

HB

359

<TARGET><BILL>HB 359</BILL><SUBJECT>HB
359</SUBJECT><COMM>HSTA28</COMM></TARGET>

Alaska State Legislature

House of Representatives



Member:
Judiciary
Rules
Legislative Council
Military & Veterans Affairs


Representative Max F. Gruenberg, Jr.
House District 14
Anchorage (Russian Jack, College Gate, Nunaka Valley)
House Democratic Whip

Interim:
716 W 4th Avenue, Rm 350
Anchorage, Alaska 99501-2133
Phone: (907) 269-0123
Fax: (907) 269-0124

Session:
Alaska State Capitol, Rm 110
Juneau, Alaska 99801-1182
Phone: (907) 465-4940
Toll Free: (866) 465-4940
Fax: (907) 465-3766

Email:
Rep.Max.Gruenberg@akleg.gov

TO: Representative Bob Lynn, Chair
House State Affairs Committee

FROM: Representative Max F. Gruenberg, Jr. 

DATE: February 28, 2014

RE: HB 359: Election Pamphlets; Information on Bonds

.....

Please consider this memorandum as a request for the House State Affairs Committee to schedule a hearing on House Bill 359. Accompanying this memo are the following documents:

- House Bill 359 (28-LS1523\A)
- Sponsor Statement
- Sectional Summary
- List of Expected Witnesses
- Legislative Research Services Reports on:
 - How other states present general obligation bond information to voters
- Potential example of new bond section in Official Election Pamphlet (OEP)
- Current example of information presented to the voters on GO bond propositions in the OEP
- Potential example of new bond notice to legislators
- Section of the Alaska Public Debt Report detailing the types of public debt

Thank you for considering my request for a hearing on House Bill 11. Please contact my legislative aide, Ted Madsen, at 465-2840 with any questions.

Alaska State Legislature

House of Representatives

Member:

Judiciary
Rules
Legislative Council
Military & Veterans Affairs



Representative Max F. Gruenberg, Jr.
House District 14
Anchorage (Russian Jack, College Gate, Nunaka Valley)
House Democratic Whip

Interim:
716 W 4th Avenue, Rm 350
Anchorage, Alaska 99501-2133
Phone: (907) 269-0123
Fax: (907) 269-0124

Session:
Alaska State Capitol, Rm 110
Juneau, Alaska 99801-1182
Phone: (907) 465-4940
Toll Free: (866) 465-4940
Fax: (907) 465-3766

Email:
Rep.Max.Gruenberg@akleg.gov

House Bill 359: **Election Pamphlets; Information on Bonds** **Sponsor Statement**

This bill increases the amount of information available to voters regarding bonding issues and propositions. In addition, it increases the amount of information available to legislators during deliberations on general obligation bonds.

General obligation bonds have a great impact on the fiscal condition of the state. This bill would provide additional information to legislators about the current and proposed indebtedness of the state whenever a G.O. bond package is brought up before the legislature for referral to the voters. The voters would also receive the same information. Voting on bond packages is one of the few avenues that the citizens of Alaska have to directly impact the fiscal future of the state.

Passage of this bill would greatly increase the amount of information available to voters during elections and enhance the legislature's understanding of proposed G.O. bond packages.

A handwritten signature in black ink, appearing to read "Max".

Alaska State Legislature

House of Representatives



Member:
Judiciary
Rules
Legislative Council
Military & Veterans Affairs

Representative Max F. Gruenberg, Jr.
House District 14
Anchorage (Russian Jack, College Gate, Nunaka Valley)
House Democratic Whip

Interim:
716 W 4th Avenue, Rm 350
Anchorage, Alaska 99501-2133
Phone: (907) 269-0123
Fax: (907) 269-0124

Session:
Alaska State Capitol, Rm 110
Juneau, Alaska 99801-1182
Phone: (907) 465-4940
Toll Free: (866) 465-4940
Fax: (907) 465-3766

Email:
Rep.Max.Gruenberg@akleg.gov

House Bill 359: **Election Pamphlets; Information on Bonds** **Sectional Analysis**

Section 1: Requires the general election pamphlet include a notice, prepared by the state bonding committee, that contains information relating to the bonded indebtedness of the state and each bond issue that will be offered for ratification on the ballot.

Section 2: Requires a legislative bill that authorizes the issuance of state general obligation bonds to be accompanied by a statement contain certain information relating to the state's bonded indebtedness and the proposed bonding before the bill can be referred to the rules committee of either body of the state legislature.

Section 3: Requires the Department of Revenue to publish its annual debt affordability analysis report on the department's internet website.

Section 4: Clarifies that the annual income statement and balance sheet for the Alaska Permanent fund prepared by the Board of Trustees of the Alaska Permanent Fund Corporation will appear on the general election pamphlet.

