

SB

191

<TARGET><BILL>SB 191</BILL><SUBJECT>SB
191</SUBJECT><COMM>SFIN28</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT First Committee of Referral

DATE: 2/21/14

FURTHER: Rules

Date of 5-Day Notice: 2/27/14
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/11/14

Finance Committee considered SENATE BILL NO. 191

SB 191 GENERAL OBLIGATION BOND FUND TRANSFER

"An Act relating to the authority to transfer money from the general fund to general obligation bond construction funds or accounts; and providing for an effective date."

and recommends:

- be replaced with CS SB 191 (FIN) [] Same Title New Title
- [] adopt previous CS _____ (_____) [] Same Title [] New Title
- [] attached amendment(s)
- [] adopt _____ Letter of Intent
- [] further referral to _____ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV			✓	

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

[] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
	DUANE AVEY	✓			
	FAIRCLOUGH	✓			
	HOFFMAN	x			
	OZOFF			✓	
CO-CHAIR:	KELLY	✓			
CO-CHAIR:	MEYER	✓			

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 191
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB191-DOR-TRS-02-28-14
Title: GENERAL OBLIGATION BOND FUND
TRANSFER
Sponsor: FINANCE
Requester: Senate Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial Version

Prepared By: Pam Leary	Phone: (907)465-3751
Division: Treasury	Date: 02/28/2014 11:00 AM
Approved By: Angela Rodell	Date: 02/28/14
Agency: Commissioner, Department of Revenue	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 191

Analysis

The bill amends existing statute to provide for more constrained but administratively streamlined borrowing from the general fund for transfers to general obligation bond construction funds. The bill eliminates the need to obtain approval of the Legislative Budget and Audit Committee unless the transfer under this authority were to exceed 25% of the total general obligation bond authorization and requires that transfers from the general fund be repaid within 15 months following transfer. ~~Currently there is no limit on the term of transfer. The bill also creates the requirement to notify the~~ Legislative Budget and Audit Committee of any transfer from the general fund for this purpose.

The bill creates flexibility that will allow the State Bond Committee and Department of Revenue to borrow funds in a more "just in time" fashion to both better comply with Internal Revenue Service code and eliminate the negative carry cost of borrowed funds sitting in construction funds for extended time frames as well as have greater flexibility in responding to changes in capital market conditions. The potential opportunity cost of investing funds held in the general fund is offset by the cost of paying interest expense on borrowed funds that aren't yet needed.

CS FOR SENATE BILL NO. 191(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the authority of the Legislative Budget and Audit Committee to
2 approve the temporary transfer of money from the general fund to construction funds
3 or accounts; and providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. AS 37.10.087(a) is amended to read:

6 (a) When a construction fund or account established to receive the proceeds of
7 state general obligation bonds is temporarily exhausted, the commissioner of
8 administration on recommendation of the state bond committee [, AND WITH THE
9 APPROVAL OF THE LEGISLATIVE BUDGET AND AUDIT COMMITTEE,] may
10 temporarily transfer money from the general fund to the bond construction fund or
11 account. If the amount of the transfer exceeds 25 percent of the amount
12 authorized for the general obligation bonds, the commissioner of administration
13 shall obtain approval of the transfer from the Legislative Budget and Audit
14 Committee before the transfer.

1 * **Sec. 2.** AS 37.10.087(d) is amended to read:

2 (d) Money transferred from the general fund under (a) of this section shall be
3 [IMMEDIATELY] returned to the general fund within 15 months after the transfer
4 [AS SOON AS SUFFICIENT MONEY HAS BEEN RECEIVED IN THE BOND
5 CONSTRUCTION FUND OR ACCOUNT TO WHICH THE TRANSFER WAS
6 MADE].

7 * ~~**Sec. 3.** AS 37.10.087 is amended by adding a new subsection to read:~~

8 (e) The commissioner of administration shall notify the Legislative Budget
9 and Audit Committee in writing of a transfer of money from the general fund under (a)
10 of this section.

11 * **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).

28-LS1483\N
Wallace
3/7/14

Adopted
3/10/14

CS FOR SENATE BILL NO. 191(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

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adopted

28-LS1483\A.1
Wallace
3/3/14

AMENDMENT #1

3/10/14

OFFERED IN THE SENATE
TO: SB 191

BY THE SENATE FINANCE COMMITTEE

- 1 Page 1, line 11, following "commissioner":
- 2 Insert "of administration"
- 3
- 4 Page 2, line 7, following "commissioner":
- 5 Insert "of administration"

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

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Senate Bill 191 General Obligation Bond Fund Transfer

Sectional Analysis

Section 1 : Amends AS 37.10.087(a)

Provides that the Commissioner of Administration may transfer money from the General Fund to the bond construction fund or account, when the account has been temporarily exhausted. Amends current statute that all transfers must be approved by the Legislative Budget & Audit Committee, by requiring only transfers that exceed 25 percent of the amount authorized for the general obligation bond need approval by the Legislative Budget & Audit Committee.

Section 2: Amends AS 37.10.087(d)

Provides that money that is transferred under AS 37.10.087(a) shall be returned to the General Fund within 15 months of the transfer.

Section 3: Amends AS 37.10.087 by adding a new subsection

When a transfer occurs, the Commissioner of the Department of Administration shall notify the Legislative Budget & Audit Committee.

Section 4: Effective Date Clause

This Act becomes effective immediately.

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

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Senate Bill 191 General Obligation Bond Fund Transfer

Sponsor Statement

Senate Bill 191 proposes amending AS 37.10.087 to provide targeted flexibility in the management of the issuance of General Obligation (GO) Bonds by the State Bond Committee. The changes proposed in SB 191 will allow for better management of GO bond-funded construction funds or accounts, and ensure compliance with Internal Revenue Service code.

SB 191 authorizes a 15-month loan from the General Fund to a GO Bond construction fund, when the fund has been temporarily exhausted. This change in statute will allow for increased certainty in project schedule and cash flow, provide greater ability for the State Bond Committee to respond to unforeseen increases in project expenditures from the construction fund, and allow the State Bond Committee greater flexibility in executing bond sales.

The changes proposed in SB 191 will allow for better management of the bond-funded construction accounts, which has become a more serious challenge with changes that have occurred in the IRS code, since these statutes were enacted. The IRS code mandates that states expend all bond proceeds progressively within a three-year window following the bond sale. A failure to meet this requirement will not automatically result in a negative action against an issuer, but the increasing frequency of this practice increases the potential for enforcement by the IRS.

Recently, the State has earned less on the investment of the bond proceeds than the State has paid in interest on the bonds, which has totaled millions of dollars to the State. The investment proceeds of the bond's investment earnings must be tracked to final expenditure and extended construction fund life creates an administrative burden. The IRS code requires that money used to advance-fund bond issuance be repaid by bond proceeds within 18 months. Implementing a firm limit of 15 months on the length of transfer between the General Fund and the bond construction fund ensures compliance with the IRS requirement.

Under SB 191, if the transfer of funds between the General Fund and the general obligation bond construction fund exceeds 25 percent of the total amount authorized, the transfer must be approved by the Legislative Budget & Audit Committee. In instances where the transfer does not exceed 25 percent, the Commissioner of the Department of Administration will notify the Legislative Budget & Audit Committee, in writing, of the transfer.

Updated: March 3, 2014