the  
11 municipality by the state agency shall be paid directly to the trustee, Alaska Bond  
12 Bank Authority, or its subsidiary to satisfy, in whole or part, the municipality's  
13 payments under the lease, other agreement, or obligations. Nothing in this subsection  
14 or in a funds diversion agreement entered into under this subsection obligates the state  
15 or a state agency to pay any amount to or on behalf of a municipality that the  
16 municipality is not otherwise entitled to receive or to make any payments of principal  
17 or interest on the obligations.

18 (d) For purposes of this section "obligations" means bonds, notes, commercial  
19 paper, certificates of participation, or other contractual obligations.

20 \* Sec. 3. AS 39.35.100(b)(3) is amended to read:

21 (3) A separate account for each employer shall be maintained. The  
22 account shall be credited with contributions of the employer. Except as provided in  
23 AS 39.35.270(d), this [THIS] account shall be charged with the employer's actuarial  
24 charge for pension, death benefits, and other benefits paid under this plan to or on  
25 behalf of the employee of the employer. Except as provided in AS 39.35.270(d),  
26 after [AFTER] an allowance for interest credited to employee contribution accounts  
27 and employee savings accounts, the investment income of the pension fund shall be  
28 allocated to the retirement reserve account and to each employer asset share account  
29 according to the ratio that the average of the assets in the account as of the beginning  
30 and as of the end of the fiscal year bears to the total of the average balance of the  
31 retirement reserve account and all employer accounts.

1 \* **Sec. 4.** AS 39.35.100(b)(4) is amended to read:

2 (4) An expense account shall be maintained for the plan. Except as  
3 provided in AS 39.35.270(d), this [THIS] account shall be charged with all  
4 disbursements representing administrative expenses incurred by the plan. At the end of  
5 the year, the expense account shall be allocated to each employer in accordance with  
6 (3) of this subsection. Expenditures from this account shall be included in the  
7 governor's budget for each fiscal year and are subject to approval by the legislature.

8 \* **Sec. 5.** AS 39.35.270 is amended by adding a new subsection to read:

9 (d) An employer may prepay all or a portion of the employer's share of any  
10 accrued actuarial liability to the plan in a lump sum. The commissioner may, by  
11 regulation, establish a minimum amount for the lump sum payment of a portion. The  
12 commissioner shall charge to the employer appropriate and reasonable costs to the  
13 plan attributable to a lump sum payment that are not greater than administrative costs  
14 applied to other employer contributions. If an employer makes a lump sum payment,  
15 the lump sum payment shall be accounted for separately in accordance with  
16 regulations adopted by the commissioner. The regulations must provide for crediting  
17 to each lump sum payment account all earnings and losses received from investment  
18 of that lump sum payment. The lump sum payment shall be used solely to offset  
19 contributions under this section required of the employer that made the lump sum  
20 payment, taking into account earnings and losses from its investment. A payment  
21 made by an employer under this subsection, together with all earnings and losses from  
22 investment of that payment, may not be considered in calculating that employer's  
23 share of any discretionary payment authorized by the state that benefits multiple  
24 employers.

25 \* **Sec. 6.** AS 44.85.010 is amended to read:

26 **Sec. 44.85.010. Legislative policy.** (a) It is the policy of the state to

27 (1) [TO] foster and promote by all reasonable means the provision of  
28 adequate capital markets and facilities for borrowing money by municipalities in the  
29 state to finance capital improvements or for other authorized purposes, to assist these  
30 municipalities in fulfilling their capital needs and requirements by use of borrowed  
31 money within statutory interest rate or cost of borrowing limitations, to the greatest

1 extent possible to reduce costs of borrowed money to taxpayers and residents of the  
2 state, and equally to encourage continued investor interest in the purchase of bonds or  
3 notes of municipalities as sound and preferred securities for investment;