Section 5: Requires the state bond committee to prepare a notice relating to the state's bonded indebtedness and the proposed bonding before any election at which a bond is offered for ratification. In addition to publishing the notice in newspapers of general circulation, the bill requires the notice to be included on the state internet website as soon as it is prepared by the state bond committee.

Section 6: Provides an effective date of January 1, 2015.

A handwritten signature in black ink, appearing to be "MFG".

Alaska State Legislature

House of Representatives

Member:

Judiciary
Rules
Legislative Council
Military & Veterans Affairs



Representative Max F. Gruenberg, Jr.
House District 14
Anchorage (Russian Jack, College Gate, Nunaka Valley)
House Democratic Whip

Interim:
716 W 4th Avenue, Rm 350
Anchorage, Alaska 99501-2133
Phone: (907) 269-0123
Fax: (907) 269-0124

Session:
Alaska State Capitol, Rm 110
Juneau, Alaska 99801-1182
Phone: (907) 465-4940
Toll Free: (866) 465-4940
Fax: (907) 465-3766

Email:
Rep.Max.Gruenberg@akleg.gov

House Bill 359: Election Pamphlets; Information on Bonds List of Expected Witnesses

- Gail Fenumiai, Director, Division of Elections
- Deven Mitchell, Debt Manager, Department of Revenue



LEGISLATIVE RESEARCH SERVICES

Alaska State Legislature
Division of Legal and Research Services
State Capitol, Juneau, AK 99801

(907) 465-3991 phone
(907) 465-3908 fax
research@legis.state.ak.us

Memorandum

TO: Representative Max Gruenberg
FROM: Susan Haymes, Legislative Analyst
DATE: December 10, 2010
RE: General Obligation Bond Election Materials in Other States
LRS Report 11.083

You asked how other states present general obligation bond proposition information to voters in election materials.

Most states (and local governments) have authority to issue general obligation (GO) bonds, which are bonds used primarily to fund capital projects that are backed by the full faith and credit of the issuing state. This means the debt is the first obligation that the state must pay, and its repayment is guaranteed by the state's full taxing power. When a state issues a GO bond it agrees to pay the borrowed money back over a specified period of time, with interest. The principal and interest on all GO bonds are paid out of the state's general fund, rather than from a dedicated source of revenue. Many state constitutions provide certain restrictions on GO bonds such as an absolute limit on the amount or a limit on the amount of state debt that can be outstanding.¹ Moreover, the issuance of a GO bond generally requires legislative approval, and in at least 19 states a popular vote is required as well before the state can issue a GO bond.²

The states that require voter ratification generally provide that the bond measure must be described in the voters' pamphlet and must include the amount being borrowed, the projects that will be funded, and arguments for and against the proposal.³ Five states—Idaho, Oregon, Rhode Island, Virginia, and Washington—require more detailed fiscal information to be provided to voters in election materials.⁴ Of those, Oregon and Washington require the most detailed fiscal information.

Washington law requires that a fiscal impact statement be prepared for each bond measure and that the statement be printed in the voters' pamphlet and made available online.⁵ Oregon lawmakers established a financial estimate committee that is charged with estimating the financial impact on state and local government revenues and expenditures if a bond measure is enacted. The following table describes the degree of financial information that is required, and how the information is provided to residents in the five selected states.⁶

¹ The Washington State Constitution provides a formula that allows the state to issue GO bonds only if the total debt service will not exceed nine percent of the average of general state revenues for the preceding three fiscal years. Other states such as Texas and Ohio have a definite limit to the amount the state can borrow. Such states have successfully overruled the limit by amending their respective constitutions.

² Those states are Alaska, Arkansas, California, Florida, Idaho, Kansas, Kentucky, Maine, Michigan, Missouri, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, Virginia, and Washington. The constitutions of Illinois and South Carolina require members of each house of the General Assembly (three-fifths and two-thirds, respectively) or a majority of the voters approve a GO bond before it can be issued. We used the National Conference of State Legislatures' (NCSL), "State Budget Requirements: Provision and Practice," 2004, which includes references to many state's debt provisions. From among the states that require a popular vote before issuing a GO bond, we selected five that require more detailed financial information for voters. If the NCSL report was silent on debt limits, we reviewed that state's constitution. The NCSL report can be accessed at <http://www.ncsl.org/default.aspx?tabid=12612>. Please note that while we believe our research to be thorough, there may be additional states with provisions similar to the selected states that we did not locate due to variations in wording and construction of statutes.

³ In Alaska, under AS 15.58.020(a)(7), "a statement of the scope of each project" authorized in the bond measure must be included in the voters' pamphlet.

⁴ Of the 15 states requiring a majority vote, including the five we selected, we did not find any that required the indebtedness resulting from passage of a GO bond measure be expressed as per capita or per household. The five selected states do require that the aggregate amount of indebtedness be provided to residents in election materials.

