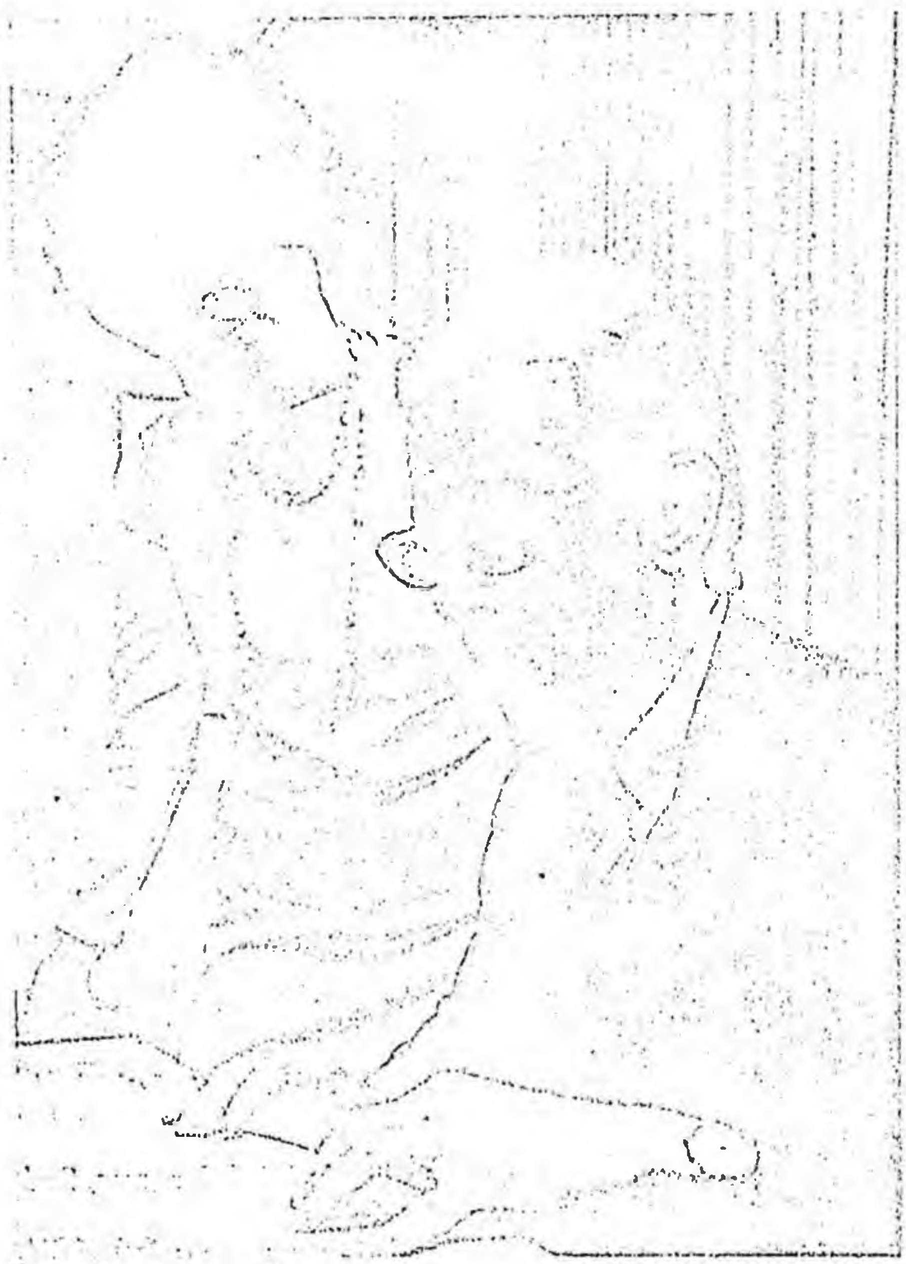
Leg. Finance - House & Senate Finance Comte Files (1975-76) 356
HB 72 cont., CSHL 72



Mrs. Carol A. Arcarese and Merrill Ring

Where other arguments failed in promoting consolidation, there yet remained to local advocates the spur of excessive borrowing costs to individual units having size, management or resource deficiencies. That remaining spur would be dulled, of course, by the creation of a bond bank which enables such units to obtain financing at tolerable interest rates. By contributing to the durability of governmental fragmentation, bond banks deny to taxpayers the full-dollar benefits of full-service government under the single pretext of interest "savings" on occasional borrowing.

INFLATING PROGRAMS

Bond banks, by design, serve as a financing conduit for local agencies. Since the bond bank virtually guarantees the marketability of their debt, local governments are assured of a funding source regardless of the need for and feasibility of the programs or projects being financed. Moreover, bond banks shield local participants from such essential credit tests as debt capacity, repayment ability, operating performance, tax burden, income trends, potential additional debt and economic outlook. Many projects have been strengthened, modified, postponed or canceled by having to qualify under these tests for market acceptance.

By providing a buffer between the marketplace and the local entity, bond banks allow local governments to be spared this discipline of credit-worthiness. Without such restraining influence, the result could very well be the inflating or increasing of local government programs by loosing a spate of ill-conceived projects that may otherwise have been scaled down or abandoned.

WEAKENING STRUCTURE

By their very nature, bond banks appeal to weaker units of government. In states having bond banks, the stronger credits or marketing units would tend to maintain their borrowing independence while weaker units would likely opt for inclusion to reduce interest costs. What is frequently overlooked in evaluating the bond bank process is that the bank, among other things, may create a disincentive for participants to develop or enhance their management, budgetary and planning skills.

Local governments which lack such expertise will have no urgency to gain it. Worse yet, those medial governments which have already achieved a certain degree of expertise in these areas, may allow proficiencies to erode. Given the relative ease of bank borrowing, such medial governments may well be enticed to choose the bond bank route, lessening in course both their incentive and need to sustain or upgrade basic operating strengths.

Achieving excellence in municipal finance is more than a laudable goal, for in its achievement lies the preservation of local government. The gradual encroachment of state and Federal financing techniques upon areas previously reserved exclusively for municipalities portends the ultimate atrophication of local government as an independent entity capable of meeting or reflecting the desires of its citizens.

SAPPING OF RESOURCES

The moral obligation pledge of states to back debt issuances was first utilized in 1960 as a marketing tool for problematic projects incapable on their own merits of obtaining an investment-grade credit rating and a reasonable financing rate. Initially, the rating agencies considered securities backed by a moral obligation pledge as being second only in creditworthiness to the state's general obligation bonds, and deserving of a credit rating one grade below that of the state itself.

Since 1960, New York State alone has used the moral obligation pledge to cover bonds issued for almost 25 programs : 10 independent agencies and authorities of the State. To date, at least nine additional states have adopted the moral pledge device and several others are contemplating its use.

As moral obligations began to proliferate, the marketplace came to view these securities as a class unto itself which tended to sell and trade at appreciably lower levels than most comparably-rated general market names. More recently, the rating standard for moral obligation bonds has also undergone a change. In its continuing review of all agency credits backed by moral pledges, Moody's Investors Service is now placing the critical evaluative emphasis on the basic financial integrity of each program and project claiming as ultimate security the temporal and legally unenforceable moral obligation of a state or city for debt repayment.

With a substantial rise in the contingent liability of a state under moral obligations, its future ability or even willingness to meet much commitments may become impaired. Unfettered use of indirect obligations such as the moral pledge may also detract from the overall marketability and credit quality of direct debt obligations of a state. While possibly not a decisive factor, it should be observed nonetheless that the bond-bank States of Vermont and Maine subsequently experienced a downgrading by Moody's of their general credit from triple-"A" to double-"A" status. It is questionable public policy to foster the development of financing techniques which have the potential to jeopardize the credit standing and prime market rate of the state as a whole, for the less certain good of lowering debt costs for a few.

A CONSTRUCTIVE ALTERNATIVE

Viewed over the long-term, reason would dictate that a more constructive approach to reducing interest rates lies in strengthening the financial administration of local governments rather than in the perpetuation of faltering units by subsidizing their borrowing costs. State and local governments, together with investment bankers, can develop actionable programs to aid municipal governments in sharpening expertise in financial administration as well as the marketing of debt issues at attractive interest rates.

An example of the kind of effort which can be undertaken on the state level is provided by the North Carolina Local Government Commission. Established in 1931 to restructure the debt of defaulted local governments, the Commission operates within the Department of State Treasurer as a central marketing service for local governments.

The Commission provides aid to municipal governments through the performance of the following functions: (1) advice on planning and issuing local bonds and notes; (2) approval of the issue of local bonds and notes; (3) the sale of local bonds and notes; (4) management of local government accounting, audits, and current cash balances; and (5) the maintenance of local government data.

Municipal governments contemplating capital improvement programs submit their proposals for review by the Commission. Preliminary engineering, cost and feasibility studies are reviewed, as well as the community's outstanding debt and other factors, impinging on its ability to finance the improvement. Local officials, Commission specialists and bond attorneys work together to develop strictly defined projects and sound financing techniques. Upon receiving formal approval of the Commission, the local government presents the bond issue to the voters for consideration.

The Commission participates actively in every aspect of the issuance of the bonds including advertising for sealed bids, sending financial prospectuses to the rating agencies and potential buyers, conducting the sale, receiving the monies, and transferring them to the local government. If no bids are received, the Commission may negotiate private sales.

THE DIFFERENCES

While many of these services are similar to those provided by a bond bank, there are substantial differences which clearly distinguish the Commission from a bond bank. The intent of the Commission is to help individual local governments to compete more effectively in the marketplace, rather than to offer them relief from competition and its discipline. Since the securities sold through the Commission constitute direct obligations of local governments and are not secondarily secured by the pledge of the State or Commission, interest rates reflect the relative creditworthiness and marketability of the issuer.

Further, rather than offer a haven for unrated or lesser rated issuers, the Commission actively encourages local governments to secure one national credit rating upon the incurrence of $600,000 in debt and two national credit ratings upon reaching $1 million in outstanding debt. Local governments seeking to upgrade their credit standing are assisted by the financial management experience of the Commission.

On the regional level, the Commission makes available credit information to the North Carolina Municipal Council, a non-profit trade organization sponsored by the investment banking industry in North Carolina. Working as an independent agency, the Council publishes timely reports on the financial management, debt administration, and relative creditworthiness of all North Carolina issuers. Similar trade-supported, credit reporting agencies have been established in other states as well.

The combined action of a state agency, which took the form in North Carolina of a Local Government Commission, in concert with that state's investment banking industry as represented by the Municipal Council, has provided well for the expanded marketability of North Carolina bonds on both regional and national levels. Neither of these groups could have achieved the desired results without the active support and cooperation of the local governments.

REGIONAL SUPPORT VITAL

The importance of generating regional support is often ignored when considering ways to improve borrowing costs for local governments. Regional support, mustered through the accurate, timely, and complete reporting of municipal debt and financial data, can be essential to securing the lowest possible borrowing costs, particularly in periods of rising rates. Small banks and dealers which would normally bid consistently and aggressively for moderately-sized local debt offerings may not feel the same sense of urgency (loyalty, if you will) about bidding on considerably larger offerings of a bond bank designed for national underwriters and investors.

Catering to large institutions at the expense of neglecting the development of regional-industry support is tantamount to putting all your eggs in one basket. Just as major corporations establish lines of credit with more than one bank, local governments should seek marketability of their debt on both regional and national levels.

The ultimate responsibility for creating the conditions necessary to obtain lower interest rates lies with the local government. Clearly, the task is not an easy one. But for those units which undertake the critical examination and corrective action necessary, the benefits to be derived will far outweigh the advantages received from bond bank financing. The future of local government will be shaped by its effectiveness in responding to this challenge. □

SB 179 - California State Bond Bank

The chief argument made for a state bond bank is that it will lower the interest costs of smaller issuers and, in times of restricted credit, increase the supply of funds for their borrowings. Nationally, the bonds of smaller issuers usually face investor resistance because these issuers often have limited economic bases, limited long-term debt management and debt planning, and/or because their names are not widely known in the market. In addition, these issuers typically have small offerings. The larger buyers, however, commonly want large amounts from relatively few issuers, not only because they have large sums to place at one time but, too, because it reduces their analyzing and handling costs. In the case of bond dealers, the purchase of larger blocks lowers selling expenses and the borrowing costs of holding a bond inventory. Moreover, many small issuers are ineligible by law for trust and institutional investment because they lack a sufficiently high credit rating from a national rating bureau, are not rated, fall below a minimum population, cannot be used to collateralize public deposits, etc. Further, some of the smaller issuers handicap themselves by an inadequate presentation of their community and its bond proposals or by insisting on unusual bidding terms. The result is that higher rates and sweetened yields are necessary to attract investors.

Fortunately, smaller issuers in California have consistently fared better than comparable issuers in the rest of the nation. Indeed, their bonds have often sold as well as bonds in other states that enjoyed higher ratings and greater familiarity in the market. This is explained by the fact that California is virtually unique in having a well developed local market for local issuers. By reason of the State's large population and high personal income, a sophisticated financial structure has evolved, including several major dealer banks and an extensive broker dealer network. These institutions trade heavily in all types of California issues, partly because the market for large, nationally known issues from other states has centered in New York City for decades, but also because these institutions are bound up with the future of California. The construction of schools, sewer and water systems, and civic centers, for example, is not only part of the State's economic growth, but is also crucial to economic growth in the future. Not surprisingly, nearly all California issuers of even marginal creditworthiness have been able to market their bonds at reasonable rates.