4 (2) [TO] encourage municipalities to continue their independent  
5 undertakings and financing of capital improvements and other authorized purposes  
6 and to assist them by making capital funds available at reduced interest costs for  
7 orderly financing of capital improvements and other purposes especially during  
8 periods of restricted credit or money supply, particularly for those municipalities not  
9 otherwise able to borrow for capital needs;

10 (3) [TO] assist municipalities to provide for adequate insurance  
11 coverage by authorizing the Alaska Municipal Bond Bank Authority to issue  
12 negotiable or nonnegotiable revenue bonds, notes, or certificates of participation either  
13 directly or through an entity it may create for the purpose of providing a self-insurance  
14 program for municipalities or municipal joint insurance arrangements organized under  
15 AS 21.76;

16 (4) assist governmental employers to prepay all or a portion of  
17 their share of unfunded accrued actuarial liabilities of retirement systems in an  
18 effort to reduce their costs of satisfying their contractual obligations to provide  
19 retirement and other benefits to public employees through the issuance of bonds,  
20 notes, commercial paper, or other obligations by the bond bank authority or by a  
21 subsidiary corporation created by the bond bank authority under AS 44.85.085.

22 (b) The legislature further declares that

23 (1) the exercise of the powers of the state in the interest of its  
24 municipalities and in the interest of public employees of the state and of its  
25 municipalities is required to further and implement the policies declared in (a) of this  
26 section by authorizing the creation of a state bond bank authority as a body corporate  
27 and politic that will have full powers to borrow money and to issue its bonds and notes  
28 to make capital funds available for borrowing by municipalities and for borrowing  
29 by or on behalf of governmental employers, by authorizing governmental  
30 employers to contract with the bond bank authority or with a subsidiary created  
31 under AS 44.85.085 for the purpose of reducing future costs of providing

1 retirement and other benefits to employees, and by granting broad powers to the  
2 bond bank authority to carry out the declared policies, which are in the public interest  
3 of the state and its taxpayers and residents;

4 (2) state funds should be applied or authorized to be paid to a state  
5 bond bank authority only to provide adequate assurance and security to the holders of  
6 the bonds or notes of the bond bank authority;

7 (3) the bond bank authority should conduct its operations to provide  
8 the lowest rates in terms of borrowing to municipalities as is consistent with a self-  
9 supporting operation with no expectation of subsidization with state funds; the  
10 legislature does not intend that the bond bank authority be utilized as a means to  
11 finance municipalities beyond their capability to meet repayment schedules and debt  
12 service requirements of bonds or notes;

13 (4) the bond bank authority or its subsidiary should conduct its  
14 operations to provide the lowest rates in terms of borrowing to governmental  
15 employers under AS 44.85.085 and 44.85.086 as is consistent with a self-  
16 supporting operation with no expectation of subsidization with state funds; the  
17 legislature does not intend that the bond bank authority or its subsidiary be  
18 utilized as a means to finance governmental employers under AS 44.85.085 and  
19 44.85.086 beyond their capability to meet repayment schedules and debt service  
20 requirements of bonds, notes, commercial paper, or other obligations to the bond  
21 bank authority or its subsidiary.

22 \* Sec. 7. AS 44.85.080 is amended to read:

23 **Sec. 44.85.080. Powers of bond bank authority.** The bond bank authority  
24 may

25 (1) sue and be sued;

26 (2) adopt and alter an official seal;

27 (3) make and enforce bylaws and regulations for the conduct of its  
28 business and for the use of its services and facilities;

29 (4) maintain an office at any place in the state;

30 (5) acquire, hold, use, and dispose of its income, revenues, funds, and  
31 money;

1 (c) acquire, rent, lease, hold, use, and dispose of other personal  
2 property for its purposes;

3 (7) subject to AS 44.85.100(b), borrow money and issue its negotiable  
4 bonds or notes and provide for and secure their payment, provide for the rights of their  
5 holders and purchase, hold and dispose of any of its bonds or notes;

6 (8) fix and revise from time to time and charge and collect fees and  
7 charges for the use of its services or facilities;