⁵ Attachment A is a fiscal impact statement prepared for a Washington GO bond measure (Referendum 52) before the general election in November 2010, www.secrestat.wa.gov/osos/en/PreviousElections/2010/general/Pages/OVG_20101102.aspx#ososTop.

⁶ We include copies of each of the statutes cited as Attachment B.

Required Information for Voters on General Obligation (GO) Bond Measures in Election Materials

State	Citations	Information Required	Information Format
Idaho	Idaho Code § 34-440 Idaho Code § 34-1812C	Existing indebtedness of state, interest rate, and total amount of bond (principal and interest) over life of the bond.	Statement printed on ballot, in the official notice of election, and in voters' pamphlet, which is mailed to every household before general election. Voters' pamphlet and ballot information are available online.
Oregon	ORS § 250.035 ORS § 250.037 ORS § 250.125 ORS § 250.127 ORS § 250.131 ORS § 254.085	Financial estimate committee prepares detailed financial analysis including impact on state and local governments if enacted, specifically aggregate amount of expenditures, reduction in revenues, and indebtedness required by any local government to meet provisions.	Estimate printed on ballot and voters' pamphlet. Voters must be notified if bond measure is to be payable from property taxes. Voters' pamphlet and ballot information are available online.
Rhode Island	R.I. Gen. Laws § 17-1-2 R.I. Gen. Laws § 17-5-1 R.I. Gen. Laws § 17-5-1.1 R.I. Gen. Laws § 17-5-3	Estimated total cost of project including financing, legal and other costs; terms of the bond; and detailed description and timetable of the project.	Required in voter pamphlet which is mailed to each residential unit before general or special referenda election. Voters' pamphlet available online.
Virginia	Va. Code Ann. § 24.2-105.1 Va. Code Ann. § 30-19.10	Fiscal impact statement describing the need for and uses of the bond proceeds, and estimated costs and expenditures if enacted.	Required to be posted on State Board of Elections web site and distributed to the general registrar of each county and city.
Washington	ARCW § 29A.04.321 ARCW § 29A.32.070 ARCW § 29A.72.025	Fiscal impact statement describing any projected increase or decrease in revenues, costs, expenditures or indebtedness state or local governments will experience if enacted and including statement and assumptions used in preparing statement.	Fiscal impact statements must be available online and included in the voters' pamphlet which is distributed to each household.

Notes: Among the states that require a popular vote, Washington and Oregon require the most detailed financial information be provided in election materials. All five states require the aggregate amount of indebtedness be provided in election materials.

Sources: The web sites of each state's Elections Division including, <http://www.sos.idaho.gov/elect/eleindex.htm>, <http://www.sos.state.or.us/elections/>, <http://sos.ri.gov/elections/>, <http://www.sos.wa.gov/elections/>, and <http://www.sos.idaho.gov/elect/eleindex.htm>. State statutes available through Lexis Nexis.

We hope this is helpful. If you have questions or need additional information, please let us know.

Bonding Proposition B

State General Obligation Library, Education, and Educational Research Facilities Bonds

(Chapter 95, Session Laws of Alaska 2010)

“Providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of design and construction of library, education, and educational research facilities; and providing for an effective date.”

Ballot Language

Bonding Proposition B
State General Obligation Library, Education, and Educational
Research Facilities Bonds
\$397,200,000

Shall the State of Alaska issue its general obligation bonds in the principal amount of not more than \$397,200,000 for the purpose of design and construction of library, education, and educational research facilities?

Bonds Yes

Bonds No

Legislative Affairs Agency Summary

The voters are asked if the state should issue bonds. The bonds will be used for education projects. The bonds will also be used for library and research projects. The projects are listed. The bonds will not exceed \$397,200,000.

Statement of Scope

This bond proposition, if approved, would authorize the state to issue general obligation bonds of the State in the amount of not more than \$397,200,000 for the purpose of paying the cost of design and construction of library, education, and educational research facilities projects as follows:

Department of Education and Early Development. The amount of \$38,500,000 is appropriated from the 2010 education project fund to be allocated among the following projects in the amounts listed, subject to reallocation as provided by law:

Project	Amount
Mount Edgecumbe High School aquatic facility	\$20,000,000
State Library, Archives, and Museum facility	\$18,500,000

Research Facilities Bonds

The amount of \$128,500,000 is appropriated from the 2010 education project fund to be awarded as grants for design, construction, and major maintenance for the following public school projects, subject to reallocation as provided by law:

Project	REAA Location	Amount
Alakanuk K-12 school replacement	Lower Yukon	\$46,500,000
Kipnuk K-12 school renovation/addition	Lower Kuskokwim	\$49,900,000
Kwigillingok K-12 school renovation/addition	Lower Kuskokwim	\$32,100,000

University of Alaska. The amount of \$207,000,000 is appropriated from the 2010 education project fund for the following projects, subject to reallocation as provided by law:

Project	Location	Amount
Valley center for art and learning	Mat-Su campus	\$23,500,000
Community arena and athletic facility	UA-Anchorage	\$ 60,000,000
Life science classroom and laboratory facility	UA-Fairbanks	\$88,000,000
Student housing	Kenai campus	\$16,000,000
Career and technical education center	Kenai campus	\$14,500,000
Campus renovation and renewal	Prince William Sound Community College	\$5,000,000

Department of Fish and Game. The amount of \$20,000,000 is appropriated from the 2010 education project fund for the Near Island research facility.

