

ALASKA LEGISLATURE

1986

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

Alaska Housing Finance Corporation
Tobacco Settlement Payment Analysis
Draft of April 30, 2000

	Tobacco Settlement Payments			AHFC
	First Traunche	Strategic Payment CAB's	Total Tobacco Settlements	State Capital Project Bonds
	2004-2039	2008-2017	2004-2039	2002-2007
Revenues				
Rated Maturities	2004-2039	2008-2017	2004-2039	2002-2007
Average Life of Planned Principal	9.571	8.952		5.1
Final Maturity of Planned Principal	2015	2015		2007
Minimum Coverage - Rated Mat.	1.328	1.328		N/A
Maximum Coverage - Rated Mat.	1.893	1.893		N/A
Average Coverage - Rated Mat.	1.601	1.601		N/A
True Interest Cost	6.0190%	Unknown 5.43%-5.82% Coupons		5.2294%
Gross Bond Proceeds	105,304,000	22,881,000	128,185,000	79,765,000
Debt Service Reserve Fund	(8,161,060)	(1,773,278)	(9,934,338)	(1,595,000)
Capitalized Interest Account	(9,479,517)		(9,479,517)	
Interest Rate Adjustment Factor	(12,000,000)		(12,000,000)	
Cost of Issuance	(2,763,177)	(598,109)	(3,361,286)	(750,000)
Net Bond Proceeds	<u>72,900,246</u>	<u>20,509,613</u>	<u>93,409,859</u>	<u>77,420,000</u>
Amount from State Capital Project Bonds			<u>77,420,000</u>	
Total Net Bond Proceeds			<u>170,829,859</u>	

WOHLFORTH, VASSAR, JOHNSON & BRECHT
A PROFESSIONAL CORPORATION

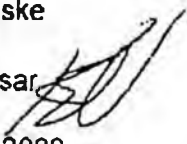
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MEMORANDUM

TO: Dan Fauske

FROM: Ken Vassar 

DATE: April 25, 2000

SUBJECT: HB281/Tamara Brandt Cook memo of April 24, 2000; Our File No. 3598.0001

HB281 proposes to sell a State-owned asset to a State-owned public corporation. The public corporation would issue revenue bonds to raise money to pay for the purchase of the asset. The public corporation would use the asset as security for, and the source of payment of, the revenue bonds. The public corporation would place the proceeds of the sale of the revenue bonds in a separate fund available for appropriation to pay for various capital costs.

The public corporation has full and adequate legal authority to issue revenue bonds, including, if HB281 passes, revenue bonds to pay for the capital projects described in HB281. There can be no constitutional concern in this regard. Article IX, Section 11, of the Alaska Constitution explicitly permits the issuance of revenue bonds.

The public corporation has full and adequate legal authority to pledge its assets to secure payment of its revenue bonds. There can be no constitutional concern in this regard. The ability to pledge assets, particularly revenue-producing assets, is inherent in the ability to issue revenue bonds. The assets pledged to revenue bonds are nearly always revenue-producing assets (hence, the term "revenue" bonds). If the pledge of revenues to revenue bonds creates a prohibited dedication of funds, then Article IX, Section 11, of the State Constitution is essentially meaningless. This is not a result which any court could reasonably reach.

Memorandum to Dan Fauske
Re: HB 322/Tamara Brandt Cook memo of April 24, 2000
Date: April 25, 2000
Page: 2

The State has full and adequate legal authority to transfer assets to its public corporations. There can be no constitutional concern in this regard. Public corporations cannot issue revenue bonds without revenue-producing assets to secure those revenue bonds. Alaska has a long history of transferring such assets to its public corporations (student loans, and the right to receive the revenues generated thereby, to the Alaska Student Loan Corporation; mortgage loans, and the right to receive the revenues generated thereby, to the Alaska Housing Finance Corporation; commercial loans, and the right to receive the revenues generated thereby, to the Alaska Industrial Development and Export Authority). If the transfer of these assets to a public corporation creates a prohibited dedication of funds, then Alaska has billions of dollars of outstanding revenue bonds which are not validly secured by collateral and Article IX, Section 11, of the Alaska Constitution is, again, essentially meaningless. This is not a result which any court could reasonably reach.

We do not believe that any of the versions of HB281 which we have reviewed creates any constitutional problems, and we would be willing to provide our bond counsel's opinion with respect to bonds issued pursuant to the terms of HB281.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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MEMORANDUM

April 25, 2000

SUBJECT: Revenue bonds (HB 322; CSHB 281(FIN))

TO: Senator John Torgerson, Co-chair
Senate Finance Committee

FROM: Tamara Brandt Cook
Director *TBC*

You have sent me a letter from Mr. James Baldwin, Assistant Attorney General, dated April 25, 2000 and asked for my comments. Numbers and headings below refer to Mr. Baldwin's letter.

(1) Assets of the Alaska Housing Finance Corporation are state assets, to be appropriated as other state assets are appropriated.

I agree with the specific points Mr. Baldwin makes, but disagree with his conclusion "that there is a substantial difference between assets of AHFC and assets of the state" for the limited purpose of analyzing whether the mechanism of authorizing the commissioner of revenue to sell to AHFC the right to receive "Tobacco Settlement" revenue without requiring the revenue to be subject to appropriation raises constitutional issues. In short, while I agree with the distinctions Mr. Baldwin makes between state assets and AHFC assets, those distinctions are not relevant in this particular context. What is relevant to my concern over the constitutionality of failing to appropriate the revenue stream from the "Tobacco Settlement" is Mr. Baldwin's statement: "AHFC is a creature of statute and can be made subject to the legislature's power of appropriation and other means of holding it close to the state."

(2) Tobacco settlement proceeds are not legally different from receipts from other sources. I do not disagree with the points made by Mr. Baldwin. I only raise the concern that selling the right to receive future state revenues, regardless of the source of the revenue stream, could raise constitutional issues not usually implicated by the sale of other state assets.

(3) Projects in a revenue bond are required by law to have a functional relationship, that is all projects benefiting from a bond issue are capital improvements for education facilities, or transportation facilities, but not both in a single legislative authorization.

I agree with Mr. Baldwin. (Suber v. Alaska State Bond Comm., 414 P.2d 546 (Alaska 1966))

Senator John Torgerson

April 25, 2000

Page 2

(4) Revenue used in a revenue bond must be directly or indirectly related to the projects. I agree with Mr. Baldwin that the requirements of art. IX, sec. 11 are satisfied because there is no pledge of revenue other than revenue of AHFC. I have no knowledge about how the AHFC subsidiary will work or how it will "purchase sufficient revenue generating assets to provide the necessary security." (Walker v. Alaska State Mtg. Assn., 416 P.2d 245 (Alaska 1966))

TBC:pl
00-162.plm

HB

287

HFIN

FILE

Amended

CS FOR HOUSE BILL NO. 287(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act making capital appropriations for public school facilities, for facilities for
2 the University of Alaska, and for facilities for ports and harbors; and providing
3 for an effective date."