8 (9) accept gifts or grants from the United States, or from any  
9 governmental unit or person, firm, or corporation, carry out the terms or provisions or  
10 make agreements with respect to the gifts or grants, and do all things necessary,  
11 useful, desirable, or convenient in connection with procuring, accepting, or disposing  
12 of the gifts or grants;

13 (10) do anything authorized by this chapter, through its officers,  
14 agents, or employees or by contracts with a person;

15 (11) make, enter into, and enforce all contracts necessary, convenient,  
16 or desirable for the purposes of the bond bank authority or pertaining to a loan to a  
17 political subdivision, a purchase or sale of municipal bonds or other investments, or  
18 the performance of its duties and execution of any of its powers under this chapter;

19 (12) purchase or hold municipal bonds at prices and in a manner the  
20 bond bank authority considers advisable, and sell municipal bonds acquired or held by  
21 it at prices without relation to cost and in a manner the bond bank authority considers  
22 advisable;

23 (13) invest funds or money of the bond bank authority not required at  
24 the time of investment for loan to political subdivisions for the purchase of municipal  
25 bonds, in the same manner as permitted for investment of funds belonging to the state,  
26 except as otherwise provided in this chapter;

27 (14) prescribe the form of application or procedure required of a  
28 political subdivision for a loan or purchase of its municipal bonds, fix the terms and  
29 conditions of the loan or purchase, and enter into agreements with political  
30 subdivisions with respect to loans or purchases;

31 (15) render services to a political subdivision in connection with a

1 public or private sale of its municipal bonds, including advisory and other services,  
2 and charge for services rendered;

3 (16) charge for its costs and services in review or consideration of a  
4 proposed loan to a political subdivision or purchase by the bond bank authority of  
5 municipal bonds of the political subdivision, whether or not the loan is made or the  
6 municipal bonds purchased;

7 (17) fix and establish terms and provisions with respect to a purchase  
8 of municipal bonds by the bond bank authority, including date and maturities of the  
9 bonds, provisions as to redemption or payment before maturity, and any other matters  
10 which in connection with the purchase are necessary, desirable, or advisable in the  
11 judgment of the bond bank authority;

12 (18) procure insurance against any losses in connection with its  
13 property, operations, or assets in amounts and from insurers as it considers desirable;

14 (19) to the extent permitted under its contracts with the holders of  
15 bonds or notes of the bond bank authority, consent to modification of the rate of  
16 interest, time and payment of installment of principal or interest, security or any other  
17 term of a bond or note, contract or agreement of any kind to which the bond bank  
18 authority is a party;

19 (20) by regulation, create a new entity or new entities for the purpose  
20 of issuing negotiable or nonnegotiable revenue bonds, notes, or certificates of  
21 participation to finance a self-insurance program for municipalities or municipal joint  
22 insurance arrangements organized under AS 21.76 or to provide assistance to  
23 governmental employers under AS 44.85.085(a); the powers, duties, and  
24 membership of the new entity or entities shall be limited to the powers, duties, and  
25 membership of the authority and stated in the regulation; the new entity or entities  
26 shall each be a public corporation and an instrumentality of the state with the same  
27 legal existence and continuing succession as the bond bank authority; and

28 (21) do all acts and things necessary, convenient, or desirable to carry  
29 out the powers expressly granted or necessarily implied in this chapter.

30 \* Sec. 8. AS 44.85 is amended by adding new sections to read:

31 **Sec. 44.85.085. Creation of subsidiary corporation.** (a) The bond bank

1 authority may create one or more subsidiary corporations for the following purposes:

2 (1) providing financial and other assistance to governmental employers  
3 to enable the governmental employers to reduce their costs of providing retirement  
4 and other benefits to their employees by prepaying all or a portion of their shares of  
5 the unfunded accrued actuarial liabilities of retirement systems;

6 (2) receiving payments and providing servicing for payments to or  
7 from participating governmental employers; and

8 (3) performing other duties and providing other services as the  
9 subsidiary corporation considers necessary or desirable to further the purposes set out  
10 in (1) and (2) of this subsection.