Department of Commerce, Community, and Economic Development. The amount of \$3,200,000 is appropriated from the 2010 education project fund for payment as a grant to the City of Klawock for the Prince of Wales Island vocational education center.

Notice on Current General Obligation Bonded Indebtedness

The current general obligation bonded indebtedness of the State is \$475.8 million.

The effect of the proposed bonding on the state is to increase it by \$397.2 million

The average cost of the annual debt service on the current indebtedness is \$54 million.

The effect of the proposed bonding on the average cost of the annual debt service is to increase it by \$36 million.

The estimated annual debt service on the bond issue being offered for ratification is estimated at \$36 million.

The projected amount of general obligation debt that could be issued and paid for from the Alaska debt retirement fund is zero.

The bond issue being offered for ratification will not be repaid with amounts in the Alaska debt retirement fund.

Alaska Public Debt Report

The Alaska Public Debt report is a comprehensive overview of the public debt accumulated by the State of Alaska and its subsidiaries. The full report is available on the internet at:

<http://www.dor.alaska.gov/treasury/programs/programs/other/debt/index.aspx>

Bonding Proposition A

State General Obligation Transportation Project Bonds

(Chapter 18, Session Laws of Alaska 2012)

Providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state transportation projects; and providing for an effective date.

Ballot Language

Bonding Proposition A	
State General Obligation Transportation Project Bonds	
\$453,499,200	
Shall the State of Alaska issue its general obligation bonds in the principal amount of not more than \$453,499,200 for the purpose of paying the cost of state transportation projects?	
<input type="radio"/> Bonds Yes	<input type="radio"/> Bonds No

Legislative Affairs Agency Summary

The voters are asked if the state should issue bonds. The bonds will be used for transportation projects. The projects are listed. The total amount of the bonds will be \$453,499,200.

Statement of Scope

This bond proposition, if approved, would authorize the state to issue general obligation bonds of the state in the amount of not more than \$453,499,200 for the purpose of paying the cost of design and construction of state transportation project as follows:

Department of Commerce, Community, and Economic Development. The amount of \$195,400,000 is appropriated from the 2012 state transportation project fund to be awarded as grants under AS 37.05.315 or AS 37.05.316, as applicable, to recipients for projects as follows:

<u>Project</u>	<u>Amount</u>
Anchorage - Port of Anchorage Expansion	\$50,000,000
Bethel - Harbor Dredging	4,000,000
Bristol Bay Borough - Port of Bristol Bay Expansion and Pile Dock Replacement	7,000,000
Emmonak - Port Improvements	3,000,000
Haines Borough - Boat Harbor Upgrades	15,000,000
Hooper Bay - Boat Harbor	1,000,000
Kodiak - Pier III Replacement	15,000,000
Kotzebue - Cape Blossom Road and Deep Water Port	10,000,000
Matanuska - Susitna Borough – Bogard Road Extension East	13,500,000
Matanuska - Susitna Borough – Port Mackenzie Rail Extension	30,000,000

Bonding Proposition A

State General Obligation Transportation Project Bonds

Nenana - Totchaket Resource Development Corridor Access	6,500,000
Newtok Traditional Council - Mertarvik Evacuation Road Construction	4,100,000
Nome - Port Design and Construction	10,000,000
Sand Point - Sand Point Road Rehabilitation	2,500,000
Seward - Marine Industrial Center Expansion	10,000,000
Sitka - Sawmill Cove Industrial Park Dock	7,500,000
St. George - Harbor Reconstruction	3,000,000
Togiak - Waterfront Transit Facility	3,300,000

Department of Transportation and Public Facilities. The amount of \$254,500,000 is appropriated from the 2012 state transportation project fund to be allocated among the following projects in the amounts listed subject to reallocation between projects in accordance with AS 37.07.080(e):