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

5 * **Section 1. PUBLIC SCHOOL FACILITIES; FACILITIES FOR THE UNIVERSITY OF**
6 **ALASKA; AND FACILITIES FOR PORTS AND HARBORS.** (a) The sum of \$165,803,767
7 is appropriated from the proceeds of bonds issued by the Alaska Housing Finance Corporation
8 or a subsidiary of the corporation to the Department of Education and Early Development for
9 construction, renovation, and improvement of public elementary and secondary schools as
10 fo lows:

11 PROJECT	ALLOCATION
12 Petersburg - Fascia/Soffit Repair/Replacement	\$ 112,960
13 Kake City - Kake Elementary School Addition	2,237,460
14 Juneau Schools	

*act
also
pg 3
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1	Auke Bay Elementary Roof Replacement	653,842
2	Marie Drake Roof Replacement	599,501
3	Harborview Elementary Gym Roof Replacement	106,604
4	High School Heating/Ventilation	65,303
5	High School Auxiliary Gym Floor Replacement	109,386
6	Floyd Dryden School Gym Floor	108,236
7	Gastineau Elementary Heating Coil Replacement	133,053
8	Floyd Dryden Middle School Renovation	3,629,683
9	Kodiak Island Schools	
10	Peterson Elementary Addition	756,000
11	Kodiak High School	1,106,875
12	Kenai/Soldotna Schools	
13	McNeil Elementary Wastewater Plant	225,300
14	Kenai Central High School Reinsulate Exterior Walls	367,648
15	Anchorage Schools	
16	Bartlett High School, Phase I	3,500,000
17	Eagle River/Chugiak High School	14,563,500
18	East High School, Phase I	7,295,400
19	Service High School, Phase I	4,998,000
20	Wendler Middle School, Phase I	4,231,500
21	Denali Elementary, Replacement	8,211,000
22	District Wide Projects/Major Maintenance	11,730,600
23	Matanuska-Susitna Schools	
24	Matanuska-Susitna - Fire Alarm System - Five Schools	620,648
25	Matanuska-Susitna - Colony High School Septic System	159,416
26	Matanuska-Susitna - Fuel Tank Replacement	126,261
27	Matanuska-Susitna - Fire Sprinklers and Piping (3)	1,381,770
28	Matanuska-Susitna - Boiler/Heater Replacement	221,051
29	- Four Schools	
30	Matanuska-Susitna - Carpet Replacement - six schools	423,507
31	Fairbanks North Star Borough Schools	

1	District Wide Projects/Major Maintenance	750,000
2	Lower Yukon - Pilot Station School Replacement	17,654,003
3	Lower Yukon - Kotlik School Replacement	17,910,901
4	Kashunaniut - Chevak School Replacement	28,272,551
5	Northwest Arctic Schools	
6	Ambler K-12 Improvements	924,586
7	Kiana K-12 Improvements	1,395,000
8	Bering Strait Schools	
9	Elim School, Phase III	12,146,788
10	Southwest Region Schools	
11	Manokotak School Replacement	14,689,464
12	Pribilof Island - St. George School Remodel	4,385,970
13	(b) The sum of \$71,991,908 is appropriated from the proceeds of bonds issued by the	
14	Alaska Housing Finance Corporation or a subsidiary of the corporation to the University of	
15	Alaska for construction and renovation of university facilities as follows:	
16	PROJECT	ALLOCATION
17	University of Alaska - Southeast	
18	Deferred Maintenance, Renewal and	\$ 1,687,854
19	Replacement, and Code Compliance	
20	University of Alaska - AVTEC Seward	
21	Student Housing	4,200,000
22	University of Alaska - Anchorage	
23	Consortium Library	36,000,000
24	Deferred Maintenance, Renewal and	4,220,000
25	Replacement, and Code Compliance	
26	Matanuska-Susitna Ortner Building Replacement	685,000
27	University of Alaska - Fairbanks	
28	Deferred Maintenance, Renewal and	25,199,054
29	Replacement, and Code Compliance	
30	(c) Subject to (d) of this section, the sum of \$32,000,312 is appropriated from the	
31	proceeds of bonds issued by the Alaska Housing Finance Corporation or a subsidiary of the	

1 corporation to the Department of Transportation and Public Facilities to pay for construction
2 and renovation of port and harbor facilities as follows:

3	HARBOR TRANSFER PROJECT	ALLOCATION
4	Ketchikan	\$ 7,000,000
5	Petersburg	3,300,000
6	Juneau Area Harbors	
7	Auke Bay Harbor	492,325
8	Douglas Dock/Harbor	1,241,421
9	Taku Harbor	38,566
10	Lawock	860,000
11	Seldovia	2,500,000
12	Whittier	1,835,600
13	Valdez	3,013,500
14	Cordova	4,337,800
15	Nome	1,000,000
16	CORPS OF ENGINEERS MATCH	
17	Program Formulation	100,000
18	Ketchikan Harbor Study	200,000
19	Wrangell	500,000
20	Kake	404,000
21	Metlakatla - Tamgass	850,000
22	Ouzinkie	1,300,000
23	Seward Harbor Expansion	2,925,000
24	Perryville Harbor Feasibility	102,100

25 (d) Funds may not be expended for a port or harbor facility described in (c) of this
26 section unless

27 (1) the port or harbor facility is located in a municipality in which the port or
28 harbor facility is owned and operated by the municipality;

29 (2) ownership of the port or harbor facility that is being funded has been
30 transferred from the state to the municipality by a transfer agreement under AS 35.10.120; and

31 (3) the state completes a bill of sale transferring the port or harbor facility from

1 the state to the municipality.

2 (e) In this section, "subsidiary of the corporation" means a subsidiary corporation of
3 the Alaska Housing Finance Corporation created under a statute enacted by the Twenty-First
4 Alaska State Legislature that permits the corporation to create subsidiary corporations for the
5 purpose of financing or facilitating the financing of school construction, facilities for the
6 University of Alaska, or facilities for ports and harbors.

7 * **Sec. 2.** The appropriations made by this Act are for capital projects and lapse under
8 AS 37.25.020.

9 * **Sec. 3. CONTINGENT EFFECTIVE DATE.** This Act takes effect only if a bill is
10 passed by the Twenty-First Alaska State Legislature and is enacted into law that authorizes
11 the commissioner of revenue to sell to the Alaska Housing Finance Corporation the right to
12 receive a portion of the revenue derived from the settlement of State of Alaska v. Philip
13 Morris, Incorporated, et al, No. IJU-97-915CI (Alaska Super. 1997) and authorizes the Alaska
14 Housing Finance Corporation or a subsidiary of the corporation to issue revenue bonds. In
15 this section, "subsidiary of the corporation" has the meaning given in sec. 1 of this Act.

16 * **Sec. 4.** If this Act takes effect under sec. 3 of this Act, it takes effect July 1, 2000.

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: January 14, 2000

FURTHER REFERRALS:

Date of Committee Action: 4/19/00

The FINANCE Committee considered:

HB 287

HOUSE BILL NO. 287

APPPROPRIATIONS; CAPITAL BUDGET/REAPPROPS

"An Act making and amending capital appropriations and reappropriations and capitalizing funds; and providing for an effective date."

recommends it be replaced with the following committee substitute CSHB 287 (Fin) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal note(s) _____

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	X			
<i>[Signature]</i>			✓	
<i>[Signature]</i>				X
<i>[Signature]</i>				X
<i>[Signature]</i>	X			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>			X	
<i>[Signature]</i>	X			

CHAIR'S SIGNATURE *[Signature]* *[Signature]*

HB

287

SFIN

FILE

1-GH2043V
Utermohle
5/1/00

**SENATE CS FOR CS FOR HOUSE BILL NO. 287(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - SECOND SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act making capital appropriations that are funded from the sale of
2 revenue bonds that are issued by the Alaska Housing Finance Corporation or
3 a subsidiary of the Alaska Housing Finance Corporation and that are to be
4 repaid either from the revenue derived from the settlement of State of Alaska
5 v. Philip Morris, Incorporated, or from revenue of the Alaska Housing Finance
6 Corporation to the Department of Education and Early Development for public
7 school facilities, to the University of Alaska for facilities for the University of
8 Alaska, and to the Department of Transportation and Public Facilities for
9 facilities for ports and harbors; and providing for an effective date."