11 (b) The bond bank authority may incorporate under AS 10.20.146 - 10.20.166  
12 a subsidiary corporation created under (a) of this section. The bond bank authority  
13 may transfer assets of the bond bank authority to the subsidiary corporation and may  
14 agree to secure bonds, notes, commercial paper, or other obligations of the subsidiary  
15 corporation with a reserve fund established under AS 44.85.270.

16 (c) A subsidiary corporation created under (a) of this section may borrow  
17 money and issue bonds, notes, commercial paper, or other obligations as evidence of  
18 that borrowing and may have all the powers of the bond bank authority that the bond  
19 bank authority grants to it. The provisions of AS 44.85.130 - 44.85.170 and 44.85.270  
20 - 44.85.390 apply to the subsidiary corporation and to bonds, notes, commercial paper,  
21 or other obligations issued by the subsidiary corporation. Unless otherwise provided  
22 by the bond bank authority, the debts, liabilities, and obligations of the subsidiary  
23 corporation are not the debts, liabilities, or obligations of the bond bank authority.

24 (d) The staff of the bond bank authority serves as staff of a subsidiary  
25 corporation created under (a) of this section. The bond bank authority shall determine  
26 the membership or the process for selecting the membership of the board of directors  
27 of the subsidiary corporation. The bond bank authority may permit some or all of its  
28 directors to serve on the board of directors of the subsidiary corporation.

29 **Sec. 44.85.086. Powers of subsidiary corporation.** A subsidiary corporation  
30 created under AS 44.85.085 has the following powers in addition those granted to it  
31 under AS 44.85.085(c):

1 (1) to make loans to and enter into contracts with governmental  
2 employers;

3 (2) to incur debt in furtherance of its purposes in the form of bonds,  
4 notes, commercial paper, or other obligations as the subsidiary corporation considers  
5 appropriate;

6 (3) to secure its debt with a pledge of any assets that are available to  
7 the subsidiary corporation for the purpose, including identified revenue and  
8 contractual payments from participating governmental employers, and the general  
9 assets and revenue of the subsidiary corporation; and

10 (4) to enter into contracts with underwriters, bond counsel, financial  
11 advisors, accountants, actuaries, and other contractors to provide assistance as the  
12 subsidiary corporation considers desirable to accomplish its purposes.

13 \* Sec. 9. AS 44.85.100(b) is amended to read:

14 (b) The bond bank authority shall include in the report required by (a) of this  
15 section an estimate of the amount of revenue bonds of the bond bank authority to be  
16 issued during the fiscal year following the fiscal year in which the report is submitted.  
17 Other than refunding bonds and other than bonds, notes, commercial paper, or  
18 other obligations issued under AS 44.85.086 and 44.85.180(a)(5), the [THE] bond  
19 bank authority may not issue revenue bonds [, OTHER THAN REFUNDING  
20 BONDS,] in excess of \$75,000,000 during any fiscal year beginning after June 30,  
21 1981, unless the legislature, by law approves the estimate required by this subsection  
22 for that fiscal year.

23 \* Sec. 10. AS 44.85.180(a) is amended to read:

24 (a) Subject to AS 44.85.100(b), the bond bank authority may issue its bonds or  
25 notes in principal amounts that it considers necessary to provide funds for any  
26 purposes under this chapter, including

27 (1) the purchase of municipal bonds;

28 (2) the making of loans through the purchase of municipal bonds,  
29 notes, or certificates of participation secured by an agreement between the bond bank  
30 authority and a municipality or a municipal joint insurance arrangement organized  
31 under AS 21.76;

1 (3) the payment, funding, or refunding of the principal of, or interest or  
2 redemption premiums on, bonds or notes issued by it whether the bonds or notes or  
3 interest to be funded or refunded have or have not become due;

4 (4) the establishment or increase of reserves to secure or to pay bonds  
5 or notes or interest on bonds or notes and all other costs or expenses of the bond bank  
6 authority incident to and necessary or convenient to carry out its corporate purposes  
7 and powers;

8 (5) assisting governmental employers to prepay all or a portion of  
9 their share of the unfunded accrued actuarial liabilities of retirement systems,  
10 with security as the bond bank authority considers reasonable.