<u>Project</u>	<u>Amount</u>
Anchorage - Glenn Highway, Hiland Road to Artillery Road Reconstruction	\$35,000,000
Anchorage - Glenn Highway/Muldoon Road Interchange Reconstruction	15,000,000
Anchorage - New Seward Highway/36th Avenue Reconstruction	26,000,000
Anchorage - New Seward Highway – MP 75-90 Bridge Repairs	10,000,000
Anchorage - O'Malley Road Reconstruction	15,000,000
Elliott Highway, MP 108-120 Reconstruction	6,500,000
Fairbanks - Old Steese Highway to McGrath Road Reconstruction and Extension	24,000,000
Fairbanks - Wendell Street Bridge Replacement	14,400,000
Juneau - Glacier Highway, MP 4-6 Improvements	5,500,000
Juneau - Mendenhall Loop Improvements	6,000,000
Kenai - Kenai Spur Road Rehabilitation	20,000,000
Ketchikan - Shelter Cove Road Construction and Improvements	19,000,000
Mat-Su - Fairview Loop Reconstruction	10,000,000
Mat-Su - Knik Goose Bay Road Reconstruction	15,000,000
North Pole - Plack Road Improvements	5,000,000
Platinum Airport Runway Extension	3,100,000
Richardson Highway - Ruby Creek Bridge Replacement	11,000,000
Sitka - Katlian Bay Road Construction	14,000,000

Notice to the Legislature Current General Obligation Bonded Indebtedness

The current general obligation bonded indebtedness of the State is \$475.8 million.

The effect of the proposed bonding on the state is to increase it by \$397.2 million

The average cost of the annual debt service on the current indebtedness is \$54 million.

The effect of the proposed bonding on the average cost of the annual debt service is to increase it by \$36 million.

The estimated annual debt service on the bond issue being offered for ratification is estimated at \$36 million.

The projected amount of general obligation debt that could be issued and paid for from the Alaska debt retirement fund is zero.

The bond issue being offered for ratification will not be repaid with amounts in the Alaska debt retirement fund.

I. Types of Alaska Public Debt

The State has liability or potential exposure for repayment of principal and interest nine categories. In descending order of the State's liability, the types of obligations are:

- State Debt
- State Supported Debt
- State Guaranteed Debt
- State Moral Obligation Debt
- State and University Revenue Debt
- State Agency Debt
- State Agency Collateralized or Insured Debt
- Municipal Debt
- Industrial Development Bonds

On the following pages, each type of State obligation is briefly discussed and defined. Table 1.1 summarizes Alaska's \$9.0 billion of public debt by type.

In Section II, Alaska issuers of public debt are described and statistical tables are provided for each issuer.

A. State Debt

State Debt includes revenue anticipation notes (RAN's) and general obligation bonds (GOB's). The full faith, credit and resources of the State are pledged to the payment of principal and interest on this debt. If future State revenues are insufficient to make the required principal and interest payments to bondholders and noteholders, the State is legally required by its contract with bondholders and noteholders to raise taxes in order to meet these obligations.

1. Revenue Anticipation Notes (RAN's)

Short-term State borrowing in anticipation of revenues is permitted under AS 43.08.010. RAN's may be issued and renewed from time to time, but all such notes, renewals and interest thereon shall be paid from revenues by the end of the fiscal year following the year in which the notes were issued. The full faith, credit, resources, and taxing power of the State are pledged to the payment of RAN's and interest thereon. To further secure such payment, and if necessary to effect advantageous borrowing to the State, collateral may also be pledged. There are no State RAN's issued or outstanding at June 30, 2010.

2. General Obligation Bonds (GOB's)

The State Constitution provides that GOB's must be authorized by law and ratified by the voters. Generally, the Constitution permits authorization of GOB's only for capital improvements. The legal provisions regarding GOB's are contained in Section 8, Article IX of the Alaska Constitution and AS 37.15, the State Bonding Act. The amount and timing of a bond sale must be approved by the State Bond Committee. There is no statutory limit on the amount of State GOB's that may be authorized. \$151,639,941 in authorized GOB's remain unissued at June 30, 2010.

On November 2, 2010 Alaska's voter's authorized an additional \$397,200,000 of general obligation bonds for education capital improvements. \$200,000,000 of bonds were sold on December 7, 2010 to take advantage of bond structures authorized in the American Reinvestment & Recovery Act that expired on December 31, 2010. This issuance will be reported in next year's debt book.

As of June 30, 2010 the State has issued GOB's 51 times since statehood, raising almost \$2.2 billion. In addition, the State assumed the outstanding debt of the Territory of Alaska as GOB's of the State. In 1959, the Territorial debt was \$2.9 million. As of June 30, 2010, the State had \$475.7 million in GOB's outstanding.

In April 2003 the State Bond Committee sold State of Alaska GOB's Series B in the amount of \$102.8 million. The bonds are eligible for federal reimbursement of debt service from Federal Highway Administration receipts in addition to the general obligation pledge of the State of Alaska.

The interest cost on State bond issues is determined by several factors, the major factor being the general level of interest rates in the global economy. However, the credit rating assigned to an issuer and the related investor assessment of credit risk are important factors. The State's credit ratings improved from Baa1/A in 1973 to Aaa/AA+/AA+ by 2010. The State's credit ratings were upgraded by both Moody's and Fitch Ratings in 2010. A significant factor behind the credit rating is the value and extended life of the State's oil-based revenues combined with significant reserve positions and slow steady economic growth.