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

11 * Section 1. PUBLIC SCHOOL FACILITIES; FACILITIES FOR THE UNIVERSITY OF
12 ALASKA; AND FACILITIES FOR PORTS AND HARBORS. (a) The sum of \$92,911,000

1 is appropriated to the Department of Education and Early Development for construction,
 2 renovation, and improvement of public elementary and secondary schools from the proceeds
 3 of the revenue bonds described in sec. 3 of this Act that are issued by the Alaska Housing
 4 Finance Corporation, or a subsidiary of the corporation, and is allocated among the following
 5 projects in the amounts set out:

6	PROJECT	ALLOCATION
7	Lower Yukon - Pilot Station School Replacement	17,654,000
8	Lower Yukon - Kotlik School Replacement	17,911,000
9	Kashunamiut - Chevak School Replacement	28,273,000
10	Bering Strait Schools - Elim School, Phase III	12,147,000
11	Southwest Region Schools -	14,689,000
12	Manokotak School Replacement	
13	Take - Elementary School Addition	2,237,000

14 (b) The sum of \$61,488,000 is appropriated to the University of Alaska for
 15 construction and renovation of university facilities from the proceeds of the revenue bonds
 16 described in sec. 3 of this Act that are issued by the Alaska Housing Finance Corporation, or
 17 a subsidiary of the corporation, and is allocated among the following projects in the amounts
 18 set out:

19	PROJECT	ALLOCATION
20	University of Alaska - Southeast	
21	Deferred Maintenance, Renewal and	\$ 1,388,000
22	Replacement, and Code Compliance	
23	Classroom Building	5,200,000
24	University of Alaska - Anchorage	
25	Consortium Library	34,000,000
26	Deferred Maintenance, Renewal and	2,200,000
27	Replacement, and Code Compliance	
28	University of Alaska - Fairbanks	
29	Deferred Maintenance, Renewal and	18,700,000
30	Replacement, and Code Compliance	

31 (c) The sum of \$5,977,000 is appropriated to the Department of Transportation and

1 Public Facilities to pay for construction and renovation of port and harbor facilities from the
 2 proceeds of the revenue bonds described in sec. 3 of this Act that are issued by the Alaska
 3 Housing Finance Corporation, or a subsidiary of the corporation, and is allocated among the
 4 following projects in the amounts set out:

5 CORPS OF ENGINEERS MATCH

6	Program Formulation	100,000
7	Ketchikan Harbor Study	200,000
8	Wrangell	500,000
9	Metlakatla - Tamgass	850,000
10	Ouzinkie	1,300,000
11	Seward Harbor Expansion	2,925,000
12	Perryville Harbor Feasibility	102,000

13 (d) In this section, "subsidiary of the corporation" means a subsidiary corporation of
 14 the Alaska Housing Finance Corporation created under a statute enacted by the Twenty-First
 15 Alaska State Legislature that permits the corporation to create subsidiary corporations for the
 16 purpose of financing or facilitating the financing of school construction, facilities for the
 17 University of Alaska, or facilities for ports and harbors.

18 * Sec. 2. The appropriations made by this Act are for capital projects and lapse under
 19 AS 37.25.020.

20 * Sec. 3. CONTINGENT EFFECT. This Act takes effect only if a bill is passed by the
 21 Twenty-First Alaska State Legislature and is enacted into law that authorizes the commissioner
 22 of revenue to sell to the Alaska Housing Finance Corporation the right to receive a portion
 23 of the revenue derived from the settlement of State of Alaska v. Philip Morris, Incorporated,
 24 et al, No. 1JU-97-915 CI (Alaska Super. 1997) and authorizes the Alaska Housing Finance
 25 Corporation or a subsidiary of the corporation to issue revenue bonds that are to be repaid
 26 either from the revenue derived from the settlement or from the revenue of the Alaska
 27 Housing Finance Corporation. In this section, "subsidiary of the corporation" has the meaning
 28 given in sec. 1 of this Act.

29 * Sec. 4. If, under sec. 3 of this Act, this Act takes effect, it takes effect July 1, 2000.

SENATE FINANCE COMMITTEE REPORT

DATE: 4/27/00

REPORTED OUT OF
SFC 5/1/00

FURTHER:

DATE TURNED
IN TO OFFICE: 1 May 00

Finance Committee considered CS FOR HOUSE BILL NO. 287(FIN) am(reengrossed)(efd fld)

APPPROPRIATIONS: SCHOOLS/UNIVERSITY./HARBORS

and recommends:

- be replaced with S CS CS HB 287 (FIN)
- adopt previous _____ CS CS _____
- attached amendment(s) forthcoming
- adopt Letter of Intent by _____
- further referral to the _____ Committee

- Senate Bill:
 - same title
 - new title
- House Bill:
 - same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Lynne Messer</i>	<input checked="" type="checkbox"/>	<i>Kate Kelly</i>		<input checked="" type="checkbox"/>	
<i>Kate Kelly</i>	<input checked="" type="checkbox"/>	<i>Col Adams</i>	<input checked="" type="checkbox"/>		
<i>Frank LeBlanc</i>	<input checked="" type="checkbox"/>	<i>Loren D. Leman</i>	<input checked="" type="checkbox"/>		
		<i>4. J. ...</i>			<input checked="" type="checkbox"/>
Co-Chair: <i>[Signature]</i>	<input checked="" type="checkbox"/>	Co-Chair:			
Co-Chair: <i>[Signature]</i>	<input checked="" type="checkbox"/>	Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

SENATE FINANCE
COMMITTEE

Amendment Number: #1
Bill Number: HB 287
Sponsor: Tomison Date: 5/1/00
Logged In By: Mindy

I-GH2043\I.1
Utermohle
5/1/00

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 287(FIN), Draft Version "I"

1 Page 2, line 14:

2 Delete "\$61,488,000"

3 Insert "\$61,788,000"

4 Page 2, line 23:

5 Delete "5,200,000"

6 Insert "5,500,000"

7 Page 3, following line 12:

8 Insert a new subsection to read:

9 "(d) The sum of \$4,200,000 is appropriated to the Department of Education and Early
10 Development for construction of AVTEC student housing in Seward from the proceeds of the
11 revenue bonds described in sec. 3 of this Act that are issued by the Alaska Housing Finance
12 Corporation, or a subsidiary of the corporation."

13 Renumber the following subsection accordingly.

Bill History/Action Display



BILL: HB 287 SHORT TITLE: APPROPRIATIONS: SCHOOLS/UNIV./HARBORS
 BILL VERSION: CSHB 287(FIN) AM(REENGROSSED) (EFD FLD)
 SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

CURRENT STATUS: (S) FIN

STATUS DATE: 4/27/00

TITLE: "An Act making capital appropriations that are funded from the sale of revenue bonds that are issued by the Alaska Housing Finance Corporation or a subsidiary of the Alaska Housing Finance Corporation and that are to be repaid either from the revenue derived from the settlement of State of Alaska v. Philip Morris, Incorporated, or from revenue of the Alaska Housing Finance Corporation to the Department of Education and Early Development for public school facilities, to the University of Alaska for facilities for the University of Alaska, and to the Department of Transportation and Public Facilities for facilities for ports and harbors."

Full Text No Fiscal Information for Bill/Resolution.

Committee Action With Bill History

Jrn-Date	Jrn-Page	Action
1/14/00	<u>1922</u>	(H) READ THE FIRST TIME - REFERRALS
1/14/00	<u>1922</u>	(H) FIN
1/14/00	<u>1922</u>	(H) GOVERNOR'S TRANSMITTAL LETTER
4/19/00	<u>3325</u>	(H) FIN RPT CS(FIN) NT 7DP 2NR 2AM
4/19/00	<u>3327</u>	(H) DP: DAVIS, PHILLIPS, WILLIAMS,
4/19/00	<u>3327</u>	(H) AUSTERMAN, BUNDE, MULDER, FOSTER;
4/19/00	<u>3327</u>	(H) NR: MOSES, GRUSSENDORF; AM: GRUSSENDORF
4/19/00	<u>3327</u>	(H) DAVIES
4/20/00	<u>3362</u>	(H) RULES TO CALENDAR 4/20/00
4/20/00	<u>3362</u>	(H) READ THE SECOND TIME
4/20/00	<u>3362</u>	(H) FIN CS ADOPTED UNAN CONSENT
4/20/00	<u>3363</u>	(H) AM NO 1 ADOPTED UNAN CONSENT
4/20/00	<u>3364</u>	(H) ADVANCED TO THIRD READING 4/21 CALENDAR
4/21/00	<u>3414</u>	(H) READ THE THIRD TIME CSHB 287(FIN) AM
4/21/00	<u>3414</u>	(H) PASSED Y26 N12 A2
4/21/00	<u>3415</u>	(H) EFFECTIVE DATE(S) UNAN CONSENT
4/21/00	<u>3415</u>	(H) BERKOWITZ NOTICE OF RECONSIDERATION
4/24/00	<u>3473</u>	(H) RECONSIDERATION NOT TAKEN UP
4/24/00	<u>3473</u>	(H) TRANSMITTED TO (S)
4/25/00	<u>3485</u>	(S) RETURNED TO HOUSE
4/25/00	<u>3481</u>	(H) RECEIVED FROM SENATE
4/25/00	<u>3501</u>	(H) RESCIND PREVIOUS ACTION
4/25/00	<u>3501</u>	(H) RETURN TO SECOND FOR AM 2 UNAN CONSENT
4/25/00	<u>3501</u>	(H) AM NO 2 (TITLE AM) ADOPTED UNAN CONSENT
4/25/00	<u>3502</u>	(H) RETURN TO SECOND FOR AM 3 UNAN CONSENT
4/25/00	<u>3502</u>	(H) AM NO 3 ADOPTED UNAN CONSENT
4/25/00	<u>3503</u>	(H) AUTOMATICALLY IN THIRD READING
4/25/00	<u>3503</u>	(H) HELD IN THIRD READING TO 4/26 CALENDAR
4/26/00	<u>3538</u>	(H) READ 3RD TIME AGAIN CSHB 287(FIN) AM
4/26/00	<u>3538</u>	(H) PASSED Y28 N11 E1
4/26/00	<u>3539</u>	(H) EFFECTIVE DATE(S) FAILED Y24 N15 E1
4/26/00	<u>3550</u>	(H) RETRANSMITTED TO (S)
4/27/00		(S) READ THE FIRST TIME - REFERRALS
4/27/00		(S) FIN
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Tobacco Settlement Payment Securitization