The bond bank proposed in SB 179 is not only unnecessary in California, but it would bring grave disadvantages to our smaller issuers. SB 179 is copied after the bill that established a bond bank for the State of Vermont, except that it lacks even an implicit moral guarantee of the state that the Vermont bill provides. Without such backing, the bank's debt will not be rated by Moody's as a matter of policy, thus lowering the appeal of the bank's offerings. Moreover, the market will price the bank's offerings to compensate for the fact that they will represent, as it were, a fixed return mutual fund in the California bonds with lowest creditworthiness and marketability. Rather than selling at the average of the bonds securing the bank's debt, as might seem to be the case at first glance, the bank's offerings will sell nearer the level of the weakest links in the chain. For the market exacts a price for lacking any control over what risks the bank will assume. In our judgment, this means the bank's debt will probably trade at the level of the bonds at the lower end of Moody's "Baa" category. Currently, this is about 80 basis points above the level of the general obligation bonds of the State of California.

On the other hand, moral backing of the bank's debt by the State would tend to impair the State's credit standing and is almost certain to lead to severe conflicts between State and local bonding priorities, conflicts from which the State can be expected to emerge the victor. With state backing, bonds of a California municipal bond bank would probably be rated "A" by Moody and trade at slightly above "Baa" levels - or some 50 basis points above state general obligations.

The bond bank proposed in SB 179 will cost the communities that participate through higher interest rates and could mean substantial losses for those selling the outstanding bonds of these issuers.

The California bond dealer network would be effectively destroyed by this bank. Large buyers can be expected to win most bids on the bank's offerings, leaving our bond dealers to survive on a limited business in nationally known issues and in 1911 and 1915 Act bonds.

Additionally, the bill provides that the bond bank is to ration its funds on the basis of "need". With the drastic curtailment of the bond market within California, our smaller issuers will be increasingly dependent upon the bank --- and local priorities will be increasingly under State control.

Finally, the bond bank will obviously not atone for any lack of sound financial and accounting advice. Rather, for the first time, the communities with the greatest problems in these areas will drive up the borrowing costs of others. ... or dissolution ...

It must be conceded that the bond bank will spare the communities involved from such costs as preparing a prospectus, advertising for sales, printing bonds, etc. Yet the savings would be [illegible] by the costs of documenting need to the bond bank, and in higher borrowing costs.

In summary, the smaller issuers of California will not benefit from a bond bank; indeed, they will pay a high price for this approach. The extensive bond dealer network in the State will be lost. Perhaps the greatest cost is an intangible one, the erosion of local control over local capital improvements.

BANK INVESTMENT SECURITIES DIVISION
Portfolio & Research Group
March 14, 1972

The Daily Bond Buyer - July 12, 1974

Wash. Treasurer Doubts Need to Create State Bond Bank to Aid Small Localities

Special Report to The Bond Buyer

OLYMPIA, Wash.—The market for municipal bonds in the State of Washington is served adequately now by financial institutions, and there is no need to establish a State bond bank, said State Treasurer Robert S. O'Brien in his "tentative conclusion" on a study begun late last year.

The bond bank, which would have been similar to the one created by Vermont in 1970, was defined by the Treasurer's office as "a public corporate agency established by a state with the powers to issue its own obligations, which are secured by obligations of subordinate political entities."

The purpose is to give smaller agencies a surer access to markets and a lower interest cost. In summarizing 'prliminary conclusions," Mr. O'Brien said:

"In weighing the pros and cons of a state bond bank, the crucial question to be answered is this: Can this institution better serve the public welfare than existing arrangements at the presently available financial institutions? While the state's of Vermont and Maine must have answered affirmatively to this question, it is our tentative conclusion that, in Washington, the existing arrangements and the presently available financial institutions are, in fact providing adequate bond market for the smaller municipality.

"Let me indicate how we arrived at this conclusion," Mr. O'Brien said in his monthly financial report.

"First, we solicited relevant materials from those states with operating bond banks. Second, because of an article in "The Daily Bond Buyer," we were deluged with information from other states that had or were in the process of considering the bond bank concept, or other alternatives. Third, in Washington we solicited the comments from all public treasurers and their respective associations, and received comments from local banks and investment houses.

Generally speaking, Mr. O'Brien said, the in-State survey showed "local treasurers in Washington believe that the current financial marketplace is, in fact, doing the job." He cited one unidentified treasurer who summed up: "I know of no municipality that has not been able to sell their bonds on the open market if the proceeds were to be used for any feasible project. It is possible to suggest that only the lower credits would go into the bond bank."

In concluding that a bond bank would be of "marginal value," Mr. O'Brien said that on the basis of outstanding debt in 1972 a bond bank would assist only those municipalities that account for between 4% and 10% of all State and local debt issued.

"Most of the bond m[illegible]ing done in this State," he explained, is done by school districts which are either represented by financial consultants or have the necessary skill within the administrative arm of the district to enable them to attract bids from 2 or 3 local underwriters. In the case of larger issues — over $2 million — bidders are attracted from all over the U.S.

Only Modest Savings

"In the case of municipalities, per se, it is our conclusion that only the very largest cities in Washington are required to turn to the bond market for any type of financing. While it is true that if those smaller municipalities were amalgamated with other small issuers and the total were floated under the structure of a municipal bond bank, the interest cost could be lower, it is also true that there is not a sufficient quantity of such financing in the State of Washington in any one year to justify an offering of $1 million."

Mr. O'Brien also noted, "Our data indicate only modest savings in potential obligation bonds rated double-"A", bond bank issues would probably receive a single-"A" rating. Beyond this, the State Treasurer added:

"Major branch banks in Washington have policies of bidding on every local issue in the state. Indeed, unlike Vermont, we have a very strong and well-developed investment banking network, and, as I recall, no local unit of government was denied funds even during the big credit crunch of 1970. Our study indicates that, during the last seven years, there has been no time when a local municipality has not received at least one bid (in the case of issues of $25,000 or less), and usually two or more bids."

Mr. O'Brien said that his present comments "summarize a comprehensive report which is currently being finalized and which will be made available upon request."

Levitt Asks Better Control of Authorities; Seeks End to Moral Commitment Bonds

By ALAN BAUTZER

Seeing "inherent evil" in what he believes to be "excessive" use of the authority structure to finance capital construction, State Comptroller Levitt has called for "closer scrutiny" and control of State authorities and for an end to financing their projects by means of the so-called "moral commitment" board.

In a report on New York State Public Authorities submitted Friday to Gov. Hugh Carey and to the Legislature, Mr. Levitt charged that 14 of the State's 41 State-wide or regional authorities currently owe the State more than $275 million, most of which, in his opinion, may never be repaid. Mr. Levitt said this figure would be even higher except that $150 million of additional advances to various authorities by the State have been written off as bad debt.

Mr. Levitt points out that the State's authorities now have more than $12 billion in outstanding debt, of which nearly $6 billion is of the "moral obligation" variety.

"It is quite obvious," says Mr. Levitt, "that the State and its public authorities have close financial ties. Many authorities are simply not economically viable and cannot exist without the continuing support of the State. Their operations must be brought under closer scrutiny of the State itself. At the same time, public authorities have to provide a vehicle for highly questionable State fiscal policies. These policies must be terminated."

The Levitt blast against the proliferation and expansion of authorities comes just one day after the Senate Committee on Housing and Urban Development conducted a one-day hearing into the financial status of one of the largest of the State authorities—Urban Development Corp.

'Must Be Salvaged'

In his report, the Comptroller singles out UDC for special mention, saying, "There can be no doubt that the billion dollar program of vital public construction now underway by UDC must be salvaged."

But, he continued, the agency's financial plight demonstrates what he considers a "basic fault" in the way UDC has been authorized to finance its program—a way he feels cannot be further tolerated.

Repeating a theme appearing again and again in his reports, Mr. Levitt charged that the public authorities have represented an evasion of the State's constitutional obligation to "go to the People" when it wants to spend large funds for public capital projects.

Viewing with alarm the greatly expanded authorizations granted to authorities in recent years, Mr. Levitt points out that the largest of them, the Housing Finance Agency, has an outstanding debt of $4.7 billion—much larger than the State's own full faith and credit debt of $3.5 billion as of Dec. 31, 1974.

Other points he emphasizes are:

- Most public authorities in New York State are not self-sufficient.
- Virtually all of the public authorities are of financial concern to the State.
- The State has granted outright subsidies to meet operating deficits, including $100 million in 1974 for transportation, and $30 million during the last few years to UDC.
- Tax revenues which would otherwise be used to meet general municipal expenditures have been diverted to authorities to overcome their operating deficits. As an example, he cites the diversion of one-quarter cent of State taxes on each gallon of gasoline and diesel fuel to pay debt service on a special highway improvement program for which the Thruway Authority acts as the State's financing agent. Nearly $17 million in these funds have been turned over to the TA. What gripes Mr. Levitt is that it represents "the incurrence of debt to finance a State purpose without the approval of the People."
- The State is committed to special "lease-purchase" debt of $2.3 billion. Talking of yet another similar financing scheme used to finance special health, senior citizen, and community college facilities, Mr. Levitt charged that "the long run effect of this financing approach is an increased cost to the State in the form of interest cost which would not otherwise be incurred if the construction were financed from current tax revenues. Also, says Mr. Levitt, the interest costs are higher than if State full faith and credit debt were used.

Comptroller Levitt offered the Governor and the Legislature a number of recommendations, including:

- An end to the "moral commitment" clause in further statutes concerning public authorities, and an end to any further programs involving that kind of debt.
- The State should take a more "realistic" attitude toward first instance advances to authorities, a process Mr. Levitt says has been abused. Outright grants are recommended instead where no real hope of repayment exists.
- The minutes of the boards of directors of all state-wide public authorities should be subject to the approval of the Governor.
- Appropriate State agencies should be given authority to set up performance guidelines for authorities which would have to be met as a prerequisite to State aid.
- Budgets of all State authorities should be reviewed by the State Budget Director.
- Increases in user fees, such as tolls proposed by public authorities, should be subject to analysis by an appropriate State body.

"Legitimate public authorities have a proper place in our governmental structure," Mr. Levitt concedes in his covering letter accompanying the 66-page report, "but I fear that many others have been given form without substance—that is why they are a drain on the public treasury."

The seven largest authorities and their outstanding debt in thousands of dollars as of the end of the 1973 fiscal year are:

Port Authority, $2,029,867; Housing Finance Agency, $4,699,700; State Power Authority, $1,221,318; Urban Development Corp., $769,970; Thruway Authority $833,681, and Domitory Authority, $1,438,164.

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 11, 1975

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Rhode:

Enclosed is a memorandum from Jack Chenoweth to Larry Eppenbach on current bond issues outstanding in various communities of the State.

These are the communities we would deem in need of assistance. The smaller cities have the most need such as Sitka, Cordova, Nome, Petersburg, Seward and Valdez.

Sincerely,

Sterling Gallagher

Sterling Gallagher
Commissioner

SG:gd

Enclosure

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Ketchikan	$ 1,250,000	$	Sewer treatment facility
		None	
Kodiak	1,380,000		Water and sewer/streets
		None	
Nome	1,000,000		Schools
		2,000,000	Port facilities
Pelican	None		
		58,500	Sewage treatment facility
Petersburg	None		
		5,500,000	School
Seward	600,000		Water/sewer/sewage treatment
		50,000	Dock improvement
Skagway	200,000		Sewer
		None	
Soldotna	1,400,000		Water/sewer
		None	
Wrangell	750,000		Sewer
		350,000	Pool
Valdez	None		
		12,500,000	School

Other municipalities contacted but indicating no unissued bonds or anticipated projects are:

Bristol Bay Borough	Kake
Haines Borough	Kenai
Ketchikan Gateway Borough	King Cove
Barrow	Klawock
Craig	Kotzebue
Dillingham	Nenana
Haines	Saint Mary's
Homer	Seldovia
Hoonah	Unalaska
Hydaburg	Yakutat

Totals of the bonds listed are:

Authorized but unissued	$ 55,715,000
Anticipated	$ 34,708,500

JBC:bq

MEMORANDUM State of Alaska

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Larry Eppenback
Deputy Commissioner of Treasury
Department of Revenue

DATE: December 13, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Chenoweth
Director
Local Government Assistance Division

SUBJECT: Municipal bond bank: reported authorized but unissued and anticipated general obligation bond issues.

Questionnaires directed to some 40 Alaska municipalities inquired as to anticipated general obligation bond issues. The information returned is summarized below. The Cities of Anchorage and Fairbanks, the Greater Anchorage Area Borough and the Fairbanks North Star Borough are excluded.