B. State Supported Debt

State Supported Debt is debt for which the ultimate source of payment is, or may include, appropriations from the State's General Fund. The debt does not have the full faith and credit of the State pledged to it but, it may have the full faith and credit of another public issuer, as in the case of municipal school debt.

State Supported Debt is not considered debt under the Alaska Constitution because the State's payments on the debt obligations, even if they are the subject of a contractual commitment, are subject to annual legislative appropriation. As a result, voter approval of such debt is not required.

State Supported Debt includes lease-purchase financing obligations (structured as certificates of participation (COP's)), the share of municipal G.O. bonds issued for school construction which is reimbursable by the State, the portion of university or municipal G.O. bonds issued for certain capital projects which is reimbursable by the State, and Capital Leases the State has entered for the Atwood Office Building and Parking Garage with AHFC and the Anchorage Jail with the Municipality of Anchorage. Additionally, in January 2009 the State entered into a lease supporting \$244.3 million of bonds issued to fund the Goose Creek Correctional Center.

Historically, State Supported Debt has been authorized by voter referendum as in the case of municipal school debt, by law as in the case of the University, by legislative resolution pursuant to AS 37.05.280 (now repealed) as in the case of ASHA, and by action of the State Bond Committee as in the case of some COP's.

In 1986, legislation increased legislative control over lease-financing. Chapter 106, SLA 1986, effective January 1, 1988, requires approval by law of any executive branch lease-financing agreements with annual lease payments exceeding \$1 million. Chapter 73, SLA 1992, effective September 14, 1992, adds the requirement of approval by law of leases with total lease payments exceeding \$10 million. Chapter 75, SLA 1994, effective June 7, 1994, generally requires prior legislative approval of all lease-purchase agreements, other than the refinancing of outstanding balances on existing lease purchase agreements and certain University of Alaska transactions.

At June 30, 2010, State Supported Debt was \$1,256.4 million as shown in Table 1.1.

C. State Guaranteed Debt

In the 1982 general election, voters approved an amendment to Article IX, Section 8 of the Alaska Constitution that permits the State to guarantee unconditionally as a general obligation of the State, the payment of principal and interest on revenue bonds issued by AHFC for the purpose of purchasing mortgage loans made for residences of qualifying veterans. This is the only purpose for which State Guaranteed Bonds may be issued. Because the bonds are general obligations of the State, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee. In five elections from 1982 through 2002 voters approved propositions authorizing \$2.7 billion of State Guaranteed Bonds for veterans' mortgages. While not reported in the year ended June 30, 2010 on November 2, 2010 Alaska's voter's approved an additional \$600 million of State Guaranteed Bonds for veterans' mortgages.

These bonds are known to investors as "double-barreled" because there are two distinct forms of security behind the bonds. Their first lien is on the revenue stream generated by payments on the mortgage loans made from bond sale proceeds. Additional security to bondholders is provided by the general obligation pledge of the State to make the required debt service payments in the event that revenues are insufficient. In recognition of the creditworthiness of the veterans' bonds, they have been rated AAA; higher than the State G.O. bonds.

The constitutional amendment permitting the State general obligation pledge on veterans' mortgage bonds was necessary only to gain tax-exempt status for the bonds. The Mortgage Subsidy Bond Tax Act passed by Congress in 1980 restricted the ability of states or public corporations to sell tax-exempt housing bonds above specified ceilings unless they were also general obligations of the issuing state and the proceeds were used for housing loans for veterans. After the 1980 legislation and before the 1982 constitutional amendment, AHFC had been issuing more expensive taxable bonds for veterans' as well as non-veterans' loans.

Because of the strong support behind the bonds, independent of the State's general obligation pledge, this debt is not counted by the rating agencies as general obligation debt. However, if problems in meeting debt service on veterans' bonds were to arise, the bonds would be treated as general obligation debt for credit rating purposes.

At June 30, 2010, State Guaranteed Debt was \$300.3 million, as shown on Table 1.1.

D. State Moral Obligation Debt

This type of debt consists of bonds issued by State agencies which are secured, in part, by a reserve fund to which is attached a discretionary replenishment provision. Such a reserve fund is typically called a capital reserve fund. The discretionary replenishment provision typically reads:

The chairman of the authority (or corporation) shall annually, no later than January 1, certify in writing to the Governor and the Legislature the amount, if any, required to restore the capital reserve fund to the capital reserve fund requirement. The Legislature may appropriate to the authority (or corporation) the amount certified by the chairman of the authority (or corporation). Nothing in this section creates a debt or liability of the state.

A capital reserve fund is generally equal in size to the maximum amount of debt service required in any year. Alaska's discretionary replenishment provision means that if the reserve fund should fall below its required level, the State Legislature may, but is not legally required to, appropriate funds sufficient to restore the capital reserve fund to its required level. The most likely reason that such a reserve fund would fall short of the required level is if agency revenues were insufficient to meet a given debt service payment and the reserve fund had to be used to make the payment.