11 \* Sec. 11. AS 44.85.180(c) is amended to read:

12 (c) Notwithstanding the provisions of (a) and (b) of this section, the tota'  
13 amount of bond bank authority bonds and notes outstanding at any one time [,  
14 EXCEPT BONDS OR NOTES ISSUED TO FUND OR REFUND BONDS OR  
15 NOTES,] may not exceed \$500,000,000. This subsection does not apply to (1)  
16 bonds or notes issued to fund or refund bonds or notes; (2) bonds, notes,  
17 commercial paper, and other obligations issued under AS 44.85.086 or  
18 44.85.180(a)(5).

19 \* Sec. 12. AS 44.85.410(a)(5) is amended by adding a new paragraph to read:

20 (8) "governmental employer" means the State of Alaska or a  
21 municipality or other state or municipal governmental entity within the state, including  
22 an agency, instrumentality, district, school district, public corporation, department,  
23 division, or other subdivision of the state or of a municipality, in its capacity as an  
24 employer.

25 \* Sec. 13. This Act takes effect immediately under AS 01.10.070(c).

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 278  
 (H) Publish Date: 1/27/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Alaska Municipal Bond Bank Borrowing Authority RDU \_\_\_\_\_  
 Component Alaska Municipal Bond Bank  
 Sponsor \_\_\_\_\_  
 Requester \_\_\_\_\_ 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	25.0					
Contractual	7,040.0	40.0	40.0	40.0	40.0	40.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>7,065.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
Bond Proceeds	7,000.0					
Bond Bank Investment Earnings	65.0	40.0	40.0	40.0	40.0	40.0
<b>TOTAL</b>	<b>7,065.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</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 bill expands the ability of the Alaska Municipal Bond Bank Authority (Bond Bank) to borrow money for loans to communities to include prepaying unfunded accrued actuarial liabilities of the retirement system. The premis of undertaking this type of transaction is providing communities with an efficient means of borrowing to fund their unfunded liability (assumed to be growing at 8.25%). The difference between the cost of capital and 8.25% is assumed to provide financial relief to the community.

The fiscal note contemplates a transaction of considerable size, up to a billion dollars, occur in FY 2007. If there was a delay, seven million of the dollars of the cost would shift to the year a transaction did occur. It is possible that there would be additional transactions in subsequent years with similar costs.

Contractual costs include rating agency fees, financial advisor, bond counsel, printing, cusip service, underwriting, & other miscellaneous costs.

Prepared by: Deven Mitchell Phone 465-3750  
 Division: Alaska Municipal Bond Bank Authority Date/Time 1/5/06 12:00 AM  
 Agency: Deven Mitchell Date \_\_\_\_\_  
Alaska Municipal Bond Bank Authority

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: CSHB 278(FIN)  
 (H) Publish Date: 3/27/2006

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Retirement System Bonds RDU \_\_\_\_\_  
 Sponsor: Rep. Mike Hawker Component: Alaska Municipal Bond Bank  
 Requester: \_\_\_\_\_ 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						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	*	*	*	*	*	*

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
Bond Proceeds						
Bond Bank Investment Earnings						
<b>TOTAL</b>	*	*	*	*	*	*

Estimate of any current year (FY2006) cost: 0.0  
 Check 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)

HB 278 expands the ability of the Alaska Municipal Bond Bank Authority (Bond Bank) to borrow money for loans to communities for the purpose of prepaying their unfunded accrued actuarial liabilities of the retirement system. The premise of undertaking this type of transaction is providing communities with an efficient means of borrowing to fund all or a portion of their unfunded liability. The difference between the cost of capital and the earnings on the investment of that capital by the retirement system accrue to the participating community.