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Juneau	$ 2,500,000		School
		$ 4,000,000	Fire facilities and equipment
Sitka	-0-	1,000,000	Roads
Kenai Peninsula Borough	-0-	3,500,000	Schools
Kodiak Island Borough	35,000		Schools
		None	
Matanuska-Susitna Borough	15,500,000		Schools
		None	
North Slope Borough	20,000,000		Schools
	2,900,000		Roads
	650,000		Public housing
	50,000		Water/sewer
	50,000		Utilities
	2,650,000		Other capital improvements
		None	
Bethel	None		
		250,000	Dock improvements
Cordova	1,000,000		Civic center complex
		5,500,000	School

Statement on HB 72

Submitted by Don M. Berry

Executive Director

Alaska Municipal League

Mr. Chairman, Members of the Committee:

For the record, I am Don M. Berry, Executive Director of the Alaska Municipal League, an organization representing cities and boroughs throughout Alaska. On behalf of the League members, I wigh to express our appreciation for this opportunity to prevent testimony in support of HB 72 an act establishing the Municipal Bond Bank Authority.

The League has spent several years reviewing and drafting the concept of assistnace to local governments by the creation of a financing agency within the State which could provide a viable means of aiding these local governments to overcome many of the high cost problems incurred in the capital markets and which could aid communities in the financing of needed capital improvements. We feel that HB 72 as it appears before this committee adequately meets these needs.

As you are well aware, many communities in Alaska have experienced extreme difficulty in obtaining necessary funds to construct civic improvement due to existing bonded indebtedness or high interest rates. Because of the extreme costs of normal local government responsibilities, vitally needed capital improvements such as streets, sewers, water systems, hospitals, parks and

recreation facilities, pollution control, libraries, etc. have become inferior claimants in the competition for the local tax base. Therefore, the only recourse has been to go to the bond market with its nearly prohibitive costs. While many plans have been advanced by the U. S. Treasury, Congress and others to aid such communities, one thing that all proposals have in common is the powerful involvement of the federal government one way or another. The League believes that state involvement is not only more appropriate but much more beneficial.

This involvement could take two courses - outright grants to political subdivisions for capital improvements or the creation of a municipal authority such as you now have before you. Since HB 72 does not deal with outright grants, we will confine our remarks to the bond authority.

Unlike most states with their numerous political subdivisions issuing bonds in large volume, Alaska has relatively few issuers, with most of the volume in the City and Borough of Anchorage, the City of Fairbanks, the Fairbanks North Star Borough, and, to a lesser extent, the Kenai Peninsula Borough, the City and Borough of Juneau, and the City of Ketchikan and Ketchikan Gateway Borough.

However, with the rapid increase of economic activity over the next few years, Alaska may anticipate that its smaller cities such as VAldez and Cordova and less populous boroughs such as the Matanuska-Susitna and North Slope will begin to borrow on a volume comparable to the larger population centers. In addition, villages or communities may be expected to incorporate or attain corporate status permitting bond issuance, and other pockets of

growth will develop. These new growth pockets will have capital demands, initially for schools and later for other municipal purposes.

Alaska may expect then over the next few years a number of potential bond issuers who have never approached the municipal bond market. Many of these will obviously be unrated on their initial financings. Thus, some of the local issues will not gain nearly the investor attention they might deserve because of the difficulty of analyzing the credit of a new municipality or a municipality which has not heretofore borrowed. Particular economic, political or social problems might be present in a given situation which would preclude any reasonable expectation of obtaining funds by borrowing. Local officials in many of these budding communities may find that readying an issue for market is beyond their capabilities because of inexperience.

A Municipal Bond Bank Authority, such as envisioned in HB 72, could be of immeasurable help to first time borrowers if only because of the advice it could render on the techniques of preparing bonds for market.

In addition, the concept of packaging a number of issues from new or smaller municipalities in effect reoffered through the new uniform security of the Municipal Bond Bank Authority could be of great help in local debt management. The primary analysis of the local bond security could be undertaken by the Bond Authority and the burden relieved from outside municipal bond purchasers. It may be expected that the Municipal Bond Authority operation could result in interest cost savings to the smaller municipalities

since the uniform security it offers to bond holders would obviate the difficult issue-by-issue bond analysis now necessary and because the State, although not legally obligated to support the bonds would be considered to be involved, nevertheless, in assuring its successful operation. These obvious advantages would also accrue to the larger and more experienced municipalities if they chose, under the terms of HB 72 to issue their bonds through the Authority rather than on the public market.

An additional feature of the Municipal Bond Authority, available to all Alaskan Communities, is the fact that it would help provide a continuing staff to assist in local finance operations. It is realistic to assume that, with a specific bond purchase and marketing function assigned tothe Authority, progress could be made for the first time in securing and keeping current a uniform accounting and information system from municipalities - the lack of which has heretofore proved a problem to our local government operation in Alaska.

Thus, it is obvious that the Municipal Bond Bank Authority as established by HB 72 offers much more far-reaching assistance to local governments than just the capability of securing lower interest rates on local bond issues. It provides the essential tools which might eventually enable each community to attract investor interest on its own. It could assist in developing financial stability in local governments which in turn would enhance the credit of the State at all levels.

The League realizes the tremendous responsibility with which the Committee has been charged. Your decisions here will

have a lasting effect on Alaska and its citizens for years to come. So too will the decisions of local government as they plan vitally needed capital improvements not only for the present but for the generation of Alaskans who will require and utilize these facilities in the future. We sincerely feel that an investment now in the schools, hospitals, roads, environmental pollution control facilities of the future would be a wise and judicious investment of the State's resources to assure its continued growth and the development of its bright prospects in the decades to come.

In conclusion, I wish to express the thanks and appreciation of the entire Alaska Municipal League for the opportunity to present this statement of strong support of strong support of HB 72. We are anxious to assist you in your important task and stand ready to help you in every way possible.

Thank you very much.

Respectfully submitted,

Don M. Berry
Executive Director

DMB/jf

SB 179 - California State Bond Bank

The chief argument made for a state bond bank is that it will lower the interest costs of smaller issuers and, in times of restricted credit, increase the supply of funds for their borrowings. Nationally, the bonds of smaller issuers usually face investor resistance because these issuers often have limited economic bases, limited long-term debt management and debt planning, and/or because their names are not widely known in the market. In addition, these issuers typically have small offerings. The larger buyers, however, commonly want large amounts from relatively few issuers, not only because they have large sums to place at one time but, too, because it reduces their analyzing and handling costs. In the case of bond dealers, the purchase of larger blocks lowers selling expenses and the borrowing costs of holding a bond inventory. Moreover, many small issuers are ineligible by law for trust and institutional investment because they lack a sufficiently high credit rating from a national rating bureau, are not rated, fall below a minimum population, cannot be used to collateralize public deposits, etc. Further, some of the smaller issuers handicap themselves by an inadequate presentation of their community and its bond proposals or by insisting on unusual bidding terms. The result is that higher rates and sweetened yields are necessary to attract investors.

Fortunately, smaller issuers in California have consistently fared better than comparable issuers in the rest of the nation. Indeed, their bonds have often sold as well as bonds in other states that enjoyed higher ratings and greater familiarity in the market. This is explained by the fact that California is virtually unique in having a well developed local market for local issuers. By reason of the State's large population and high personal income, a sophisticated financial structure has evolved, including several major dealer banks and an extensive broker dealer network. These institutions trade heavily in all types of California issues, partly because the market for large, nationally known issues from other states has centered in New York City for decades, but also because these institutions are bound up with the future of California. The construction of schools, sewer and water systems, and civic centers, for example, is not only part of the State's economic growth, but is also crucial to economic growth in the future. Not surprisingly, nearly all California issuers of even marginal creditworthiness have been able to market their bonds at reasonable rates.

The bond bank proposed in SB 179 is not only unnecessary in California, but it would bring grave disadvantages to our smaller issuers. SB 179 is copied after the bill that established a bond bank for the State of Vermont, except that it lacks even an implicit moral guarantee of the state that the Vermont bill provides. Without such backing, the bank's debt will not be rated by Moody's as a matter of policy, thus lowering the appeal of the bank's offerings. Moreover, the market will price the bank's offerings to compensate for the fact that they will represent, as it were, a fixed return mutual fund in the California bonds with lowest creditworthiness and marketability. Rather than selling at the average of the bonds securing the bank's debt, as might seem to be the case at first glance, the bank's offerings will sell nearer the level of the weakest links in the chain. For the market exacts a price for lacking any control over what risks the bank will assume. In our judgment, this means the bank's debt will probably trade at the level of the bonds at the lower end of Moody's "Baa" category. Currently, this is about 80 basis points above the level of the general obligation bonds of the State of California.

On the other hand, moral backing of the bank's debt by the State would tend to impair the State's credit standing and is almost certain to lead to severe conflicts between State and local bonding priorities, conflicts from which the State can be expected to emerge the victor. With state backing, bonds of a California municipal bond bank would probably be rated "A" by Moody and trade at slightly above "Baa" levels - or some 50 basis points above state general obligations.

The bond bank proposed in SB 179 will cost the communities that participate through higher interest rates and could mean substantial losses for those selling the outstanding bonds of these issuers.

The California bond dealer network would be effectively destroyed by this bank. Large buyers can be expected to win most bids on the bank's offerings, leaving our bond dealers to survive on a limited business in nationally known issues and in 1911 and 1915 Act bonds.

Additionally, the bill provides that the bond bank is to ration its funds on the basis of "need". With the drastic curtailment of the bond market within California, our smaller issuers will be increasingly dependent upon the bank --- and local priorities will be increasingly under State control.

Finally, the bond bank will obviously not atone for any lack of sound financial and accounting advice. Rather, for the first time, the communities with the greatest problems in these areas will drive up the borrowing costs of others.

It must be conceded that the bond bank will spare the communities involved from such costs as preparing a prospectus, advertising for sales, printing bonds, etc. Yet the savings would be [illegible] by the costs of documenting need to the bond bank, and in higher borrowing costs.

In summary, the smaller issuers of California will not benefit from a bond bank; indeed, they will pay a high price for this approach. The extensive bond dealer network in the State will be lost. Perhaps the greatest cost is an intangible one, the erosion of local control over local capital improvements.

BANK INVESTMENT SECURITIES DIVISION
Portfolio & Research Group
March 14, 1972

January 24, 1975

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature, I am transmitting the attached bill creating a Municipal Bond Bank Authority which is intended to open a new avenue of financing to many of our State's smaller communities. At the present time these communities, while economically capable of issuing creditworthy debt instruments, are not able to issue marketable bonds or notes. There are a number of reasons for this situation. Some may never have issued bonds or notes before. Some may have very little outstanding debt. Some may not desire to issue debt in amounts large enough to make it economically feasible to market the bonds or notes. Others may be able to use this method of financing but only by paying very high interest rates. The municipal bond bank we intend to create would eliminate these problems by selling its own bonds in the major capital markets and in turn using the proceeds to purchase the bonds of municipalities within Alaska.

The State's financial commitment will be held to a minimum. The bill would permit the municipal bond bank to issue up to $150 million in bonds. The money required to service the bonds will be provided by the payments of the municipalities whose bonds have been purchased by the Municipal Bond Bank Authority. In order to insure that the bonds of the Municipal Bond Bank Authority can be sold at a reasonable interest rate, the bill will create a reserve fund which can be used to pay the bond payments in the event that defaults on the part of municipalities reduce the Municipal Bond Bank Authority's cash flow below the level needed to service its own bonds. The State will not pledge its own credit to the payment of the bonds of the

Municipal Bond Bank Authority but will instead take up a moral obligation to keep the reserve fund at a level sufficient to insure that the Municipal Bond Bank Authority will be able to service its own bonds.

The financing will be available to all creditworthy municipalities, but the preferred purposes for which the bonds will be purchased are: schools, waste and water treatment facilities, fire protection and public safety facilities, public health facilities, and public transportation facilities.

The bond bank authority will have five directors: the commissioner of revenue, the commissioner of community and regional affairs and three directors appointed by the governor. In addition, there will be a permanent executive secretary and other staff as necessary. The Department of Law will provide legal advice, except that the bond bank authority will have the power to hire outside bond counsel and such other experts or consultants as it finds necessary.

The bond bank authority will in all respects have an independent existence. Its bonds or notes will be fully negotiable and will be valid investments for financial institutions and insurance companies. The property of the authority will be exempt from taxation.

Sincerely,

Jay S. Hammond
Governor

RECEIVED FEB 2 8 19

NATIONAL
Bank of Alaska

Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

February 27, 1975

Treasurer
City of Dillingham
P.O. Box 191
Dillingham, Alaska 99576

Re: Bond Paid Agencies

Gentlemen:

In recent months we in the Trust Department of the National Bank of Alaska ~~have~~ has been forced to reevaluate our bond paying agency accounts. As a result of our reevaluation the management of the bank has decided that it would not be feasible for us to accept any more business of this type.

Let me assure that the decision was reached only after careful consideration. As you may well imagine, of primary concern to the bank is its relationship with the municipalities throughout the state and the desire on the part of the bank to see needed services provided locally. What has become increasingly evident, however, is the fact that because of the low volume and the resulting high unit costs we cannot continue to bring these services to you on a competitive basis. Rather than ask you to pay what we would consider excessive fees, the bank has decided to curtail its activity in this area.

In the future, we ask that you do not consider the National Bank of Alaska for paying agent or co-paying agent on any bonds you may issue. We regret that we have found it necessary to make this request and henceforth will decline any appointments as bond paying agents, or co-paying agents.