March, 2000



State of Alaska

Overview



- **Background on Tobacco Settlement**
 - Master Settlement Agreement (“MSA”)
- **Options for MSA Payments**
 - “Spend as you go”
 - “Trust built over time”
 - Securitization
- **How Securitization will work**
 - Benefits
 - Costs & risks
 - Uses of Bond Proceeds
- **G.O. vs. Tobacco Revenue Bonds**

The Master Settlement Agreement (“MSA”)



- The MSA was signed on November 23, 1998 and included 46 states, five U.S. territories, the District of Columbia, and the four largest cigarette manufacturers.
 - The MSA requires the Participating Manufacturers (“PM”) to make unadjusted payments exceeding \$6.2 billion over the next 40 years, with additional payments in perpetuity.
 - Florida, Minnesota, Mississippi and Texas reached their own settlement agreements with the cigarette manufacturers.
 - Payments are for recovery of all claims and costs of the states.
- Most cigarette manufacturers are now parties to the MSA.
 - The Original Participating Manufacturers (“OPM”), Philip Morris, R.J. Reynolds, Brown & Williamson and Lorillard comprise approximately 97% of the domestic cigarette market.
 - 17 other manufacturers (Subsequent Participating Manufacturers “SPM”) have also signed the agreement.
 - In total, the PMs comprise approximately 99.7% of the domestic cigarette market, indicating that the MSA is acceptable to the tobacco industry.

Benefits of the MSA



- **From the State's perspective:**
 - Alaska will receive large cash payments annually in perpetuity;
 - The MSA is an industry-wide settlement with payments based on total domestic cigarette shipments nationwide;
 - The MSA has been financed by higher cigarette prices, making it similar to an excise tax on cigarettes.
- **From the PM's perspective:**
 - They are released from past, present, and future smoking-related claims of the States;
 - The cost of the settlement is spread out over many years and passed on to consumers through higher prices;
 - They pay in proportion to their market share.

Overview of MSA Payments



- **MSA payments are based on domestic cigarette shipments.**
 - Payments are recalculated each year, based on relative U.S. market share, and are subject to other adjustments.
 - Payments can fluctuate significantly based on cigarette consumption in the U.S.
 - If cigarette brands are sold, payment obligations follow the brands to the new manufacturer.
- **Payments are adjusted annually for several factors, including inflation and volume of domestic cigarette shipments.**
- **Payments are allocated to states based upon percentages specified in the MSA.**
 - Alaska's Initial and Annual Payment percentage is .3414187%

Overview of MSA Payments

(continued)



- There are three types of payments to the states under the MSA:

Initial Payments

- Up front payments made by the OPM for five years;

Annual Payments

- Annual payments made by the OPM and SPM based on market share, in perpetuity;

Strategic Contribution Payments

- Payments in 2008-2017 to reimburse states for their contributions to the legal costs associated with the MSA.

Overview of MSA Payments

(continued)



- Payments are not released to an individual state until the occurrence of:

State-Specific Finality

- A state has settled its pending or potential litigation;
- Alaska has State-Specific Finality.

Final Approval

- The earlier of (1) June 30, 2000, and (2) the date when at least 80% of the states have reached State-Specific Finality.
 - Final Approval was achieved in November, 1999.
- The first two payments were received by the State, and the next payment is due April 15, 2000.

Total MSA Payments to the State of Alaska



Initial Payment	(12/28/98)		1	\$ 8,194,049	\$ 8,194,049
Initial Payment	(01/10/00)		1	8,439,870	8,439,870
Annual Payment	(04/15/00)		1	13,451,043	13,451,043
Initial Payment	(01/10/01)		1	8,693,066	8,693,066
Annual Payment	(04/15/01)		1	14,945,604	14,945,604
Initial Payment	(01/10/02)		1	8,953,858	8,953,858
Annual Payment	(04/15/02)		1	19,429,285	19,429,285
Initial Payment	(01/10/03)		1	9,222,474	9,222,474
Annual Payment	(04/15/03)		1	19,429,286	19,429,286
Annual Payments	(04/15/04)	through (04/15/07)	4	23,912,965	95,651,860
Annual Payments	(04/15/08)	through (04/15/17)	10	24,387,538	243,875,380
Strategic Contribution Pmnts.	(04/15/08)	through (04/15/17)	10	14,739,285	147,392,850
Annual Payments	(04/15/18)	through (04/15/25)	8	27,327,153	218,617,224
Total to be received through 04/15/2025					<u>\$ 816,295,849</u>

Summary of amounts to be received through 04/15/2025	
Initial Payments	\$ 43,503,317
Strategic Contribution Payments	\$ 147,392,850
Annual Payments	\$ 625,399,682
	<u>\$ 816,295,849</u>

MSA Payment Adjustments



- The MSA Payments are adjusted each year for a number of factors.
- The adjustments apply to certain payments. Some adjustments are expected to have little or no impact on Alaska's payments. However, other adjustments could be significant.

Adjustment	Initial Payments	Annual Payments	Strategic Payments
Inflation Adjustment		X	X
Volume Adjustment	X	X	X
Previously-Settled States Reduction		X	
Non-Participating Manufacturer Adjustment		X	X
Non-Settling States Reduction	X	X	X
Offset for Miscalculated or Disputed Payments	X	X	X
Federal Tobacco Legislation Offset		X	X
Litigating Releasing Parties Offset		X	X
Offset for Claims-Over		X	X

Options for Settlement Money



- The MSA Payments can be utilized to accomplish many different objectives. Some of the popular strategies being employed by other states are:
 - Spend as you go. This strategy, as its name states, would include MSA Payments reflected in annual budgets as the funds have been or are scheduled to be received;
 - Trust built over time. This approach would work like the Permanent Fund, with the MSA Payments deposited to the Trust and a portion of income from the Trust used in future years for targeted expenditures;
 - Securitization. This approach involves borrowing money with the MSA Payments as collateral and source for repayment of bonds. The proceeds from the issuance of the bonds could be spent or put into a trust fund/endowment.

How Securitization Would Work



- Securitization, in the case of the tobacco settlement, is the process of issuing bonds that are backed by the MSA Payments.
- Governments could transfer or “sell” all or a portion of their expected tobacco payment funding stream to a special-purpose entity (SPE), whose sole purpose is to issue bonds backed by those payments. The SPE, not the State or AHFC, would be the sole entity legally responsible for paying the debt service on the bonds.

How Securitization Would Work



- The State and AHFC would be legally separate from the entity and, therefore, would not put their own credit ratings at risk through the tobacco bond issuance. This mechanism would afford the State and AHFC protection from problems resulting from reduced, stalled, or halted payment streams from the MSA.
- Although, based on the bonds sold to date, we are considering issuing tobacco revenue bonds at this time, other structures or combinations of structures may prove to be the most beneficial to AHFC and the State. Be assured that AHFC would select the alternative(s) most attractive to both the Corporation and State of Alaska.