Should any transaction be undertaken the fiscal impact on the Bond Bank will be an increase in debt issuance costs. These include: rating agency fees, financial advice, bond counsel, printing, cusip

Prepared by: House Finance Committee Phone \_\_\_\_\_  
 Division \_\_\_\_\_ Date/Time 3/27/06 10:16 AM  
 Approved by: Rep. Kevin Meyer, Co-Chairman Date 3/27/2006  
Rep. Mike Chenault, Co-Chairman

**FISCAL NOTE #2**

**STATE OF ALASKA  
2006 LEGISLATIVE SESSION**

**BILL NO. CSHB 278(FIN)**

**ANALYSIS CONTINUATION**

service, underwriting, and other related expenses. Those costs will be funded from the bond proceeds and Bond Bank investment earnings. The Bond Bank estimates the initial costs associated with a hypothetical transaction of one billion dollars would approximately be \$7 million in the year in which the transaction occurs, with \$40.0 per year in service expenses.

This fiscal note is indeterminate because it is unclear at this time if any transaction will take place.

# Representative Mike Hawker

## Alaska State Legislature

### House Bill 278 Sponsor Statement

#### Short Title: Retirement System Bonds

HB 278 provides governmental employers the opportunity to utilize a financial mechanism generally referred to as a "Pension Obligation Bond" (POB) to help reduce the ultimate cost of satisfying the unfunded accrued actuarial liabilities of their retirement systems. A POB is essentially a legal arbitrage transaction where money is borrowed a lower rate of interest than the money earns when invested by the retirement system.

HB 278 clarifies the ability of municipal entities to include POBs in their strategy to reduce the cost of meeting unfunded pension liabilities and expands the authority of the Alaska Municipal Bond Bank Authority to support governmental employers wishing assistance engaging in such transactions.

This bill does not authorize any debt instruments to be issued. Separate specific action would be required to initiate any transaction under the authority provided by HB 278.

*Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 direct  
800 478-4950 toll free  
907 465-4979 fax

*Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

*Member:*

House Finance Committee  
Legislative Budget  
& Audit Committee

*House District 32:*

Eagle River  
Anchorage  
Rainbow  
Indian  
Bird  
Girdwood  
Portage  
Whittier  
Sunrise  
Hope

Updated 4/6/2006

Staff Contact: Juli Lucky 465-4949 or Paulyn Swanson 465-6820

rep.mike.hawker@legis.state.ak.us · www.akrepublicans.org/hawker\

## House Bill 278 (FIN)

Prepared by Representative Mike Hawker's Office

Updated April 6, 2006

- Section 1:** Allows a Teacher's Retirement System (TRS) employer to make a lump sum payment to prepay all or a part its share of the accrued actuarial pension liability; allows the commissioner to accept a lump sum payment that is less than the full amount; allows administrative fees to be charged; outlines how the lump sum payment and earnings or losses will be credited; and holds an employer who prepays its liability harmless if there are future state discretionary payments that benefit multiple employers.
- Section 2:** Outlines how municipalities can join together to issue debt obligations with the Alaska Municipal Bond Bank Authority and allows funds diversion agreements between the municipalities and state agencies.
- Sections 3 & 4:** Adds facilitating language to two sections of the accounting statute for the Public Employees Retirement System (PERS) to accommodate the lump sum payments allowed in section five of this bill.
- Section 5:** Allows a PERS employer to make a lump sum payment to prepay its share of the accrued actuarial pension liability; allows the commissioner to accept a lump sum payment that is less than the full amount; allows administrative fees to be charged; outlines how the lump sum payment and earnings or losses will be credited; and holds an employer who prepays its liability harmless if there are future state discretionary payments that benefit multiple employers.
- Section 6:** Adds to the statutory policies established for the Municipal Bond Bank Authority. Provides a directive to assist governmental employers to meet their unfunded retirement system obligations by issuing debt instruments (often generally called Pension Obligation Bonds) on their behalf. Specifies that the bond bank should provide the lowest rates possible without subsidizing the employers beyond their means.
- Section 7:** Grants the Municipal Bond Bank Authority the power to create subsidiary entities to assist governmental employers as outlined in section eight of this bill.
- Section 8:** New statute defining the powers of the Municipal Bond Bank Authority to engage in "Pension Obligation Bond" transactions on behalf of governmental employers.
- Section 9:** Exempts "Pension Obligation Bonds" from the current limit for revenue bonds that the Municipal Bond Bank may issue each year.
- Section 10:** Authorizes the Municipal Bond Bank to issue "Pension Obligation Bonds".
- Section 11:** Exempts "Pension Obligation Bonds" from the current limit for total revenue bonds and notes that the Municipal Bond Bank may have outstanding at any time.
- Section 12:** Adds a definition for "governmental employer" to the definitions section for the Municipal Bond Bank.
- Section 13:** Immediate effective date.