Yours very truly,

JHRigler

Jerry H. Rigler, J.D.
Vice President and Trust Officer

RECEIVED FEB 2 8 19

NATIONAL
Bank of Alaska
Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

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Treasurer
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Yours very truly,

J H Rigler

Jerry H. Rigler, J.D.
Vice President and Trust Officer

HB 72

STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 5, 1975

The Honorable Hugh Malone
Chairman House Finance Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Mr. Malone:

In re House Bill No. 72

House Bill No. 72 creating the Alaska Municipal Bond Bank Authority was referred to the House Finance Committee on February 26, 1975 with two amendments made by the House Community and Regional Affairs Committee that appear on pages 291 and 292 of the House Journal of February 26, 1975.

I am enclosing a copy of a letter dated March 3, 1975 from Eric E. Wohlforth of Wohlforth & Flint to Commissioner Sterling Gallagher calling attention to one further amendment that is necessary from a legal standpoint. Mr. Wohlforth is employed as the State's Bond Counsel jointly with the firm of Orrick, Herrington, Rowley & Sutcliffe.

The necessary amendment as indicated in Mr. Wohlforth's letter is to delete the word shall that appears as the first word on line 1 of page 22 of the bill and replace it with the word may.

Mr. Wohlforth advises by a telephone conversation with the writer that recent court cases concerning the subject necessitate the above described amendment.

Respectfully yours,

R. D. Stevenson

R. D. Stevenson
Special Assistant

RDS:ns

cc Sterling Gallagher
Commissioner
Department of Revenue

Eric E. Wohlforth
Wohlforth & Flint
645 G Street
Anchorage, AK 99501

LAW OFFICES
WOHLFORTH & FLINT
645 G STREET
ANCHORAGE, ALASKA 99501

ERIC E. WOHLFORTH
ROBERT B. FLINT

TELEPHONE
AREA CODE 907
272-9439

March 3, 1975

Commissioner Sterling Gallagher
Department of Revenue
Pouch S
Juneau, Alaska 99801

Dear Commissioner Gallagher:

Bob Stevenson sent me a copy of House Journal pages 291 and 292 for February 26, 1975, in which the House Community and Regional Affairs Committee amends HB 72 and 73 in accordance with the draft amendments submitted to the Committee on February 21, with one minor clerical oversight. The Committee failed to amend the word shall appearing in line one on page 22 to may as was suggested and as is necessary. Hopefully, this amendment can be made by the House Finance Committee as part of their Committee report approving the bill.

Very truly yours,

Eric E. Wohlforth

Eric E. Wohlforth

EEW/am

cc: R. D. Stevenson, Department of Revenue
Deputy Commissioner - Investments
Lawrence Eppenbach

may
[shall] be appropriated and paid to the bond bank authority during the then current state fiscal year. Nothing in this subsection creates a debt or liability of the state.

(h) All amounts received on account of money appropriated to the reserve fund referred to in (a)(3) of this section shall be held and applied in accordance with (b) of this section; however, at the end of each fiscal year any amount representing earnings or income received on account of money appropriated to the reserve fund shall be transferred to the general fund.

Sec. 44.58.290. ADDITIONAL FUNDS AND ACCOUNTS. The bond bank authority may establish additional reserves or other funds or accounts as may be, in its discretion, necessary, desirable, or convenient to further the accomplishment of its purposes or to comply with the provisions of any of its agreements or resolutions.

Sec. 44.58.300. APPLICATION OF FUNDS. Money or investments in a fund or account of the bond bank authority established or held for bonds, notes, indebtedness or liability to be paid, funded, or refunded by issuance of bonds or notes, unless the resolution authorizing the bonds or notes provides otherwise, shall be applied to the payment or retirement of the bonds, notes, indebtedness or liability, and to no other purpose.

Sec. 44.58.310. RIGHTS OF HOLDERS PARAMOUNT. In order to carry out its purpose under this chapter of making loans to municipalities by purchase of the municipal bonds of those municipalities and by receipt of its income from service charges and from payments of interest on the maturing principal of municipal bonds purchased and held by it, and in order to produce revenues or income to the bond bank authority sufficient at all times to meet its costs and expenses of operation

First Session - Ninth Legislature

TO BE CAPITALIZED FROM BOND PROCEEDS

Master File

I. REQUEST

Bill No. House Bill 72

Title: Creating the Alaska Municipal Bond Bank Authority

Requested by: Representative Hugh Malone, Hse. Fin. Com. Chairman Date:

Return Date Requested:

Agency: Revenue Program: Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected:

A. EXPENDITURES: (Thousands of dollars)

OBJECT		FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100	PERSONAL SERVICES		9.2	10.1	11.1	12.2	13.4
200	TRAVEL		12.5	13.8	15.2	16.7	18.4
300	CONTRACTUAL		71.0	78.1	85.9	94.5	104.0
400	COMMODITIES		.5	.6	.7	.7	.8
500	EQUIPMENT		1.2				
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
900	INTER-AGENCY SERVICES		8.0	8.8	9.7	10.7	11.8
	TOTAL	-0-	102.4	111.4	122.6	134.8	148.4

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		102.4	111.4	122.6	134.8	148.4

C. POSITIONS:

PERMANENT/TEMPORARY	/	1/	1/	1/	1/	1/
MAN MONTHS (P./T.)	/	3/	3/	3/	3/	3/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached analysis

IV. ATTACHMENTS

V. DATE: April 12, 1975 PREPARED BY: P. A. Wall

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)
Senator Bill Ray

ANALYSIS

Personnel Services:

Executive Secretary: Range 25: 3 months salary @ 2,608 mo = $7,824
plus 18% benefits for 3 months 1,408
$9,232

Travel:

Bond Bank Authority Travel : 12 trips x 5 directors x 5 days per trip,
$2.6 perdiem + 2.4 travel = 5,000

Executive Director Travel: 5 trips x 5 days per trip,
$1.1 perdiem + 1.0 travel = 2,100

Contractual:

Surety Bonding	500
Bond Counsel and Financial Advisors	55,000
Communications (postage, phones, forms, etc.)	5,000
Misc. Contractual	3,000
Annual Audit and Annual Report	7,500

Inter-agency Services:

Central Duplicating and Service for the Authority by State Agencies	8,000
Commodities	500
Equipment: For new positions: Desks, chairs & calculators	1,200

Fiscal Anaylsis -- HB 72 aim in House Finance

Sec. 44.58.050 (page 4, line 16) requires that "all costs of surety bonds shall be borne by the authority."

Sec. 44.58.060 (page 4, line 27) states that "the authority shall reimburse its directors for actual expenses."

Sec. 44.58.070 (page 5, line 5) provides for the mandatory employment of an "executive secretary" who is in the classified service. Permission is also given for the authority to engage services of "bond counsel, consultants, experts and financial advisors."

Sec. 44.58.110 (page 8, line 29) requires the production of an annual report and audit.

Sec. 44.58.170 (page 9, line 9) requires an annual budget be filed which is subject to the Executive Budget Act (AS 37.09).

Sec. 44.58.390 (page 26, line 8) provides that "all expenses incurred in carrying out this chapter are payable solely from revenue or funds appropriated under this chapter."

Sec. 44.58.400 (page 26, line 13) allows that "the cost and expense of a service requested by the authority . . . shall be paid by the authority."

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 11, 1975

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Rhode:

Enclosed is a memorandum from Jack Chenoweth to Larry Eppenbach on current bond issues outstanding in various communities of the State.

These are the communities we would deem in need of assistance. The smaller cities have the most need such as Sitka, Cordova, Nome, Petersburg, Seward and Valdez.

Sincerely,

Sterling Gallagher

Sterling Gallagher
Commissioner

SG:gd

Enclosure

MEMORANDUM State of Alaska

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Larry Eppenback
Deputy Commissioner of Treasury
Department of Revenue

DATE: December 13, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Chenoweth
Director
Local Government Assistance Division

SUBJECT: Municipal bond bank: reported authorized but unissued and anticipated general obligation bond issues.

Questionnaires directed to some 40 Alaska municipalities inquired as to anticipated general obligation bond issues. The information returned is summarized below. The Cities of Anchorage and Fairbanks, the Greater Anchorage Area Borough and the Fairbanks North Star Borough are excluded.

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Juneau	$ 2,500,000		School
		$ 4,000,000	Fire facilities and equipment
Sitka	-0-	1,000,000	Roads
Kenai Peninsula Borough	-0-	3,500,000	Schools
Kodiak Island Borough	35,000		Schools
		None	
Matanuska-Susitna Borough	15,500,000		Schools
		None	
North Slope Borough	20,000,000		Schools
	2,900,000		Roads
	650,000		Public housing
	50,000		Water/sewer
	50,000		Utilities
	2,650,000		Other capital improvements
		None	
Bethel	None		
		250,000	Dock improvements
Cordova	1,000,000		Civic center complex
		5,500,000	School

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Ketchikan	$ 1,250,000	$ None	Sewer treatment facility
Kodiak	1,380,000	None	Water and sewer/streets
Nome	1,000,000		Schools
		2,000,000	Port facilities
Pelican	None	58,500	Sewage treatment facility
Petersburg	None	5,500,000	School
Seward	600,000		Water/sewer/sewage treatment
		50,000	Dock improvement
Skagway	200,000	None	Sewer
Soldotna	1,400,000	None	Water/sewer
Wrangell	750,000		Sewer
		350,000	Pool
Valdez	None	12,500,000	School

Other municipalities contacted but indicating no unissued bonds or anticipated projects are:

- Bristol Bay Borough
- Haines Borough
- Ketchikan Gateway Borough
- Barrow
- Craig
- Dillingham
- Haines
- Homer
- Hoonah
- Hydaburg
- Kake
- Kenai
- King Cove
- Klawock
- Kotzebue
- Nenana
- Saint Mary's
- Seldovia
- Unalaska
- Yakutat

Totals of the bonds listed are:

Authorized but unissued	$ 56,715,000
Anticipated	$ 34,708,500

JRC:bg

M E M O R A N D U M

April 9, 1975

Subject: State Bond Bank - House Bill 72

This subject has been before the House Finance Committee.

The theory is that the State would create a corporation which would operate by purchasing municipal bond issues at a time when several municipalities were in a position to issue bonds. It would buy only general obligation bonds. When a sufficient number of municipalities have bonds with approximately an equal rating and similar characteristics such as the same maturity dates, the bond bank would put out a prospectus inviting bids on bonds issued by the bond bank. These would be revenue bonds of the bank payable from the revenue derived from the municipal bonds purchased by the bank. The bank's bonds would be backed by a reserve fund to be appropriated by the legislature for this purpose equal to principal and interest payable in one year on the bonds issued by the bank. The proponents of this bill anticipate that the State could sell a revenue bond of this type at a lower rate of interest than the municipalities can sell their general obligation bonds because the State's larger issue would be more attractive than a number of municipal smaller issues and the reserve fund would be additional security for the holders of the bank's bonds.

The proponents of the bill frankly stated that the bond bank would be unable to buy bonds of inferior quality and it can not be used as a vehicle to sell bonds to the bank unless they were good quality. They stated that the purchaser of the bank's bonds would consider a package to have a quality equal to the lowest quality municipal bonds in the package and this is true.

I advised the committee that municipalities who do not keep proper minutes of their meetings, levy and collect taxes as they should and keep proper books of account to reflect their financial standing would not be able to sell their bonds. I told them that they should not go home and tell their constituents that this was the answer to their financial problems because it would only be beneficial in my opinion to some communities.

The State with an "A" rating sold its last general obligation bonds for 5.99% interest. Since these are revenue bonds they would sell for a higher rate of interest. At the present time State revenue bonds are being sold only at very high interest rates because of a default of $105,000,000 in bonds by the Urban Development

Corporation of the State of New York. In normal times a bond bank bond of this type should sell for about 6-1/2 to 7% interest. The bill states that the State would assume no obligation for the payment of the bonds and that the bond bank revenues are the only backing for the bonds. It further states that the State would not subsidize the bank except to establish a reserve fund. The cost of operations would have to be paid from the income received from the municipalities which they would pay in the form of interest on their bonds. Therefore it is my opinion that the bond bank would have to pay 6.5 to 7% interest on its bonds and would have to charge the municipalities somewhat more. The larger municipalities are having no trouble selling their bonds at rates slightly above 6%. The last Juneau issue went for 6.2. Therefore they could not save any money by selling to the bond bank. The bond bank is of no value to a community unless it can either sell the municipal bonds with a rate of interest less than they can sell otherwise or can market a bond which is not marketable otherwise.

The way it is designed at the present time the communities with good credit rating can sell cheaper on the open market and the bond bank would be of no help to them. Municipalities which have large amounts of bonds outstanding and have used up their credit can not issue more bonds and sell them to the bank because the bank would not purchase them and jeopardize the reserve funds. However, there are municipalities which have never issued bonds and have no reputation in the market. There are also new communities springing up which have no financial history but have good prospects. There are other communities which because of unsettled economic conditions may have trouble marketing bonds at a reasonable rate of interest such as 6.5%. For these communities who might have to pay 7% or more on a general obligation bond, the bond bank may be able to provide them a market which would otherwise not be available and it may be able to save them money in the interest rate.

In my opinion any small community in Southeastern Alaska which has not over-extended itself in the issuance of bonds and has good financial records can sell their bonds to Alaska banks at rates of interest and with less delay and expense than is necessary when dealing with a bond bank established as proposed. Therefore it is doubtful that the bank would be of any benefit to such a community but it could have advantages for municipalities which do not have such a good position in the market.