Sample Bond Issue



	<u>First Trauche</u>	<u>Second Trauche</u>	<u>Strategic Cont. CAB</u>	<u>Total</u>	<u>State Capital Project Bonds</u>
	2004-2039	2040-2042	2008-2017	2002-2042	2002-2007
Revenues					
Rated Maturities					
Planned Principal Avg. Life	12.7	20.5	Unknown		5.6
Final Planned Principal Mat.	2020	2021	2017		2007
Minimum Coverage - Rated Mat.	1.299	1.202	1		N/A
Minimum Coverage - Planned Mat.	1.046	1.001	1		N/A
Average Coverage - Rated	1.594	1.596	1		N/A
Average Coverage - Planned	1.068	1.038	1		N/A
True Interest Cost	6.2990%	6.8880%	5.43%-5.82%		5.2360%
Gross Bond Proceeds	263,280,000	18,960,000	57,204,837	339,444,837	102,365,000
Debt Service Reserve Fund	(20,318,054)	(1,896,000)	(5,720,284)	(27,934,338)	(2,050,000)
Capitalized Interest Account	(15,800,577)	(1,274,112)		(17,074,689)	
Interest Rate Adjustment Factor	(20,000,000)			(20,000,000)	
Cost of Issuance	(4,274,539)	(347,130)	(858,073)	(5,479,742)	(500,000)
Net Bond Proceeds	<u>202,886,830</u>	<u>15,442,758</u>	<u>50,626,480</u>	<u>268,956,068</u>	<u>99,815,000</u>
Amount Needed from State Capital Project Bonds				<u>91,043,932</u>	
				<u>360,000,000</u>	

3/23/00

Potential Benefits of Securitization



- If we, as a society, are successful in getting people to stop smoking, there will be no payments under the MSA. With securitization, Alaska would transfer those down-side risks inherent in the MSA Payments to the Bondholders, while keeping the up-side potential.
- Securitization would provide a sizeable, up-front payment, rather than smaller payments spread over a number of years.
 - For immediate, pressing needs or special projects, securitization provides access to cash now. This approach is no different than borrowing money based on your future earnings to purchase a house, and paying it back over the next 30 years.

Potential Benefits of Securitization

(continued)



- Tobacco settlement payments will vary from year to year, depending on inflation and domestic cigarette consumption, among other factors, so the up-front payment would provide Alaska with some budgetary certainty.
- With only the obligation of the SPE, the Bonds would require a higher coupon since the investor is bearing all of the MSA Payment risks.

Potential Benefits of Securitization

(continued)



- **Securitization transfers the risks associated with the MSA Payments to the buyers of the bonds, including:**
 - Reductions in cigarette sales;
 - Bankruptcy of any or all of the PMs;
 - Invalidation of the MSA.
 - A possible increase in the federal cigarette tax;
 - Individual lawsuits against the industry and states; and
 - The impact of the additional volume reductions attributable to national smoking prevention and public education campaigns and significant additional restrictions related to the tobacco industry's marketing, advertising, and lobbying.

Potential Risks and Costs of Securitization



- **Securitization involves potential risks.**
 - If annual payments are reduced, stalled, or halted, this will affect the SPE's ability to repay the bonds. There would be no legal obligation for the State or AHFC to repay the bonds.
- **There are also costs associated with bond issuance, including interest on the bonds, legal fees, bond closing costs, and ongoing trustee costs.**

General Obligation vs. Tobacco Revenue Bonds



Even though General Obligation Bonds are cheaper than Revenue Bonds, there are compelling reasons to use Revenue Bonds:

- **There is a limited amount of G.O. bond capacity available to the State.**
- **By not selling the revenue stream to bondholders, the state is, in effect, holding a \$260 million investment in the Tobacco Industry, exposing the State to unnecessary industry concentration, credit concerns and illiquidity.**
- **Revenue bonds can be issued with debt service payable only from the revenue source identified. This makes them attractive to issuers where revenue streams are uncertain.**



Uses of Bond Proceeds

- As discussed earlier, there are two basic approaches identified to date:
 - Spend Bond Proceeds on capital or other projects;
 - Put Bond Proceeds into a trust or endowment to fund future expenditures.
- On what and how the money is spent determines the tax status of the bonds.
- If Bond Proceeds are spent on qualifying capital projects or other qualifying expenditures, interest paid on them will be exempt from federal income taxes.
- If Bond Proceeds, or the earnings of a trust/endowment fund created with Bond Proceeds, are invested in taxable securities yielding above the cost of the bonds, the interest paid to holders of the bonds will be taxable.

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REGIONAL NEWS

March 15, 2000

Kansas May Back Children's Bonds With Tobacco Money

By Elizabeth Albanese

DALLAS -- **Kansas** officials are considering securitizing a portion of the state's \$1.8 billion tobacco lawsuit settlement to back \$300 million to \$400 million of taxable bonds that would fund programs benefiting children across the state.

"Right now, we're talking to the state Legislature," said **Kenneth Frahm**, executive director of the **Kansas Development Finance Authority**. "We'll see what they'll let us do about getting these things issued. In the meantime, of course, we have heard from a flood of underwriters letting us know they'd be willing to help with the issue, which we find really encouraging."

In 1999, the Legislature implemented the Children's Trust Fund Act, which devotes 100% of the state's tobacco settlement for children's programs, including health and education.

"When the Legislature opted to use the tobacco payments for children's initiatives, the possibility of securitization was discussed," Frahm said. "I think there

was always the idea that the state would like to put some of that money into bonds, divesting itself of some of the risk of losing money if the tobacco companies go out of business before the 25 years of payments are made. This would also give the state more money up front to put into these projects, and the ability to invest the money from selling the bonds and perhaps increase our capital."

Sen. **Dave Kerr**, R-Hutchinson, chairman of the Senate Ways and Means Committee, and Rep. **David Adkins**, R-Leawood, chairman of the House Appropriations Committee will meet with KDFFA representatives next week. They plan to study new debt schedule projections and discuss the legislative proposal, which includes the creation of a new wholly owned subsidiary of KDFFA that would handle only tobacco issues.

State budget director **Duane Goossen** said he is considering the pros and cons of securitizing the state's tobacco settlement.

"One reason I don't think anyone will say we absolutely ought to do this or shouldn't do this is because we have to do a very careful analysis of what we might end up with after 25 or 30 years from now," he said. "If we come out the same or worse, based on the bonds we could sell, then we have to analyze whether it is worth the risk we might be taking if the tobacco settlement revenue stream does not flow in as planned."

If legislation is passed, bonds could go to market as early as next fall, officials the bonds said.

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THE BOND BUYER

REGIONAL NEWS

March 10, 2000

State Finance Officials Push Tobacco Debt

By Daniel Kruger

SAN FRANCISCO - Building support for complex tobacco securitization deals among politicians who need to approve them can be an uphill battle, but a panel of issuer officials said here yesterday that they are not giving up hope. Both the treasurers of **Ohio** and **Nevada** told The Bond Buyer Tobacco Settlement Symposium that they will continue to push lawmakers to authorize such deals.

The idea of transferring the risk of future payments from tobacco companies that face myriad political and legal challenges - at least one of which raises the specter of company bankruptcies - has been aggressively pushed by public finance bankers, bond counsel, and some state treasurers. But many state legislatures and governors have been reluctant for many reasons to agree to a bond plan, panelists said.

"I think it's absolutely, stunningly in the states' interest" to divest the risk of tobacco company non-payment through a securitization, said Nevada Treasurer **Brian Krolicki**.

Krolicki also called on public finance professionals to approach their securitization pitches with greater consideration for the special needs of particular issuers.

Broker-dealers seem to be "failing to actually tailor these transactions to the actual needs of the state," he said.

"We're looking for assistance in figuring out how to decontaminate the money or rearrange how the settlement was established, so I don't have the legal or constitutional preventions that I think I currently might or do have," Krolicki said, referring to restrictions he faces in how the payments can be invested.