The authority to issue moral obligation bonds is contained in the enabling legislation of Alaska Aerospace Development Corporation, Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Student Loan Corporation, Alaska Municipal Bond Bank, and Alaska Energy Authority. Such authority is not granted to the other State agencies.

At June 30, 2010, State Moral Obligation Debt was \$1,171.8 million, as shown in Table 1.1.

E. State Revenue and University Debt

This type of debt Issued by the State on behalf of the Sportfish Program and the Alaska International Airport System or by the University is secured only by revenues derived from the issuing enterprise. Revenue Debt is not a general obligation of the State or the University and does not require voter approval. Such debt is authorized by law and issued by the University or by the State Bond Committee. This type of debt includes International Airports Revenue Bonds, Sport Fish Revenue Bonds, various University Revenue Bonds and Notes, and Toll Facilities Revenue Bonds.

At June 30, 2010, State Revenue and University Debt was \$736.8 million, as shown on Table 1.1.

F. State Agency Debt

State Agency Debt is secured by revenues generated from the use of bond proceeds or the assets of the agency issuing the bonds. The debt is not a general obligation of the State nor does the State provide security for the debt in any other manner, i.e., by appropriations, guarantees, or moral obligation pledges. The State has, however, appropriated funds to subsidize the interest rate to the borrower in the case of much of the AHFC debt listed as State Agency Debt in Table 1.1.

Nevertheless, if default threatened on any such State Agency Debt, there is some possibility the State would provide relief. The ties between these agencies and the State -- such as their statutory origin and authority, subjection to the executive budget act and State contracting procedures, cabinet membership on boards, legislative approval of bond issuance, and, most fundamentally, achievement of their missions as a political goal of the State -- may mean that the State has or will take responsibility for such debt even though it has no legal liability. A default on any State Agency Debt would probably affect ratings and interest costs on all State and State Agency and certain municipal debt.

The exception to the expectation of State response in the event of a default is the Tobacco Settlement Asset Backed Bonds issued by the Northern Tobacco Securitization Corporation. These bonds were deliberately structured without any implication of State support to divest the State of a portion of its position with the settlement. Investors in these bonds have received a commensurately higher yield than for other types of State Agency Debt.

At June 30, 2010, State Agency Debt was \$864.8 million, as shown on Table 1.1.

G. State Agency Collateralized or Insured Debt

As security for this type of debt, the State agency pledges mortgage loans or other securities which may be 100% insured or guaranteed by another party of superior credit standing. This upgrades the credit rating on the debt and lowers the interest cost. It also makes very remote any likelihood of the State having to assume responsibility for the debt. The details of such debt are explained in the section on AHFC.

At June 30, 2010, State Agency Collateralized or Insured Debt was \$2,739.0 million, as shown on Table 1.1.

H. Municipal Debt

Political subdivisions within the State of Alaska are termed "municipalities." The five categories of municipality are home rule city, general law city, home rule borough, general law borough, and unified municipality.

Alaska municipalities had 2.5 billion in general obligation bonds outstanding at June 30, 2010. Alaska municipalities' general obligation debt has remained relatively stable over the last five years, and remains below its peak of \$2.67 billion reached in 1986.

In addition to general obligation debt that is supported by local taxes, cities and boroughs may issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At June 30, 2010, approximately \$778.2 million in municipal revenue bonds was outstanding. These revenue bonds accounted for 23.7% of all local debt outstanding in Alaska.

I. Industrial Development Bonds (IDB's)

The City of Valdez, Alaska issued approximately \$1.7 billion of Industrial Development Bonds (IDB's), from 1976 - 1986, to finance construction of the Trans Alaska Pipeline System. These bonds, repaid solely by revenues from major oil companies, are not obligations of the State of Alaska or the City of Valdez. These Industrial Development Bonds are not included in the amounts of Alaska public debt in this publication.

TABLE 1.1
State and State Agency Debt by Type at 6/30/10
 \$ (millions)