I advised the committee that the proposed appropriation of $2,650,000 for the reserve would not support more than $30,000,000 of bonds outstanding and if the bank is to operate efficiently, it must have a larger reserve fund. The administration is now asking for an appropriation of $4,445,000 to be appropriated to the reserve fund to support $50,000,000 of bonds. The prospects of getting such an appropriation are not good.

N. C. Banfield
N. C. Banfield

NCB;np

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES
SUITE 201, 311 FRANKLIN STREET
JUNEAU, ALASKA 99801

HERBERT L. FAULKNER (1882-1972)
NORMAN C. BANFIELD
FRANK M. DOOGAN
MICHAEL M. HOLMES
RANDALL J. WEDDLE
WILLIAM B. ROZELL

JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. DRENNAN

TEL. 586-2210
AREA CODE 907

April 9, 1975

City of Craig
P. O. Box 12
Craig, Alaska 99921

Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska Municipal League to support House Bill No. 72 which would authorize the State to establish a bond bank.

I have written a Memorandum on the subject which I am sending you for your information and consideration.

Yours very truly,

N. C. Banfield

N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES
SUITE 201, 311 FRANKLIN STREET
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JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. BRENNAN

TEL. 586-2210
AREA CODE 907

April 9, 1975

City of Pelican
P. O. Box 757
Pelican, Alaska 99832

Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska Municipal League to support House Bill No. 72 which would authorize the State to establish a bond bank.

I have written a Memorandum on the subject which I am sending you for your information and consideration.

Yours very truly,

N C Banfield
N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

Statement on HB 72

Submitted by Don M. Berry

Executive Director

Alaska Municipal League

Mr. Chairman, Members of the Committee:

For the record, I am Don M. Berry, Executive Director of the Alaska Municipal League, an organization representing cities and boroughs throughout Alaska. On behalf of the League members, I wigh to express our appreciation for this opportunity to prevent testimony in support of HB 72 an act establishing the Municipal Bond Bank Authority.

The League has spent several years reviewing and drafting the concept of assistnace to local governments by the creation of a financing agency within the State which could provide a viable means of aiding these local governments to overcome many of the high cost problems incurred in the capital markets and which could aid communities in the financing of needed capital improvements. We feel that HB 72 as it appears before this committee adequately meets these needs.

As you are well aware, many communities in Alaska have experienced extreme difficulty in obtaining necessary funds to construct civic improvements due to existing bonded indebtedness or high interest rates. Because of the extreme costs of normal local government responsibilities, vitally needed capital improvements such as streets, sewers, water systems, hospitals, parks and

recreation facilities, pollution control, libraries, etc. have become inferior claimants in the competition for the local tax base. Therefore, the only recourse has been to go to the bond market with its nearly prohibitive costs. While many plans have been advanced by the U. S. Treasury, Congress and others to aid such communities, one thing that all proposals have in common is the powerful involvement of the federal government one way or another. The League believes that state involvement is not only more appropriate but much more beneficial.

This involvement could take two courses - outright grants to political subdivisions for capital improvements or the creation of a municipal authority such as you now have before you. Since HB 72 does not deal with outright grants, we will confine our remarks to the bond authority.

Unlike most states with their numerous political subdivisions issuing bonds in large volume, Alaska has relatively few issuers, with most of the volume in the City and Borough of Anchorage, the City of Fairbanks, the Fairbanks North Star Borough, and, to a lesser extent, the Kenai Peninsula Borough, the City and Borough of Juneau, and the City of Ketchikan and Ketchikan Gateway Borough.

However, with the rapid increase of economic activity over the next few years, Alaska may anticipate that its smaller cities such as VAldez and Cordova and less populous boroughs such as the Matanuska-Susitna and North Slope will begin to borrow on a volume comparable to the larger population centers. In addition, villages or communities may be expected to incorporate or attain corporate status permitting bond issuance, and other pockets of

growth will develop. These new growth pockets will have capital demands, initially for schools and later for other municipal purposes.

Alaska may expect then over the next few years a number of potential bond issuers who have never approached the municipal bond market. Many of these will obviously be unrated on their initial financings. Thus, some of the local issues will not gain nearly the investor attention they might deserve because of the difficulty of analyzing the credit of a new municipality or a municipality which has not heretofore borrowed. Particular economic, political or social problems might be present in a given situation which would preclude any reasonable expectation of obtaining funds by borrowing. Local officials in many of these budding communities may find that readying an issue for market is beyond their capabilities because of inexperience.

A Municipal Bond Bank Authority, such as envisioned in HB 72, could be of immeasurable help to first time borrowers if only because of the advice it could render on the techniques of preparing bonds for market.

In addition, the concept of packaging a number of issues from new or smaller municipalities in effect reoffered through the new uniform security of the Municipal Bond Bank Authority could be of great help in local debt management. The primary analysis of the local bond security could be undertaken by the Bond Authority and the burden relieved from outside municipal bond purchasers. It may be expected that the Municipal Bond Authority operation could result in interest cost savings to the smaller municipalities

since the uniform security it offers to bond holders would obviate the difficult issue-by-issue bond analysis now necessary and because the State, although not legally obligated to support the bonds would be considered to be involved, nevertheless, in assuring its successful operation. These obvious advantages would also accrue to the larger and more experienced municipalities if they chose, under the terms of HB 72 to issue their bonds through the Authority rather than on the public market.

An additional feature of the Municipal Bond Authority, available to all Alaskan Communities, is the fact that it would help provide a continuing staff to assist in local finance operations. It is realistic to assume that, with a specific bond purchase and marketing function assigned tothe Authority, progress could be made for the first time in securing and keeping current a uniform accounting and information system from municipalities - the lack of which has heretofore proved a problem to our local government operation in Alaska.

Thus, it is obvious that the Municipal Bond Bank Authority as established by HB 72 offers much more far-reaching assistance to local governments than just the capability of securing lower interest rates on local bond issues. It provides the essential tools which might eventually enable each community to attract investor interest on its own. It could assist in developing financial stability in local governments which in turn would enhance the credit of the State at all levels.

The League realizes the tremendous responsibility with which the Committee has been charged. Your decisions here will

have a lasting effect on Alaska and its citizens for years to come. So too will the decisions of local government as they plan vitally needed capital improvements not only for the present but for the generation of Alaskans who will require and utilize these facilities in the future. We sincerely feel that an investment now in the schools, hospitals, roads, environmental pollution control facilities of the future would be a wise and judicious investment of the State's resources to assure its continued growth and the development of its bright prospects in the decades to come.

In conclusion, I wish to express the thanks and appreciation of the entire Alaska Municipal League for the opportunity to present this statement of strong support of strong support of HB 72. We are anxious to assist you in your important task and stand ready to help you in every way possible.

Thank you very much.

Respectfully submitted,

Don M. Berry
Executive Director

DMB/jf

BANK OF AMERICA

April 18, 1975

BANK INVESTMENT SECURITIES DIVISION

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Jim:

The creation of an Alaska Municipal Bond Bank would appear, in theory, to solve many local financing problems. In practice, however, such a bank could generate greater problems for the State of Alaska, then may be solved. One has only to glance at the trade papers to recognize that state agency financing backed by a "moral" pledge of the state has "fallen on hard times". While in the recent past many professional bond analysts have pointed out that the "moral obligation" is not legally binding upon a State, be it worded "may or shall", no one has been so presumptuous as to suggest that a State would not "honor this clause" at the slightest hint of trouble. Recent difficulties in New York State associated with notes and bonds of Development Corporation present some insight into possible responses by states to "moral obligation" debt. In this period of high inflation, mounting unemployment and government revenue shortfalls, most states are finding it difficult to balance their budgets. Surplus revenue for any purpose is hard to come by. Many political observers as well as investors have come to feel that the Moral Obligation pledge is in reality an escape on the part of those in public office who, on the one hand, do not wish to forego pet projects for fiscal reasons but are unwilling, nonetheless, to place the State's credit on the line for such projects, relying instead on future legislators to resolve any problems that may arise.

If Alaska creates the Alaska Municipal Bond Bank backed by a moral pledge, the bond market will act accordingly. In our opinion the cost of a moral obligation bond of an Alaskan Municipal Bond Bank would be considerable. For example: if the State of Alaska were to sell a full faith and credit obligation of $25,000,000 repayable over a 25 year period with level debt service, we estimate the overall cost of principal and interest to be $51,238,425. The exact same issue sold under the Alaska Municipal Bond Bank, with a moral pledge, would incur an estimated debt service cost of $58,549,225, or $7,310,800 in additional expense. It should also be noted that while the State of Alaska enjoys a Moody's "A1" rating, the Alaska Municipal Bond Bank would in all probability be assigned an "A" rating.

The sale of general obligation bonds by the State does not require "funded interest" during construction, or the establishment of a

Reserve Fund. The full $25 million, therefore, would be available to the State using g.o. method. Under the "Bond Bank" procedure, the net would be $18,258,031, giving effect to funded interest and other expense. Thus, the bond funds available to complete various projects would have declined by some $7 million, in addition to the higher debt service cost over the life of the bond issue. Although some monies would be recovered through interest earned on the reserve fund, the return on such investment would be limited by arbitrage regulations of the U.S. Treasury.

In the harsh reality of present-day finance, it appears to us that the public interest would best be served by the development of a total and well conceived capital improvement program, supported by sound fiscal and budgetary practices, effective debt management and strong public policy objectives.

The State of Alaska credit rating has now reached the "A1" level, placing the State on the same level with many other states in the lower "48" and just slightly over one step below the coveted "Aaa" level. The use of the "moral obligation" pledge would not enhance this rating. Alaska is a new state with a model Constitution, a young population and happily lacking many of the problems found in most other states. The State of Alaska, its cities and other political units have no reason to compete with each other in the bond market for funds. Though the topography of Alaska, its climate, population centers and special needs do indeed present a formidable challenge, we nevertheless feel that a departure from the general obligation bond to the moral obligation bond, with all its related problems and costs, would not be in the best interest of the State.

Sincerely,

A. F. Mazotti
Senior Research Officer

AFM/vs

The Legislature of the State of Alaska
FISCAL NOTE

First Session - Ninth Legislature

NOT ADOPTED ~~LATER~~

I. REQUEST
Bill No. HB 72 , and Analysis on CS for HB 73
Title: Short Title: Alaska Municipal Bond Bank Authority Act
Requested by: Date:
Return Date Requested:
Agency: Department of Revenue Program: General Government - Fiscal Services - Treasury Management

II. FISCAL DETAIL
Budget Request Unit(s) Affected: Treasury Management
A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100	PERSONAL SERVICES		39,917	53,720	53,720	53,720	53,720
200	TRAVEL		5,100	3,600	3,600	3,600	3,600
300	CONTRACTUAL		3,000	5,000	5,000	5,000	5,000
400	COMMODITIES		1,250	1,000	-0-	-0-	200
500	EQUIPMENT						
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
	TOTAL		49,567	63,620	62,620	62,620	62,820

B. FUNDING: (Thousands of dollars)

GENERAL FUND		49,500	63,600	62,600	62,600	62,800
FEDERAL FUNDS						
OTHER						

C. POSITIONS

PERMANENT/TEMPORARY	0 /0	2 /0	3 /0	3 /0	3 /0	3 0
MAN MONTHS (P./T.)	0 /0	24 /0	36 /0	36 / 0	36 / 0	36 0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See Attached Fiscal Note

IV. [illegible]

V. DATE: March 10, 1975 PREPARED BY: [illegible]

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

CS FOR HB 73

Analysis:

The appropriation of $4,445,000 is sufficient to fully fund a reserve for one year's debt service (interest and principal amortization) on $50 million in 30 year 8% bonds. This same amount will fund a year's debt service on $50 million 20 year 6% bonds as an alternative.

Until the Municipal Bond Bank is functioning it is impossible to predict the actual value of one year's debt service. The assumption of $50 million in bonds reflects the reasonable forecast of future Alaska municipal debt likely to participate with the Bond Bank during fiscal years 1976 and 1977. Should the success of the bond bank be such that more than $50 million in bonds were desired to be issued then the Bond Bank would be required to justify an additional appropriation. On the other hand, if an amount less than $50 million were issued then the surplus debt service amount would lapse to the General Fund beginning in FY 1978. In the meantime, the reserves would be continuously invested with all interest earnings credited to the General Fund.

Municipality Bond Bank Authority

Fiscal Note - HB 72

III. Analysis

This fiscal note assumes that two initial positions; an Investment Officer II and a Clerk Typist III, and direct expenses relating to these positions will be funded from the General Fund. Eventually, a third position, a Statistical Technician II, may be similarly funded. All other expenditures of the Bond Bank should be paid from the proceeds of Bank Bond Issues. These expenses are not listed in this fiscal note because of their uncertain nature. They will include, however, bond counsel and financial adviser fees, as well as all direct debt issuance expenses.

The reason for general funding of the core positions are two-fold. First, this allows the Bank to begin functioning without being forced to issue bonds immediately. Second, these positions will have "debt management" responsibilities assigned to them that will not be lim[illegible]ed to those of the bond bank.

The attached new position requests describes these duties in some detail.