"The politics and the hypocrisy" of a state relying on tobacco company payments under the Master Settlement Agreement while simultaneously attempting to curb smoking and bashing the industry - a situation Krolicki described as "uncomfortable" - is an important part of the appeal of securitization, he said. Nevada's Legislature meets on a biennial basis and he intends to use the time between sessions to develop a bond plan that gains the acceptance of the state's "citizen-legislators," who often have trouble understanding the fundamental concepts of securitization, he added.

In Ohio, the politics of the competing needs of various interest groups have dominated the debate over how to use the settlement proceeds, according to Treasurer **Joseph T. Deters**.

While the risk profile of tobacco company payments exceeds standards of what is tolerable for the state, it has been difficult to win over Gov. **Robert Taft** and state legislators, who would need to approve any securitization.

Taft wants to use a substantial portion of the MSA payments for education spending, and other interest groups have been successful in staking out claims on smaller shares of the revenues. "Basically, every group that thought they could get their finger in the pie got their finger in the pie," Deters said.

But "in Ohio, securitization is not a dead issue," he added. Groups that face a wait for settlement payments they have been promised several years down the road may like to see it "in their lifetime," and so may become advocates of securitization, Deters said. He urged public finance bankers to concentrate their pitches to those groups in order to build political pressure in favor of bonding against settlement payments.

To date, three **New York State** issuers have sold a total of \$1.1 billion of tobacco settlement bonds. Some analysts have estimated that municipal bond mutual funds and other investors will have the capacity to buy

between \$10 billion and \$15 billion of tobacco bonds. Some issuers are concerned that if they do not issue their bonds while the market still has the appetite for them, they may miss an important opportunity.

Having statutory flexibility is important for issuers who might want to sit on the fence a while longer, panelists said. **Susan Leal**, treasurer of **San Francisco**, said the city has no immediate plans to securitize its share of the settlement, but added that it's comfortable with waiting to make a decision on a bond plan because it does not need state legislation to move forward.

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Who's the financial guarantor who soars above the rest? **MBIA**

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REGIONAL NEWS

March 6, 2000

Whither Tobacco Cash? J.P. Morgan, PaineWebber Pitch New Ideas

By Daniel Kruger

Now that three **New York** issuers with critical cash needs have tested the appetite for tobacco-related financing, other issuers in less dire situations are trying to determine what approach they should take in treating the windfall.

As governors, state treasurers, and legislators debate what to do with the settlement, some underwriting firms are suggesting new ways of accessing settlement proceeds as well financing methods that may help capture the present value of the future inflows. **New York City, Nassau County, and Westchester County** completed their tobacco securitizations late last year.

J.P. Morgan Securities Inc. has introduced a strategy that would offset potential risks associated with tobacco income while governments determine what they want to do with proceeds. The firm also hopes to provide governments with increased financial flexibility that states can use to separately create unrestricted trust funds.

Under the firm's proposed structure, which is being

labeled the Tobacco Risk Reduction Action Program, or TRRAction, an issuer sells tax-exempt tobacco bonds and invests the proceeds in a flexible tax-exempt trust fund.

Selling tax-exempt bonds reduces the cost of securitization, and the tax-exempt trust fund provides issuers with flexibility in how they choose to use the proceeds, said **Eric Altman**, a managing director with the firm. With a flexible tax-exempt trust fund in place, a state can take as much time as it wants in determining the eventual use of proceeds. While no issuer has publicly embraced the structure, it has a number of benefits and is the result of extensive research, the firm says.

"We have done a lot of research and have determined that you can use the earnings for operating purposes," Altman said. "So you've got some flow available for those purposes, and over time you can use the proceeds for capital as you identify those purposes. As long as you're investing in tax-exempts you can do this." Investment earnings from the proceeds can be used for noncapital purposes if they are transferred to a commingled fund and spent within six months of the transfer date, the banker added.

However, projects that might otherwise have been funded on a pay-as-you-go basis can be financed from the securitization proceeds, provided there was no preexisting concrete plan to fund them on a pay-as-you-go basis, such as an enacted budget.

That, he continued, is why the firm is talking to people who are in their budgetary process and who haven't made those decisions yet.

Also, by investing the securitization proceeds in tax-free securities, issuers satisfy tax law provisions related to so-called hedge bonds, and the proceeds are deemed spent as they are liquidated from the trust fund and put to other purposes, Altman said.

If a state wants to use the tobacco bond proceeds for capital purposes, that decision cannot be predicated on making deposits into an unrestricted trust fund, Altman said. "You can have parallel plans as long as they're not interdependent."

New approaches such as this reflect the broad variety of concerns an issuer must take into account when approaching the question of whether to securitize their settlement money. A more circumspect approach by

some issuers has also given Wall Street whizzes the opportunity to cook up a variety of ways to capture the funds.

At the same time, though, the sources say issuers are increasingly concerned about the risks involved in waiting for the tobacco companies to pay, such as what the potential fallout would be from the Engle class-action suit against the companies in Florida.

With these concerns in mind, **PaineWebber** Inc. is pushing a new structure that focuses on an approach more akin to a traditional municipal offering, and that the firm says retail investors will feel more comfortable buying.

With PaineWebber's structure, an issuer sells fixed-maturity bonds in the short-term maturity range, a fixed-maturity term bond in the intermediate range, and a flexible-amortization term bond in the long end.

Like a sinking fund on a housing bond, the residual payments from the companies after debt service pay down the flexible-amortization bonds in the final maturity, which would also increase coverage in other maturities as the flexible-amortization debt was paid down, much the way a super sinker works on housing debt.

New York City, Nassau, and Westchester all issued flexible-amortization bonds with both a planned payment date when investors should initially expect repayment and a rated maturity on which the rating agencies based their judgments.

PaineWebber had sought an alternative to flexible-amortization bonds because of concern from some investors that the structure limited retail participation in the offerings, said **Brad Gewehr**, a director with the firm.

Replacing flexible maturities with fixed ones was intended to eliminate a perceived obstacle to individual investor participation, he said.

"The intent here is not so much issuer-specific as it is market-responsive," he said.

Increasing retail demand above the 7% level that bought bonds during New York City's initial retail order period for its securitization would help both issuers and institutional investors, Gewehr said. In addition, a broader base of retail demand would increase the number of mutual funds and other institutions willing to participate in

tobacco bond deals, and that would also help increase demand in the secondary market, he said.

While a good argument can be made that the uncertainty about eventual repayment generated by the flexible amortizations in the first three deals was exaggerated, PaineWebber sensed market demand for fixed-maturity tobacco debt, he said.

If an issuer does issue fixed-maturity tobacco debt, it would probably help expand the secondary market for the already issued flexible-amortization bonds, since it would offer additional investors more choices in the market, Gewehr said.

James F. Haddon, a managing director with **Salomon Smith Barney Inc.**, which senior managed the three initial deals, explained that each issuer has different objectives in doing a securitization. This, he said, may lead a firm to emphasize one aspect of a transaction, be it the rating, the amount of proceeds, or other factors.

The flexible-amortization structure was the right one for the deals the firm has done, Haddon said. "We think you get a pricing benefit and a rating benefit from the flexible-amortization structure," he said.

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MEMORANDUM CONCERNING FEDERAL TAX LAW ISSUES IN THE TAX-EXEMPT SECURITIZATION OF TOBACCO SETTLEMENT MONEYS

The settlement of the tobacco controversy by the states has created a revenue stream which presents a number of interesting opportunities and issues. Should the revenue stream be securitized? How should the money be used? How much money is needed at what points in time? When should it be spent? Who should bear the risk that the revenue stream will not meet expectations as to time or amount? How may this risk of nonpayment or late payment be shared? In what proportions? At what cost? How is the money invested prior to its expenditure? These are very difficult questions and this memorandum does not purport to offer all the answers. Rather, it is our intent to provide one piece of the solution to this complex puzzle. Described below are some of the considerations based on, and limitations imposed by, the federal tax laws on the use of tax-exempt bonds to "securitize" a tobacco settlement revenue stream.