# Representative Mike Hawker

## Alaska State Legislature



### House Bill 278

#### Changes between original and House Finance Substitute

House Bill 278 would allow governmental employers to consider issuing debt instruments to manage existing liabilities for pensions. The House Finance Committee adopted the following amendments, recommended by bond counsel:

- Added section 1, which allows an employer to make a lump sum payment to prepay its share of the accrued actuarial liability for TRS; allows the commissioner to accept a lump sum payment that is less than the full amount; allows administrative fees to be charged; outlines how the lump sum payment and earnings or losses will be credited; and holds an employer who prepays its liability harmless if there are future state discretionary payments that benefit multiple employers.
- Added section 2, which outlines how municipalities can join together to issue debt obligations with the Alaska Municipal Bond Bank and provides for a funds diversion agreement between the municipalities and state agencies.
- Added bill sections 3 and 4, which insert statutory references to accommodate lump sum payments of liabilities for PERS, outlined in section 5.
- Added bill section 5, which allows an employer to make a lump sum payment to prepay its share of the accrued actuarial liability for PERS; allows the commissioner to accept a lump sum payment that is less than the full amount; allows administrative fees to be charged; outlines how the lump sum payment and earnings or losses will be credited; and holds an employer who prepays its liability harmless if there are future state discretionary payments that benefit multiple employers.
- Reworded the legislative policy to clarify that the bond bank should provide the lowest rate as is consistent with a self-supporting operation and that the legislature does not intend for the bond bank to subsidize employers' debt obligations.
- Simplified language in section 6.

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Sunrise  
Hope

Staff Contact: Juli Lucky 465-4949

Revised 4/6/06

## City of Soldotna

177 North Birch • Soldotna, Alaska 99669 • Phone: (907) 262-9107



Representative Mike Chenault, Co-Chair, House Finance Committee  
State Capitol, Room 502  
Juneau, AK 99801

Re: HB 278 and Other PERS Unfunded Liability Bills

The City of Soldotna supports legislation allowing an option for pension obligation bonds as a tool in dealing with the PERS unfunded liability issue. But, we feel that there are some broader considerations that should be part of this or any bill dealing with this issue. We ask you to submit the following comments to the Finance Committee.

As the Alaska Legislature considers options for reduction of the unfunded liability for PERS and TERS, you should ensure that communities who have taken steps to reduce that liability are not penalized. The City of Soldotna has taken steps to reduce its unfunded liability and should receive credit for this in any plans adopted by the Legislature.

The City of Soldotna, like all other participants in PERS, received notice of an unfunded liability of approximately \$4 million. We were also advised that this liability would effectively accrue interest at 8.25%. That interest charge equaled \$330,000 annually, or \$25,000 a month. At that time, the City's total contribution rate set by the State was about 2.5% and was raised to about 4.5%. With the statutory limit on increases of only 5% of payroll annually, it would have taken until FY 2005-06, the current year, before the City's contribution even equaled the accruing interest.