13

FY 75

PERSONAL SERVICES
REQUEST FOR NEW POSITION

			code
AGENCY	Revenue	CATEGORY	
DIVISION	Treasury	PROGRAM	
		SUB-PROGRAM	
		ELEMENT	
		SUB-ELEMENT	

POSITION TITLE Clerk Typist III		RANGE 8	LOCATION Juneau
TYPE OF POSITION PFT	NEW XXX / ESTABLISHED	M/C: C	PRIORITY ____ PAGE / LINE ____

TYPE OF EXPENDITURE	FY 75 AMOUNT	FY 75 FUNDING SOURCE	DETAIL OF RELATED EXPENSES
PERSONAL SERVICES	11,441		Salary 9,696 Benefits 1,745 Total $11,441
EQUIPMENT	250		Desk - 210 Chair - 40
OTHER			
TOTAL	11,691		

PROJECTIONS	FY 76	FY 77	FY 78	FY 79
TOTAL EXPENSES				
FUNDING SOURCE				

EXPLANATION:

This position would supply clerical support for Debt Management Section of the Treasury Division.

GOVERNOR APPROVED ☐ DISAPPROVED ☐	LEGISLATURE APPROVED ☐ DISAPPROVED ☐	CERTIFICATION BY AGENCY HEAD	DATE

APPROVED CLASSIFICATION | CLASS CODE | RANGE | APPROVED BY: | EFFECTIVE DATE | LOCATION | PCN

02-1013

13 Request for New Positio

POSITION TITLE STATISTICAL TECHNICIAN II		RANGE 14	LOCATION JUNEAU
TYPE OF POSITION (PFT, PPT, SEAS) PFT	NEW XXX / ESTABLISHED	M/C: C	PRIORITY ______ PAGE/LINE ______

TYPE OF EXPENDITURE	BUDGET YEAR (BY) AMOUNT	FUNDING SOURCE	DETAIL OF RELATED EXPENSES
PERSONAL SERVICES	13,803		1,116 x 12 = 13,392 + 18% = 15,803
TRAVEL	500		
CONTRACTUAL			
COMMODITIES			
EQUIPMENT	1,000		Desk, Chair, Statistical Computer
OTHER			
TOTAL	17,303		

APPROVED CLASSIFICATION

CLASS CODE

RANGE

APPROVED BY:

EFFECTIVE DATE

LOCATION

PCN

EXPLANATION:

The Debt Management Section of the Treasury Division requires a Statistical Tech II to collect and analyze data for the preparation of Official Statements and to coordinate municipal finance offering through the publication of an Alaska Bond Calendar.

This Statistical Tech II will assist the Debt Finance Specialist in the data gathering requirement and prepare complete and current tables of revenues, expenditures and fund balances. He will also work directly with the Financial Advisor to coordinate the publication of these documents and provide data to rating agencies on a continuous basis.

The Statistical Tech II will also assist in the preparation of a monthly all-Alaskan Bond Calendar. This will involve continuous contact with municipalities and bond insuing authorities throughout Alaska.

Lastly, the Statistical Tech II will work with the Capital Receipts Planner to assist in gathering information about agencies' long term financing needs.

GOVERNOR	APPROVED ☐ DISAPPROVED ☐	LEGISLATURE	APPROVED ☐ DISAPPROVED ☐	CERTIFICATION BY AGENCY HEAD	DATE

BRU TREASURY MANAGEMENT BRU CODE 04-93-7-02-00-00 REVISED

13 PERSONAL SERVICES REQUEST FOR NEW POSITION

Third, there is a need for someone at the State level to coordinate Alaska Municipal debt offerings to lessen adverse market impact of bunched Alaska offerings. Also, recent legislation enacted relating to municipal obligations for school construction requires someone knowledgeable to advise municipalities in this financing area. In this capacity, extensive travel throughout the State will be necessary to meet with municipal finance officers. Outside travel is also necessary for coordinating activities of the State Bond Counsel and Financial Advisors.

Fourth, there is a need for a specialist within the Department of Revenue to be Executive Secretary to the proposed Municipal Bond Bank Authority. This authority must have the ability to review applications and set quality guidelines immediately.

Fifth, there is a need to begin work today on developing sources of long term financing to fund the capital relocation costs. This will involve forecasting preliminary construction bond requirements and testing alternative debt finance plans to determine the least cost method.

13 Request for New Positio

POSITION TITLE INVESTMENT OFFICER II		RANGE 22	LOCATION JUNEAU
TYPE OF POSITION (PFT, PPT, SEAS) PFT	NEW XXX / ESTABLISHED	M/C: C	PRIORITY ____ PAGE/LINE ____

TYPE OF EXPENDITURE	BUDGET YEAR (BY) AMOUNT	FUNDING SOURCE	DETAIL OF RELATED EXPENSES
PERSONAL SERVICES	28,476		2,011 x 12 = 24,132 + 18% = 28,476
TRAVEL	3,100		
CONTRACTUAL			
COMMODITIES	300		
EQUIPMENT	1,000		Desk, Chair, Calculator
OTHER			
TOTAL	32,876		

APPROVED CLASSIFICATION

CLASS CODE

RANGE

APPROVED BY:

EFFECTIVE DATE

LOCATION

PCN

EXPLANATION:

An experienced tax exempt financing specialist is needed by the State to work in five critical areas.

First, the Secretary for the State Bond Committee, who is the Commissioner of Revenue needs a specialist for staff support in issuing increasing numbers of General Obligation and Revenue Bonds. In this capacity the Investment Officer would serve as the full time staff of the Committee and be responsible for the preparation of Official Statements and Notice of Sales for all issues and develop long term financing programs. He would remain in continuous contact with the markets for tax exempt securities, the rating agencies, and the latest IRS tax regulations. He would also remain in close contact with the Committee's Bond Counsel and the Financial Advisors between meetings and coordinate their activities.

Secondly, there is a need for an experienced tax exempt financing specialist to assist in developing a mortgage financing program to assume the capital requirements of the increasing Veterans loan program. This would involve preparing legislation for a Veterans Loan Authority and analyzing the security value of pledging presently held veterans mortgages to secure authority bond issues.

GOVERNOR	APPROVED ☐ DISAPPROVED ☐	LEGISLATURE	APPROVED ☐ DISAPPROVED ☐	CERTIFICATION BY AGENCY HEAD	DATE

BRU ____ BRU CODE ____ REVISED ____

13 PERSONAL SERVICES REQUEST FOR NEW POSITION

02-1013

First Session - Ninth Legislature

FCC report

I. REQUEST

Bill No. HB 72

Title: Creating the Alaska Municipal Bond Bank Authority

Requested by: Representative Hugh Malone, Hs. Date:

Finance Committee Chairman

Return Date Requested:

Agency: Revenue Program: Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected:

A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100	PERSONAL SERVICES		36.8	40.5	44.5	48.9	53.8
200	TRAVEL		12.5	13.8	15.2	16.7	18.4
300	CONTRACTUAL		71.0	78.1	85.9	94.5	104.0
400	COMMODITIES		.5	.6	.7	.7	.8
500	EQUIPMENT						
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
	Inter-agency Services		8.0	8.8	9.7	10.7	11.8
	TOTAL		130.0	141.8	156.0	171.5	188.8

B. FUNDING: (Thousands of dollars)

GENERAL FUND		24.6	27.0	29.6	32.6	35.8
FEDERAL FUNDS						
OTHER		105.4	114.8	126.4	138.9	153.0

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

NOTE - Personal Services is funded ~~2~~/3 General Fund and ~~1~~/3 by the Authority.

See Attachments

IV. ATTACHMENTS

V. DATE: May 21, 1975 PREPARED BY: P. A. Wall

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

02-001B (REV. 08-73)

MEMORANDUM State of Alaska

TO: V. Kent Dawson, Director
Division of Budget & Management
Department of Revenue

DATE: May 20, 1975

FILE NO:

TELEPHONE NO:

FROM: Sterling Gallagher
Commissioner
Department of Revenue

SUBJECT: HB 72 - Alaska Municipal Bond Bank Law

A debt manager position will be required to administer the Alaska Municipal Bond Bank Law (HB 72). At the time the budget passed the Governor's Review Committee, I believed that the debt manager position was in my budget (Budget Workbook, page 940, line 7).

As we evaluate managing $30,000,000 in Municipal Bonds plus the normal $150,000,000 per year of bonds that we sell, I feel that a full-time manager is required. Please consider asking the Free-Conference Committee on the budget to increase our fiscal note from $9.2 for 3 man-months to $36.8 for 12 man-months to establish this vital debt manager position. I have attached an updated fiscal note.

Thank you for your consideration.

SG:es

ANALYSIS

Personnel Services:

Executive Secretary:	Range 25: 12 months salary @ 2,608 mo =	$31,200
	plus 18% benefits for 12 months	5,600
		$36,800

Travel:

Bond Bank Authority Travel: 12 trips x 5 directors x 5 days per trip, $2.6 perdiem + 2.4 travel	=	5,000
Executive Director Travel: 5 trips x 5 days per trip, $1.1 per diem + 1.0 travel	=	2,100
Travel to Municipalities throughout the State and out-of-state Bond work	=	5,400

Contractual:

Surety Bonding	500
Bond Counsel and Financial Advisors	55,000
Communications (postage, phones, forms, etc.)	5,000
Misc. Contractual	3,000
Annual Audit and Annual Report	7,500

Inter-agency Services:

Central Duplicating and Service for the Authority by State Agencies	8,000
Commodities	500
Equipment: For new positions: Desks, chairs & calculators	1,200

Fiscal Anaylsis -- HB 72 aim in House Finance

Sec. 44.58.050 (page 4, line 16) requires that "all costs of surety bonds shall be borne by the authority."

Sec. 44.58.060 (page 4, line 27) states that "the authority shall reimburse its directors for actual expenses."

Sec. 44.58.070 (page 5, line 5) provides for the mandatory employment of an "executive secretary" who is in the classified service. Permission is also given for the authority to engage services of "bond counsel, consultants, experts and financial advisors."

Sec. 44.58.110 (page 8, line 29) requires the production of an annual report and audit.

Sec. 44.58.170 (page 9, line 9) requires an annual budget be filed which is subject to the Executive Budget Act (AS 37.09).

Sec. 44.58.390 (page 26, line 8) provides that "all expenses incurred in carrying out this chapter are payable solely from revenue or funds appropriated under this chapter."

Sec. 44.58.400 (page 26, line 13) allows that "the cost and expense of a service requested by the authority . . . shall be paid by the authority."

HB 72

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 5, 1975

The Honorable Hugh Malone
Chairman, House Finance
Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

Dear Mr. Malone:

re House Bill no. 72

At the request of Sterling Gallagher, Commissioner of Revenue, in connection with your Committee's consideration of House Bill No. 72, an Act creating the Alaska Municipal Bond Bank Authority, I am enclosing copies of correspondence dated February 28, 1975 from Samuel L. Coxson, City Manager, City of Dillingham and dated February 27, 1975 from Jerry H. Rigler, J. D., Vice President and Trust Officer, National Bank of Alaska, Anchorage, Alaska to the Treasurer, City of Dillingham.

You will note the problems posed to the City of Dillingham regarding bond paying agency accounts and Mr. Coxson's comments.

Respectfully,

R. D. Stevenson

R. D. Stevenson
Special Assistant

RDS:lw

Enclosures (2)

cc Sterling Gallagher
Commissioner of Revenue

DEPT. OF REVENUE
RECEIVED
FEB 3 1 7 51 AM '75
JUNEAU, ALASKA

CITY OF DILLINGHAM

BOX 191 • DILLINGHAM, ALASKA 99576 • PHONES 842-3483 OR 842-3933

FILE

MESSAGE

TO Mr. Sterling Gallagher, Commissioner
Department of Revenue
Pouch S
Juneau, Alaska 99801

SUBJECT

DATE February 28, 1975

Dear Mr. Gallagher:

I am enclosing a letter received today from the National Bank of Alaska which may be of interest to you. This policy change may have an impact on the Municipal Bond Bank though it is not directly related.

Sincerely yours,

BY Samuel L. Coxson

Samuel L. Coxson, City Manager

cc: Mr. Jack Chenoweth

SLC/lrh

REPLY

DATE

SIGNED

INSTRUCTIONS TO SENDER:

INSTRUCTIONS TO RECEIVER:

RECEIVED FEB 2 8 19

NATIONAL Bank of Alaska
Main Office: Box 600 • Anchorage, Alaska 99510 • 907/272-5544

February 27, 1975

Treasurer
City of Dillingham
P.O. Box 191
Dillingham, Alaska 99576

Re: Bond Paid Agencies

Gentlemen:

In recent months we in the Trust Department of the National Bank of Alaska ~~have~~ has been forced to reevaluate our bond paying agency accounts. As a result of our reevaluation the management of the bank has decided that it would not be feasible for us to accept any more business of this type.

Let me assure that the decision was reached only after careful consideration. As you may well imagine, of primary concern to the bank is its relationship with the municipalities throughout the state and the desire on the part of the bank to see needed services provided locally. What has become increasingly evident, however, is the fact that because of the low volume and the resulting high unit costs we cannot continue to bring these services to you on a competitive basis. Rather than ask you to pay what we would consider excessive fees, the bank has decided to curtail its activity in this area.