The prototype considered by this memorandum is the issuance of tax-exempt bonds secured as to repayment by a pledge of the revenues to be received from the tobacco companies. As revenues are received, the bonds would be repaid. Since 100% of the anticipated revenue stream would not be securitized (it is unlikely that the investors would consider this prudent), bonds could be issued in multiple series, over time, so that as some bonds are retired others could be issued, or excess revenues could be paid back to the state (as holder of the "residual interest" by the revenue stream).

The proceeds of the tax-exempt bonds would be used to pay for governmental capital expenditures or fund governmental operating deficits (the two uses to date) or to establish a tobacco settlement trust fund. The tobacco settlement trust fund would be invested and either earnings, or earnings and principal, would be expended over time for governmental purposes.

The Internal Revenue Code of 1986, as amended (the "Code"), and Treasury regulations and rulings place restrictions on the issuance of tax-exempt obligations. This memorandum identifies the major restrictions found in the federal tax law, particularly those that apply to the establishment and operation of a tobacco settlement trust fund (which raises the most difficult and complex tax issues by far). A "question and answer format" is used to address the issues involved.

1. **Who may issue the tax-exempt bonds?** Tax-exempt bonds may be issued by, or on behalf of, states or political subdivisions. The term "on behalf of" has become a term of art which describes various types of government-created and government-controlled entities vested with issuing powers. In the context of a tax-exempt tobacco settlement financing, the State could issue the bonds directly or, by legislative action, create an agency, authority, nonprofit corporation, trust or other entity, such as a "tobacco settlement financing authority," to act on its

behalf. (As noted above, this memorandum focuses only on the federal tax law aspects and does not address the political and state law issues which would have to be addressed in deciding on the appropriate issuer.)

2. **What are the limitations on the use of bond proceeds?** There are three major limitations. For purposes of these limitations, the term "proceeds" is defined expansively by the Treasury regulations to include both the original proceeds resulting from the sale of the bonds and all earnings realized from their investment (including any earnings from the investment in tax-exempt obligations, as described below).

First, the Code places significant limitations on the use of tax-exempt bond proceeds for private business purposes or for private loans, to be distinguished from "governmental" or "public" purposes. There are several exceptions to these private use limitations, such as providing low-income housing, financing exempt facilities such as airports and certain mass commuting property—all of which require a state allocation of federal tax law "private activity bond cap"—and supporting nonprofit organizations described in Section 501(c)(3) of the Code (typically educational or charitable entities, including health care operations). However, the general rule is that tax-exempt bond proceeds need to be used for public, as opposed to private, purposes.

Second, tax-exempt bond proceeds are required to be expended on capital assets (i.e., assets with an economic useful life in excess of one year), as opposed to working capital items. Again, there are some exceptions, including those for governmental deficit financings, working capital items related to capital expenditures, one-time unanticipated expenditures and de minimis amounts, but most tax-exempt financing focuses on the acquisition or construction of land or depreciable property.

Third, and as described below, there are also significant limitations on the investment of, and accounting for, bond proceeds prior to their expenditure, as well as any moneys pledged or expended to be used to pay the bonds. These are often referred to as the "arbitrage rules."

3. **What limits are there on the amount of bonds which may be issued?** To begin with, in the context of a tobacco settlement financing, the investors are going to have a lot to say about the maximum amount of bonds that can be issued. Because of this, federal tax law concerns may be of secondary importance. The policy which is at the heart of the federal tax law limitations is that tax-exempt bonds should not be issued for an amount in excess of what is necessary to achieve the governmental purpose of the issue, and should not be allowed to remain outstanding for longer than is necessary to achieve that purpose. One can, however, view the issuance of tax-exempt tobacco settlement bonds as having at least two separate and independent purposes.

The first, and more obvious purpose, is the use or uses to which the bond proceeds are put. Whether it is education, transportation, health care, or providing for some other governmental function, the amount of bonds issued should not exceed these capital needs.

The second purpose is to diversify the risk of the State with respect to receipt of the revenue stream from the tobacco companies. One can view the settlement as an investment by the State in the tobacco companies, their profitability, and the continued sales of tobacco products. Because the amount of the settlement is substantial and the receipt of the revenues is uncertain as to both time and amount, it may be prudent for the State to share this risk with investors who may be in a better position to analyze and bear a portion of the risk. While it is conceivable that financial products such as insurance, letters of credit or other guarantees could be developed to accomplish this diversification, borrowing against the anticipated revenues through the issuance of "revenue" bonds (that is, bonds payable only from the tobacco settlements moneys and not from other moneys of the issuer or the State) is probably the most feasible and economic alternative. When viewed from this perspective, the limitation on the amount to be borrowed is a judgment by the State as to the amount of risk the State is willing to absorb, given the costs associated with laying the risk off to investors.

4. Must the bond proceeds be spent within a specified time period? The general federal tax law arbitrage rule is that tax-exempt bond proceeds must be expected to be expended within three years from the date the bonds are issued. If the proceeds are not expected to be expended within three years (or in certain cases up to five years), the bonds would be considered to be "hedge bonds" and would be taxable unless one of the exceptions to the hedge bond rules is met. One exception is if at least 95% of the net proceeds of the bonds is invested in obligations that are, themselves, federally tax-exempt. The creation of a tobacco settlement trust fund which is invested in tax-exempt bonds may present opportunities of its own in accomplishing various governmental purposes. In addition to the possibility to profit from such investments and to diversify the risks of the tobacco settlement revenue stream, desired governmental objectives may be achieved by buying tax-exempt bonds issued by local governmental units within the State for education, transportation, health care and other public purposes.

5. How may the bond proceeds be invested prior to their expenditure? The federal tax law arbitrage rules generally preclude issuers of tax-exempt bonds from profiting through the investment of bond proceeds at a yield in excess of the yield on the bonds (unless the proceeds are spent within 18 months, or in some cases two years, and meet certain spending tests within those time periods). This limitation is imposed both by placing limits on the investments and by requiring issuers to rebate any profits received to the United States. However, one of the exceptions to both the arbitrage investment and rebate requirements is the investment of bond proceeds in obligations that are, themselves, federally tax-exempt. A tobacco settlement trust fund invested in tax-exempt bonds would not be a taxable hedge bond or a taxable arbitrage bond, even if the earnings on the investment of the tobacco settlement trust fund were to exceed the interest costs of the tax-exempt bonds issued to fund the tobacco settlement trust fund.

6. Could taxable bonds be issued together with tax-exempt bonds to finance projects or purposes which do not qualify for tax-exempt financing? Yes, Treasury regulations treat simultaneous taxable and tax-exempt bonds as separate issues. It would, however, be necessary for the State to develop a method of accounting that could separately trace the investment and expenditure of proceeds of the taxable and tax-exempt bonds.

KUTAK ROCK LLP

February 15, 2000

SENATE FINANCE
COMMITTEE
Amendment Number: #1
Bill Number: HB 287
Sponsor: Johnson Date: 5/1/00
Logged In By: Mindy

1-GH2043V.1
Utermohle
5/1/00

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 287(FIN), Draft Version "I"

- 1 Page 2, line 14:
- 2 Delete "\$61,488,000"
- 3 Insert "\$61,788,000"

- 4 Page 2, line 23:
- 5 Delete "5,200,000"
- 6 Insert "5,500,000"

- 7 Page 3, following line 12:
- 8 Insert a new subsection to read:
- 9 "(d) The sum of \$4,200,000 is appropriated to the Department of Education and Early
- 10 Development for construction of AVTEC student housing in Seward from the proceeds of the
- 11 revenue bonds described in sec. 3 of this Act that are issued by the Alaska Housing Finance
- 12 Corporation, or a subsidiary of the corporation."

- 13 Renumber the following subsection accordingly.