	principal outstanding	interest to maturity	total debt service to maturity
State Debt			
State of Alaska General Obligation Bonds	475.7	180.0	655.7
State Supported Debt			
Lease-Purchase Financings	45.6	9.6	55.2
State Reimbursement of Municipal School Debt Service	865.1	299.1	1,164.2
State Reimbursement of capital projects	30.1	10.2	40.3
Capital Leases	315.6	203.0	518.6
Total State Supported Debt	1,256.4	521.9	1,778.3
State Guaranteed Debt			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans' Mortgage Program)	300.3	245.3	545.6
State Moral Obligation Debt			
Alaska Municipal Bond Bank:			
1976 General Resolution General Obligation Bonds	206.5	81.6	288.1
2005 General Resolution General Obligation Bonds	362.4	210.2	572.6
1998-2004 General Revenue Bonds	53.9	37.0	90.9
Alaska Energy Authority:			
Power Revenue Bonds #1 through #5	107.7	40.5	148.2
Utility Revenue Bonds (Including Refundings City and Borough of Sitka)	35.3	12.1	47.4
Alaska Student Loan Corporation		61.5	61.5
Student Loan Revenue Bonds	330.0	61.5	391.5
Student Capital Project Revenue Bonds	76.0	9.9	85.9
Total State Moral Obligation Debt	1,171.8	514.3	1,686.1
State Revenue Debt			
Sportfish Revenue Bonds	54.4	24.8	79.2
International Airports Revenue Bonds	561.1	292.4	853.6
University of Alaska Debt			
University of Alaska Revenue Bonds	100.5	43.5	144.0
University Indebtedness to AK Housing Finance Corporation (5)	18.5	2.5	21.0
Installment Contracts	2.4	0.3	2.7
Total University of Alaska Debt	121.3	46.3	167.6
Total State Revenue and University Debt	736.8	338.8	1,075.6
State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	112.3	N/A	112.3
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	10.9	6.5	17.4
Alaska Railroad	183.0	56.0	239.0
Northern Tobacco Securitization Corporation			
2006 Tobacco Settlement Asset-Backed Bonds	380.4	540.7	921.1
Alaska Student Loan Corporation			
Loan with State of Alaska	63.0	8.1	71.1
Funding Note Purchase Agreement	115.3	3.1	118.4
Total State Agency Debt	864.8	614.5	1,479.3
State Agency Collateralized or Insured Debt			
Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Revenue Bonds & Mortgage Revenue Bonds:			
1998 Through 2010 (First Time Homebuyer Program)	1,478.4	1,052.3	2,530.7
General Mortgage Revenue Bonds 2002	148.8	136.3	285.1
Housing Development Bonds 2002 through 2004	243.5	210.7	454.2
General Housing Purpose Bonds 2005	285.8	229.7	515.5
Government Purpose Bonds 1997 & 2001	152.3	55.3	207.6
State Capital Project Bonds, 2002-2007	255.6	151.5	407.1
Alaska Industrial Development and Export Authority:			
Revolving Fund and Refunding Revolving Fund Bonds	95.2	35.2	130.4
Power Revenue Bonds, First Series (Snettisham Hydro Project)	79.4	62.7	142.1
Total State Agency Collateralized or Insured Debt	2,739.0	1,933.7	4,672.7
Total State and State Agency Debt	7,544.8		
Municipal Debt			
School G.O. Debt	1,244.4	N/A	N/A
Other G.O. Debt	1,256.0	N/A	N/A
Revenue Debt	778.2	N/A	N/A
Total Municipal Debt	3,278.6		
Less: State Reimbursable Debt and Capital Leases *	-1,220.2		
Less: Alaska Municipal Bond Bank debt included in municipal debt *	-564.8		
	1,493.7		
Total Alaska Public Debt	\$ 9,038.5		

TABLE 1.1 (Continued)
State and State Agency Debt by Type at 6/30/10

NOTES

- 1. University debt owed to AHFC is double counted in detail, but eliminated from Total Alaska Public Debt
 - * Reimbursable school G.O. debt is included in "state supported debt"
 - Capital Leases are included in State Agency Collateralized or Insured Debt
 - State Reimbursement of Capital Projects is included in University and Municipal Debt
- Sources: 2008 annual reports and financial statements of AHFC, AMBBA, AIDEA, AEA, U of A, AKRR, and directly from agencies.

II. Issuers of Alaska Public Debt

In Section I, the nine types of Alaska public debt are described. In this section, the issuers of Alaska public debt are described. Issuers include the State, State Agencies and University, and Municipalities.

At June 30, 2010, total public debt of Alaska issuers stood at \$9.0 billion, as follows:

	<u>\$ (millions)</u>
State of Alaska Revenue and GO Debt	1,391.6
State Supported Debt	1,256.4
State Agencies and University Debt	4,896.9
Municipalities Debt	3,278.6
Less duplicate reporting *	(1,785)
Total Alaska Public Debt	<u>\$ 9,038.5</u>

* \$564.8 million of Alaska Municipal Bond Bank debt issued to purchase municipal debt, \$892.4 million State reimbursable debt, and \$327.7 million in capital leases.

A. State of Alaska

State debt includes general obligation bonds, International Airport System revenue bonds, sport fish revenue bonds, toll facility revenue bonds, and revenue anticipation notes.

1. General Obligation Debt

Tables 2.1-2.5 below summarize the State's general obligation debt issued and outstanding.

TABLE 2.1
General Obligation Bonds Annual Debt Service
 \$(thousands)

balance outstanding at 6/30/10	<u>payments due during year ending 6/30/10</u>		
	principal	interest	total
\$475,740	\$ 27,105	\$ 21,839	\$ 48,944

Source: Department of Revenue bond documents