In the future, we ask that you do not consider the National Bank of Alaska for paying agent or co-paying agent on any bonds you may issue. We regret that we have found it necessary to make this request and henceforth will decline any appointments as bond paying agents, or co-paying agents.

Yours very truly,

J H Rigler

Jerry H. Rigler, J.D.
Vice President and Trust Officer

RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

Signature of Camera Operator

1/31/90
Date

02-519 (REV 8/78)

COMMITTEE REPORT

SENATE

5/7/75

Mr. President: Date 5/9/75

The Committee on FINANCE has had CSHB 72 am creating the Alaska Municipal Bond Bank Authority under consideration. A Majority of the members of the Committee

(✓) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

( ) recommends it BE REPLACED WITH CS FOR ______ AND THAT CS FOR ______ DO PASS

( ) "and" recommends it BE REFERRED TO THE ______ COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

[illegible] [illegible]

[illegible]

[illegible]

[illegible]

Members NOT concurring in the Majority report:

______ recommends:

______ recommends:

______ recommends:

______ recommends:

______ recommends:

[illegible] Chairman

First Session - Ninth Legislature

TO BE CAPITALIZED FROM BOND PROCEEDS

Master File

I. REQUEST

Bill No. House Bill 72

Title: Creating the Alaska Municipal Bond Bank Authority

Requested by: Representative Hugh Malone, Hse. Fin. Com. Chairman Date:

Return Date Requested:

Agency: Revenue Program: Treasury Management

II. FISCAL DETAIL

Budget Request Unit(s) Affected:

A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100	PERSONAL SERVICES		9.2	10.1	11.1	12.2	13.4
200	TRAVEL		12.5	13.8	15.2	16.7	18.4
300	CONTRACTUAL		71.0	78.1	85.9	94.5	104.0
400	COMMODITIES		.5	.6	.7	.7	.8
500	EQUIPMENT		1.2				
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
900	INTER-AGENCY SERVICES		8.0	8.8	9.7	10.7	11.8
	TOTAL	-0-	102.4	111.4	122.6	134.8	148.4

B. FUNDING: (Thousands of dollars)

	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
GENERAL FUND						
FEDERAL FUNDS						
OTHER		102.4	111.4	122.6	134.8	148.4

C. POSITIONS:

	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
PERMANENT/TEMPORARY	/	1 /	1 /	1 /	1 /	1 /
MAN MONTHS (P./T.)	/	3 /	3 /	3 /	3 /	3 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached analysis

IV. ATTACHMENTS

V. DATE: April 12, 1975 PREPARED BY: P. A. Wall

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

Senator Bill Ray

ANALYSIS

Personnel Services:

Executive Secretary:	Range 25: 3 months salary @ 2,608 mo =	$7,824
	plus 18% benefits for 3 months	1,408
		$9,232

Travel:

Bond Bank Authority Travel : 12 trips x 5 directors x 5 days per trip, $2.6 perdiem + 2.4 travel =	5,000
Executive Director Travel: 5 trips x 5 days per trip, $1.1 perdiem + 1.0 travel =	2,100

Contractual:

Surety Bonding	500
Bond Counsel and Financial Advisors	55,000
Communications (postage, phones, forms, etc.)	5,000
Misc. Contractual	3,000
Annual Audit and Annual Report	7,500

Inter-agency Services:

Central Duplicating and Service for the Authority by State Agencies	8,000
Commodities	500
Equipment: For new positions: Desks, chairs & calculators	1,200

Fiscal Anaylsis -- HB 72 aim in House Finance

Sec. 44.58.050 (page 4, line 16) requires that "all costs of surety bonds shall be borne by the authority."

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Sec. 44.58.390 (page 26, line 8) provides that "all expenses incurred in carrying out this chapter are payable solely from revenue or funds appropriated under this chapter."

Sec. 44.58.400 (page 26, line 13) allows that "the cost and expense of a service requested by the authority . . . shall be paid by the authority."

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 11, 1975

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Rhode:

Enclosed is a memorandum from Jack Chenoweth to Larry Eppenbach on current bond issues outstanding in various communities of the State.

These are the communities we would deem in need of assistance. The smaller cities have the most need such as Sitka, Cordova, Nome, Petersburg, Seward and Valdez.

Sincerely,

Sterling Gallagher

Sterling Gallagher
Commissioner

SG: gd

Enclosure

MEMORANDUM State of Alaska

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Larry Eppenback
Deputy Commissioner of Treasury
Department of Revenue

DATE: December 13, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Chenoweth
Director
Local Government Assistance Division

SUBJECT: Municipal bond bank: reported authorized but unissued and anticipated general obligation bond issues.

Questionnaires directed to some 40 Alaska municipalities inquired as to anticipated general obligation bond issues. The information returned is summarized below. The Cities of Anchorage and Fairbanks, the Greater Anchorage Area Borough and the Fairbanks North Star Borough are excluded.

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Juneau	$ 2,500,000		School
		$ 4,000,000	Fire facilities and equipment
Sitka	-0-	1,000,000	Roads
Kenai Peninsula Borough	-0-	3,500,000	Schools
Kodiak Island Borough	35,000		Schools
		None	
Matanuska-Susitna Borough	15,500,000		Schools
		None	
North Slope Borough	20,000,000		Schools
	2,000,000		Roads
	650,000		Public housing
	50,000		Water/sewer
	50,000		Utilities
	2,650,000		Other capital improvements
		None	
Bethel	None		
		250,000	Dock improvements
Cordova	1,000,000		Civic center complex
		5,500,000	School

	AUTHORIZED BUT UNISSUED	ANTICIPATED	PURPOSE
Ketchikan	$ 1,250,000	$	Sewer treatment facility
		None	
Kodiak	1,380,000		Water and sewer/streets
		None	
Nome	1,000,000		Schools
		2,000,000	Port facilities
Pelican	None		
		58,500	Sewage treatment facility
Petersburg	None		
		5,500,000	School
Seward	600,000		Water/sewer/sewage treatment
		50,000	Dock improvement
Skagway	200,000		Sewer
		None	
Soldotna	1,400,000		Water/sewer
		None	
Wrangell	750,000		Sewer
		350,000	Pool
Valdez	None		
		12,500,000	School

Other municipalities contacted but indicating no unissued bonds or anticipated projects are:

Bristol Bay Borough	Kake
Haines Borough	Kenai
Ketchikan Gateway Borough	King Cove
Barrow	Klawock
Craig	Kotzebue
Dillingham	Nenana
Haines	Saint Mary's
Homer	Seldovia
Hoonah	Unalaska
Hydaburg	Yakutat

Totals of the bonds listed are:

Authorized but unissued	$ 56,715,000
Anticipated	$ 34,708,500

JPC:ba

M E M O R A N D U M

April 9, 1975

Subject: State Bond Bank - House Bill 72

This subject has been before the House Finance Committee.

The theory is that the State would create a corporation which would operate by purchasing municipal bond issues at a time when several municipalities were in a position to issue bonds. It would buy only general obligation bonds. When a sufficient number of municipalities have bonds with approximately an equal rating and similar characteristics such as the same maturity dates, the bond bank would put out a prospectus inviting bids on bonds issued by the bond bank. These would be revenue bonds of the bank payable from the revenue derived from the municipal bonds purchased by the bank. The bank's bonds would be backed by a reserve fund to be appropriated by the legislature for this purpose equal to principal and interest payable in one year on the bonds issued by the bank. The proponents of this bill anticipate that the State could sell a revenue bond of this type at a lower rate of interest than the municipalities can sell their general obligation bonds because the State's larger issue would be more attractive than a number of municipal smaller issues and the reserve fund would be additional security for the holders of the bank's bonds.

The proponents of the bill frankly stated that the bond bank would be unable to buy bonds of inferior quality and it can not be used as a vehicle to sell bonds to the bank unless they were good quality. They stated that the purchaser of the bank's bonds would consider a package to have a quality equal to the lowest quality municipal bonds in the package and this is true.

I advised the committee that municipalities who do not keep proper minutes of their meetings, levy and collect taxes as they should and keep proper books of account to reflect their financial standing would not be able to sell their bonds. I told them that they should not go home and tell their constituents that this was the answer to their financial problems because it would only be beneficial in my opinion to some communities.

The State with an "A" rating sold its last general obligation bonds for 5.99% interest. Since these are revenue bonds they would sell for a higher rate of interest. At the present time State revenue bonds are being sold only at very high interest rates because of a default of $105,000,000 in bonds by the Urban Development

Corporation of the State of New York. In normal times a bond bank bond of this type should sell for about 6-1/2 to 7% interest. The bill states that the State would assume no obligation for the payment of the bonds and that the bond bank revenues are the only backing for the bonds. It further states that the State would not subsidize the bank except to establish a reserve fund. The cost of operations would have to be paid from the income received from the municipalities which they would pay in the form of interest on their bonds. Therefore it is my opinion that the bond bank would have to pay 6.5 to 7% interest on its bonds and would have to charge the municipalities somewhat more. The larger municipalities are having no trouble selling their bonds at rates slightly above 6%. The last Juneau issue went for 6.2. Therefore they could not save any money by selling to the bond bank. The bond bank is of no value to a community unless it can either sell the municipal bonds with a rate of interest less than they can sell otherwise or can market a bond which is not marketable otherwise.

The way it is designed at the present time the communities with good credit rating can sell cheaper on the open market and the bond bank would be of no help to them. Municipalities which have large amounts of bonds outstanding and have used up their credit can not issue more bonds and sell them to the bank because the bank would not purchase them and jeopardize the reserve funds. However, there are municipalities which have never issued bonds and have no reputation in the market. There are also new communities springing up which have no financial history but have good prospects. There are other communities which because of unsettled economic conditions may have trouble marketing bonds at a reasonable rate of interest such as 6.5%. For these communities who might have to pay 7% or more on a general obligation bond, the bond bank may be able to provide them a market which would otherwise not be available and it may be able to save them money in the interest rate.

In my opinion any small community in Southeastern Alaska which has not over-extended itself in the issuance of bonds and has good financial records can sell their bonds to Alaska banks at rates of interest and with less delay and expense than is necessary when dealing with a bond bank established as proposed. Therefore it is doubtful that the bank would be of any benefit to such a community but it could have advantages for municipalities which do not have such a good position in the market.

I advised the committee that the proposed appropriation of $2,650,000 for the reserve would not support more than $30,000,000 of bonds outstanding and if the bank is to operate efficiently, it must have a larger reserve fund. The administration is now asking for an appropriation of $4,445,000 to be appropriated to the reserve fund to support $50,000,000 of bonds. The prospects of getting such an appropriation are not good.

N. C. Banfield

N. C. Banfield

NCB;np

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES
SUITE 201, 311 FRANKLIN STREET
JUNEAU, ALASKA 99801

HERBERT L. FAULKNER (1882-1972)
NORMAN C. BANFIELD
FRANK M. DOOGAN
MICHAEL M. HOLMES
RANDALL J. WEDDLE
WILLIAM B. ROZELL

JAN VAN DORT
LAWRENCE T. FEENEY
CHARLES N. DRENNAN

TEL. 586-2210
AREA CODE 907

April 9, 1975

City of Craig
P. O. Box 12
Craig, Alaska 99921

Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska Municipal League to support House Bill No. 72 which would authorize the State to establish a bond bank.

I have written a Memorandum on the subject which I am sending you for your information and consideration.

Yours very truly,

N. C. Banfield

N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

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JAN VAN DORT
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CHARLES N. DRENNAN

TEL. 586-2210
AREA CODE 907

April 9, 1975

City of Pelican
P. O. Box 757
Pelican, Alaska 99832

Re: Bond Bank

Gentlemen:

You have been contacted by the Alaska Municipal League to support House Bill No. 72 which would authorize the State to establish a bond bank.

I have written a Memorandum on the subject which I am sending you for your information and consideration.

Yours very truly,

N C Banfield
N. C. Banfield

NCB:np
Enclosure
cc: Alaska Municipal League

Statement on HB 72

Submitted by Don M. Berry

Executive Director

Alaska Municipal League

Mr. Chairman, Members of the Committee:

For the record, I am Don M. Berry, Executive Director of the Alaska Municipal League, an organization representing cities and boroughs throughout Alaska. On behalf of the League members, I wish to express our appreciation for this opportunity to prevent testimony in support of HB 72 an act establishing the Municipal Bond Bank Authority.

The League has spent several years reviewing and drafting the concept of assistnace to local governments by the creation of a financing agency within the State which could provide a viable means of aiding these local governments to overcome many of the high cost problems incurred in the capital markets and which could aid communities in the financing of needed capital improvements. We feel that HB 72 as it appears before this committee adequately meets these needs.

As you are well aware, many communities in Alaska have experienced extreme difficulty in obtaining necessary funds to construct civic improvements due to existing bonded indebtedness or high interest rates. Because of the extreme costs of normal local government responsibilities, vitally needed capital improvements such as streets, sewers, water systems, hospitals, parks and

recreation facilities, pollution control, libraries, etc. have become inferior claimants in the competition for the local tax base. Therefore, the only recourse has been to go to the bond market with its nearly prohibitive costs. While many plans have been advanced by the U. S. Treasury, Congress and others to aid such communities, one thing that all proposals have in common is the powerful involvement of the federal government one way or another. The League believes that state involvement is not only more appropriate but much more beneficial.