Faced with this situation, the City Council determined a payment of \$1 million should be made to reduce the unfunded liability. This payment was made in November of 2004. So that you understand the impact of waiting, I want to tell you how the money was applied to the City's liability. Of the \$1 million, \$620,000 went to accrued interest back to the date our unfunded liability calculation was made. Our "principal" owed was only reduced by about \$380,000. The City also elected to apply the legislatively provided offset funding for the current year's 5% increase to be applied to the unfunded liability as well. We absorbed the actual increase in the contribution rate in the City's operating budget.

Many communities asked about our actions. While they saw some benefit, most were concerned that if the Legislature provided assistance, credit would not be given for payments made to reduce the unfunded liability. If the State elected to

pay off the unfunded liability balance in full and did not give credit for earlier efforts to reduce the liability, Soldotna would have paid \$1 million more than other participants. This fear makes it difficult for a community to consider being a good steward of its resources. The Legislature must recognize this and if any relief is given, make sure it is not based on just the unfunded liability on the date relief is given, but also considers the extra payments made prior to that date.

Sincerely,



Thomas R. Boedeker  
City Manager

cc: Representative Kurt Olson  
Senator Tom Wagoner

**ALASKA MUNICIPAL LEAGUE**

**RESOLUTION #2006-02**

**A RESOLUTION URGING THE STATE TO PROVIDE FOR A  
STATUTORY MAXIMUM EMPLOYER CONTRIBUTION RATE AND  
ALLOW EMPLOYERS THE OPTION OF REFINANCING THEIR  
PERS/TRS DEBT**

**WHEREAS**, the State of Alaska created the Public Employees Retirement System (PERS) in 1962 to provide a retirement system for state and participating municipal employees; and

**WHEREAS**, many cities and boroughs have participated in PERS for many years; and

**WHEREAS**, the basic premise of a defined benefit pension plan is that employer and/or employee contributions are invested by the plan administrator in accord with sound actuarial principles so that adequate funds are available for retiree pensions and health care benefits; and

**WHEREAS**, the PERS system is seriously underfunded on a statewide basis; the plan's assets are roughly equal to only 70% of the projected plan expenses; and

**WHEREAS**, in response to the underfunding, PERS administrators have indicated that the employer PERS contribution rate will increase by 5% compounded annually every year for many years; and

**WHEREAS**, this past March, the Senate Finance Committee of the Alaska Legislature found the following reasons for PERS underfunding:

- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-year "bear" market downturn
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased benefits
- Awarding of Post Pension Retirement Adjustments

**WHEREAS**, by passage of Senate Bill 141, the State has taken a significant step towards a long-term resolution of the statewide PERS shortfall; effective July 1, 2006, the existing defined benefit plan will become a defined contribution plan for employees hired on or after that

date; under a defined contribution plan the liability of the employer is limited to making contributions; and

**WHEREAS**, all municipalities and local taxpayers face eventual fiscal calamity as the employer rate increases by 5% of total salaries paid per year; and

**WHEREAS**, establishing a maximum employer PERS rate will enable municipalities to afford to continue to provide essential public services; and

**WHEREAS**, the State government has vastly superior revenue resources compared to municipal governments; and

**WHEREAS**, statutory changes to allow municipalities and the state to refinance the existing debt could potentially save several percentage points of interest charges each year.

**NOW, THEREFORE BE IT RESOLVED** that the Alaska Municipal League agrees to the following:

- To avoid penalizing local taxpayer and students, the PERS statutes should be amended to provide for a maximum employer contribution rate of 20%, with any amount above 20% to be paid by the State, as part of the changes to resolve the plan underfunding.
- That the State allow employers the option of refinancing their existing PERS/TRS debt in order to use financing methods that are available at a rate lower than 8.25%.