This involvement could take two courses - outright grants to political subdivisions for capital improvements or the creation of a municipal authority such as you now have before you. Since HB 72 does not deal with outright gran[illegible], we will confine our remarks to the bond authority.

Unlike most states with their numerous political subdivisions issuing bonds in large volume, Alaska has relatively few issuers, with most of the volume in the City and Borough of Anchorage, the City of Fairbanks, the Fairbanks North Star Borough, and, to a lesser extent, the Kenai Peninsula Borough, the City and Borough of Juneau, and the City of Ketchikan and Ketchikan Gateway Borough.

However, with the rapid increase of economic activity over the next few years, Alaska may anticipate that its smaller cities such as VAldez and Cordova and less populous boroughs such as the Matanuska-Susitna and North Slope will begin to borrow on a volume comparable to the larger population centers. In addition, villages or communities may be expected to incorporate or attain corporate status permitting bond issuance, and other pockets of

growth will develop. These new growth pockets will have capital demands, initially for schools and later for other municipal purposes.

Alaska may expect then over the next few years a number of potential bond issuers who have never approached the municipal bond market. Many of these will obviously be unrated on their initial financings. Thus, some of the local issues will not gain nearly the investor attention they might deserve because of the difficulty of analyzing the credit of a new municipality or a municipality which has not heretofore borrowed. Particular economic, political or social problems might be present in a given situation which would preclude any reasonable expectation of obtaining funds by borrowing. Local officials in many of these budding communities may find that readying an issue for market is beyond their capabilities because of inexperience.

A Municipal Bond Bank Authority, such as envisioned in HB 72, could be of immeasurable help to first time borrowers if only because of the advice it could render on the techniques of preparing bonds for market.

In addition, the concept of packaging a number of issues from new or smaller municipalities in effect reoffered through the new uniform security of the Municipal Bond Bank Authority could be of great help in local debt management. The primary analysis of the local bond security could be undertaken by the Bond Authority and the burden relieved from outside municipal bond purchasers. It may be expected that the Municipal Bond Authority operation could result in interest cost savings to the smaller municipalities

since the uniform security it offers to bond holders would obviate the difficult issue-by-issue bond analysis now necessary and because the State, although not legally obligated to support the bonds would be considered to be involved, nevertheless, in assuring its successful operation. These obvious advantages would also accrue to the larger and more experienced municipalities if they chose, under the terms of HB 72 to issue their bonds through the Authority rather than on the public market.

An additional feature of the Municipal Bond Authority, available to all Alaskan Communities, is the fact that it would help provide a continuing staff to assist in local finance operations. It is realistic to assume that, with a specific bond purchase and marketing function assigned tothe Authority, progress could be made for the first time in securing and keeping current a uniform accounting and information system from municipalities - the lack of which has heretofore proved a problem to our local government operation in Alaska.

Thus, it is obvious that the Municipal Bond Bank Authority as established by HB 72 offers much more far-reaching assistance to local governments than just the capability of securing lower interest rates on local bond issues. It provides the essential tools which might eventually enable each community to attract investor interest on its own. It could assist in developing financial stability in local governments which in turn would enhance the credit of the State at all levels.

The League realizes the tremendous responsibility with which the Committee has been charged. Your decisions here will

have a lasting effect on Alaska and its citizens for years to come. So too will the decisions of local government as they plan vitally needed capital improvements not only for the present but for the generation of Alaskans who will require and utilize these facilities in the future. We sincerely feel that an investment now in the schools, hospitals, roads, environmental pollution control facilities of the future would be a wise and judicious investment of the State's resources to assure its continued growth and the development of its bright prospects in the decades to come.

In conclusion, I wish to express the thanks and appreciation of the entire Alaska Municipal League for the opportunity to present this statement of strong support of strong support of HB 72. We are anzious to assist you in your important task and stand ready to help you in every way possible.

Thank you very much.

Respectfully submitted,

Don M. Berry
Executive Director

DMB/jf

BANK OF AMERICA

April 18, 1975

BANK INVESTMENT SECURITIES DIVISION

James B. Rhode, SA
House Finance Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Jim:

The creation of an Alaska Municipal Bond Bank would appear, in theory, to solve many local financing problems. In practice, however, such a bank could generate greater problems for the State of Alaska then may be solved. One has only to glance at the trade papers to recognize that state agency financing backed by a "moral" pledge of the state has "fallen on hard times". While in the recent past many professional bond analysts have pointed out that the "moral obligation" is not legally binding upon a State, be it worded "may or shall", no one has been so presumptuous as to suggest that a State would not "honor this clause" at the slightest hint of trouble. Recent difficulties in New York State associated with notes and bonds of Development Corporation present some insight into possible responses by states to "moral obligation" debt. In this period of high inflation, mounting unemployment and government revenue shortfalls, most states are finding it difficult to balance their budgets. Surplus revenue for any purpose is hard to come by. Many political observers as well as investors have come to feel that the Moral Obligation pledge is in reality an escape on the part of those in public office who, on the one hand, do not wish to forego pet projects for fiscal reasons but are unwilling, nonetheless, to place the State's credit on the line for such projects, relying instead on future legislators to resolve any problems that may arise.

If Alaska creates the Alaska Municipal Bond Bank backed by a moral pledge, the bond market will act accordingly. In our opinion the cost of a moral obligation bond of an Alaskan Municipal Bond Bank would be considerable. For example: if the State of Alaska were to sell a full faith and credit obligation of $25,000,000 repayable over a 25 year period with level debt service, we estimate the overall cost of principal and interest to be $51,238,425. The exact same issue sold under the Alaska Municipal Bond Bank, with a moral pledge, would incur an estimated debt service cost of <u>$58,549,225</u>, or <u>$7,310,800</u> in additional expense. It should also be noted that while the State of Alaska enjoys a Moody's "A1" rating, the Alaska Municipal Bond Bank would in all probability be assigned an "A" rating.

The sale of general obligation bonds by the State does not require "funded interest" during construction, or the establishment of a

Reserve Fund. The full $25 million, therefore, would be available to the State using g.o. method. Under the "Bond Bank" procedure, the net would be $18,258,031, giving effect to funded interest and other expense. Thus, the bond funds available to complete various projects would have declined by some $7 million, in addition to the higher debt service cost over the life of the bond issue. Although some monies would be recovered through interest earned on the reserve fund, the return on such investment would be limited by arbitrage regulations of the U.S. Treasury.

In the harsh reality of present-day finance, it appears to us that the public interest would best be served by the development of a total and well conceived capital improvement program, supported by sound fiscal and budgetary practices, effective debt management and strong public policy objectives.

The State of Alaska credit rating has now reached the "A1" level, placing the State on the same level with many other states in the lower "48" and just slightly over one step below the coveted "Aaa" level. The use of the "moral obligation" pledge would not enhance this rating. Alaska is a new state with a model Constitution, a young population and happily lacking many of the problems found in most other states. The State of Alaska, its cities and other political units have no reason to compete with each other in the bond market for funds. Though the topography of Alaska, its climate, population centers and special needs do indeed present a formidable challenge, we nevertheless feel that a departure from the general obligation bond to the moral obligation bond, with all its related problems and costs, would not be in the best interest of the State.

Sincerely,

A. F. Mazotti

A. F. Mazotti
Senior Research Officer

AFM/vs

Original sponsor: Rules Committee by request of the Governor

Offered: 4/11/75
Referred: Rules

IN THE HOUSE | BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 72 am

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act creating the Alaska Municipal Bond Bank Authority and prescribing its organization, powers and duties; and providing for an effective date."

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

* Section 1. AS 44 is amended by adding a new chapter to read:

CHAPTER 58. ALASKA MUNICIPAL BOND BANK AUTHORITY.

Sec. 44.58.005. LEGISLATIVE FINDINGS. The legislature finds that

(1) the rapid growth of municipalities in the state and the incorporation of new municipalities has created a demand for capital improvements which can only be met by these municipalities' borrowing money through the issuance of bonds or notes;

(2) many of these municipalities, although creditworthy, either have not issued bonds or notes or have little outstanding debt;

(3) the cost of borrowed money to these municipalities is or may be unnecessarily high due to lack of investor familiarity with the municipalities;

(4) other municipalities in the state pay unnecessarily high borrowing costs because of the distance of the state from capital markets or may find borrowing difficult or impossible because of temporary economic dislocation due to loss of employment or prospective loss of employment.

Sec. 44.58.010. LEGISLATIVE POLICY. (a) It is the policy of the state

(1) to foster and promote by all reasonable means the provision of adequate capital markets and facilities for borrowing money by municipalities in the state to finance capital improvements or for other authorized purposes, to assist these municipalities in fulfilling their capital needs and requirements by use of borrowed money within statutory interest rate or cost of borrowing limitations, to the greatest extent possible to reduce costs of borrowed money to taxpayers and residents of the state, and equally to encourage continued investor interest in the purchase of bonds or notes of municipalities as sound and preferred securities for investment;

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

(b) The legislature further declares that

(1) the exercise of the powers of the state in the interest of its municipalities is required to further and implement the policies declared in (a) of this section by authorizing the creation of a state bond bank authority as a body corporate and politic that will have full powers to borrow money and to issue its bonds and notes to make capital funds available for borrowing by municipalities and by granting broad powers to the bond bank authority to carry out the declared policies which are in the public interest of the state and its taxpayers and residents;

(2) state funds should be applied or authorized to be paid to a state bond bank authority only to provide adequate assurance and

security to the holders of the bonds or notes of the bond bank authority

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

Sec. 44.58.020. MUNICIPAL BOND BANK AUTHORITY. There is created the Alaska Municipal Bond Bank Authority. The authority is a public corporation of the state. The corporation is an instrumentality of the state within the Department of Revenue but has a legal existence independent of and separate from the state and has continuing succession until its existence is terminated by law. The exercise by the authority of the powers conferred by this chapter is considered an essential governmental function of the state.

Sec. 44.58.030. MEMBERSHIP AND VACANCIES. The bond bank authority consists of the following five directors: the commissioner of revenue, the commissioner of community and regional affairs, who shall each be a director ex officio with voting privileges, and three directors appointed by the governor. The appointment of each director other than the commissioner of revenue and the commissioner of community and regional affairs is subject to confirmation by the legislature. The three directors appointed by the governor serve at his pleasure for four-year terms. They must be residents of the state and qualified voters at the time of appointment and shall comply with the requirements of AS 39.50 (conflict of interest). The directors first appointed shall have terms of two, three and four years respectively. Each director shall hold office for the term of his appointment and until his successor has been appointed and qualified. A director is eligible for reappointment. A vacancy in a directorship occurring other than by expiration of term shall be filled in the same manner as the original appointment but for the unexpired term only. Each director before entering upon his duties shall take and subscribe to an oath to perform the duties of his office faithfully, impartially, and justly to the best of his ability. A record of the oath shall be filed in the office of the governor.

Sec. 44.58.040. OFFICERS AND QUORUM. The directors shall elect one of their number as chairman. The directors shall elect a secretary and a treasurer who need not be directors, and the same person may be elected to serve both as secretary and treasurer. The powers of the bond bank authority are vested in the directors, and three directors of the bond bank authority constitute a quorum. Action may be taken and motions and resolutions adopted by the bond bank authority at any meeting by the affirmative vote of at least three directors. A vacancy in the directorship of the bond bank authority does not impair the right of a quorum to exercise all the powers and perform all the duties of the bond bank authority.

Sec. 44.58.050. BONDING OF MEMBERS. Before the issuance of bonds or notes under this chapter, each director shall execute a surety bond in the penal sum of $25,000 and the treasurer shall execute a surety bond in the penal sum of $50,000. Each surety bond shall be conditioned upon the faithful performance of the duties of the office of the director or treasurer, to be executed by a surety company authorized to transact business in the state as surety and filed in the office of the lieutenant governor. After issuance of bonds or notes by the bond bank authority each director shall maintain his surety bond in force. All costs of the surety bonds shall be borne by the bond bank authority.

Sec. 44.58.060. COMPENSATION AND EXPENSES. The directors of the bond bank authority shall serve without compensation, but the bond bank authority shall reimburse its directors for actual expenses necessarily incurred in the discharge of their duties. Notwithstanding any other law, an officer or employee of the state shall forfeit his office or employment and any benefits by reason of his acceptance of appointment to the office of director of the bond bank authority.

Sec. 44.58.070. STAFF. The bond bank authority shall employ an executive secretary who may with the approval of the bond bank authority select and employ additional staff as necessary. Employees and agents of the bond bank authority other than legal counsel and the executive secretary are in the classified service under AS 39.25. In addition to its staff of regular employees, the bond bank authority may contract for and engage the services of the bond counsel, consultants, experts, and financial advisors the bond bank authority considers necessary for the purpose of developing information, or conducting studies, investigations, hearings or other proceedings.

Sec. 44.58.080. POWERS OF BOND BANK AUTHORITY. The bond bank authority may

(1) sue and be sued;

(2) adopt and alter an official seal;

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

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

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

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

(7) borrow money and issue its negotiable bonds or notes and

provide for and secure their payment, provide for the rights of their holders and purchase, hold and dispose of any of its bonds or notes;

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

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

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

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

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

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

(14) prescribe the form of application or procedure required of a political subdivision for a loan or purchase of its municipal bonds, fix the terms and conditions of the loan or purchase, and enter