Donley COMMITTEE
2000 COMMITTEE ACTION

Bill Number	HB 287		
Amendment	#1		
Motion	adopt		
<u>Motion by</u>	Parnell		
<u>Objection by</u>	Phill.		
Removed			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Dave Donley			✓
Senator Loren Leman	✓		
Senator Al Adams	✓		
Senator Gary Wilken	✓		
Senator Pete Kelly	✓		
Senator Lyda Green	✓		
Senator Randy Phillips			✓
Co-Chair Sean Parnell	✓		
Co-Chair John Torgerson	✓		
<u>Tally</u>			
Yea	7		
Nay	2		
Absent	-		
<u>MOTION</u>	Pass		

SENATE CS FOR CS FOR HOUSE BILL NO. 287(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act making capital appropriations that are funded from the sale of
2 revenue bonds that are issued by the Alaska Housing Finance Corporation or
3 a subsidiary of the Alaska Housing Finance Corporation and that are to be
4 repaid either from the revenue derived from the settlement of State of Alaska
5 v. Philip Morris, Incorporated, or from revenue of the Alaska Housing Finance
6 Corporation to the Department of Education and Early Development for public
7 school facilities, to the University of Alaska for facilities for the University of
8 Alaska, and to the Department of Transportation and Public Facilities for
9 facilities for ports and harbors; and providing for an effective date."

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

11 * Section 1. PUBLIC SCHOOL FACILITIES; FACILITIES FOR THE UNIVERSITY OF
12 ALASKA; AND FACILITIES FOR PORTS AND HARBORS. (a) The sum of \$92,911,000

1 is appropriated to the Department of Education and Early Development for construction,
 2 renovation, and improvement of public elementary and secondary schools from the proceeds
 3 of the ~~revenue~~ bonds described in sec. 3 of this Act that are issued by the Alaska Housing
 4 Finance Corporation, or a subsidiary of the corporation, and is allocated among the following
 5 projects in the amounts set out:

6 PROJECT	7 ALLOCATION
8 Lower Yukon - Pilot Station School Replacement	17,654,000
9 Lower Yukon - Kotlik School Replacement	17,911,000
10 Kashunamiut - Chevak School Replacement	28,273,000
11 Bering Strait Schools - Elim School, Phase III	12,147,000
12 Southwest Region Schools - Manokotak School Replacement	14,689,000
13 Kake - Elementary School Addition	2,237,000

14 (b) The sum of \$61,488,000 is appropriated to the University of Alaska for
 15 construction and renovation of university facilities from the proceeds of the ~~revenue~~ bonds
 16 described in sec. 3 of this Act that are issued by the Alaska Housing Finance Corporation, or
 17 a subsidiary of the corporation, and is allocated among the following projects in the amounts
 18 set out:

19 PROJECT	20 ALLOCATION
21 University of Alaska - Southeast Deferred Maintenance, Renewal and 22 Replacement, and Code Compliance Classroom Building	23 \$ 1,388,000 5,200,000
24 University of Alaska - Anchorage Consortium Library	25 34,000,000
26 Deferred Maintenance, Renewal and 27 Replacement, and Code Compliance	2,200,000
28 University of Alaska - Fairbanks Deferred Maintenance, Renewal and 29 Replacement, and Code Compliance	30 18,700,000

31 (c) The sum of \$5,977,000 is appropriated to the Department of Transportation and

1 Public Facilities to pay for construction and renovation of port and harbor facilities from the
 2 proceeds of the ~~revenue~~ bonds described in sec. 3 of this Act that are issued by the Alaska
 3 Housing Finance Corporation, or a subsidiary of the corporation, and is allocated among the
 4 following projects in the amounts set out:

5 CORPS OF ENGINEERS MATCH		
6	Program Formulation	100,000
7	Ketchikan Harbor Study	200,000
8	Wrangell	500,000
9	Metlakatla - Tamgass	850,000
10	Ouzinkie	1,300,000
11	Seward Harbor Expansion	2,925,000
12	Ferryville Harbor Feasibility	102,000

13 (d) In this section, "subsidiary of the corporation" means a subsidiary corporation of
 14 the Alaska Housing Finance Corporation created under a statute enacted by the Twenty-First
 15 Alaska State Legislature that permits the corporation to create subsidiary corporations for the
 16 purpose of financing or facilitating the financing of school construction, facilities for the
 17 University of Alaska, or facilities for ports and harbors.

18 * Sec. 2. The appropriations made by this Act are for capital projects and lapse under
 19 AS 37.25.020.

20 * Sec. 3. CONTINGENT EFFECT. This Act takes effect only if a bill is passed by the
 21 Twenty-First Alaska State Legislature and is enacted into law that authorizes the commissioner
 22 of revenue to sell to the Alaska Housing Finance Corporation the right to receive a portion
 23 of the revenue derived from the settlement of State of Alaska v. Philip Morris, Incorporated,
 24 et al, No. 1JU-97-915 CI (Alaska Super. 1997) and authorizes the Alaska Housing Finance
 25 Corporation or a subsidiary of the corporation to issue ~~revenue~~ bonds that are to be repaid
 26 either from the revenue derived from the settlement or from the revenue of the Alaska
 27 Housing Finance Corporation. In this section, "subsidiary of the corporation" has the meaning
 28 given in sec. 1 of this Act.

29 * Sec. 4. If, under sec. 3 of this Act, this Act takes effect, it takes effect July 1, 2000.

Leman COMMITTEE
2000 COMMITTEE ACTION

Bill Number	HB 287		
Amendment	# 2 (conceptual)		
Motion	adopt		
<u>Motion by</u>	Parnell		
<u>Objection by</u>	none		
Removed			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	Vote	N
Senator Loren Leman			
Senator Al Adams			
Senator Gary Wilken			
Senator Pete Kelly			
Senator Lyda Green			
Senator Randy Phillips			
Senator Dave Donley			
Co-Chair Sean Parnell			
Co-Chair John Torgerson			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

Page 2 line 3 & line 15
 and
 Page 3 line 2 & line 25
 delete "revenue"

1-GH2043V
Utermohle
5/1/00

*adopted &
amended*

SENATE CS FOR CS FOR HOUSE BILL NO. 287(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act making capital appropriations that are funded from the sale of
2 revenue bonds that are issued by the Alaska Housing Finance Corporation or
3 a subsidiary of the Alaska Housing Finance Corporation and that are to be
4 repaid either from the revenue derived from the settlement of State of Alaska
5 v. Philip Morris, Incorporated, or from revenue of the Alaska Housing Finance
6 Corporation to the Department of Education and Early Development for public
7 school facilities, to the University of Alaska for facilities for the University of
8 Alaska, and to the Department of Transportation and Public Facilities for
9 facilities for ports and harbors; and providing for an effective date."

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

11 * Section 1. PUBLIC SCHOOL FACILITIES; FACILITIES FOR THE UNIVERSITY OF
12 ALASKA; AND FACILITIES FOR PORTS AND HARBORS. (a) The sum of \$92,911,000

1 is appropriated to the Department of Education and Early Development for construction,
 2 renovation, and improvement of public elementary and secondary schools from the proceeds
 3 of the revenue bonds described in sec. 3 of this Act that are issued by the Alaska Housing
 4 Finance Corporation, or a subsidiary of the corporation, and is allocated among the following
 5 projects in the amounts set out:

6	PROJECT	ALLOCATION
7	Lower Yukon - Pilot Station School Replacement	17,654,000
8	Lower Yukon - Kotlik School Replacement	17,911,000
9	Kashunamiut - Chevak School Replacement	28,273,000
10	Bering Strait Schools - Elim School, Phase III	12,147,000
11	Southwest Region Schools -	14,680,000
12	Manokotak School Replacement	
13	Kake - Elementary School Addition	2,237,000

14 (b) The sum of \$61,488,000 is appropriated to the University of Alaska for
 15 construction and renovation of university facilities from the proceeds of the revenue bonds
 16 described in sec. 3 of this Act that are issued by the Alaska Housing Finance Corporation, or
 17 a subsidiary of the corporation, and is allocated among the following projects in the amounts
 18 set out:

19	PROJECT	ALLOCATION
20	University of Alaska - Southeast	
21	Deferred Maintenance, Renewal and	\$ 1,388,000
22	Replacement, and Code Compliance	
23	Classroom Building	5,200,000
24	University of Alaska - Anchorage	
25	Consortium Library	34,000,000
26	Deferred Maintenance, Renewal and	2,200,000
27	Replacement, and Code Compliance	
28	University of Alaska - Fairbanks	
29	Deferred Maintenance, Renewal and	18,700,000
30	Replacement, and Code Compliance	

31 (c) The sum of \$5,977,000 is appropriated to the Department of Transportation and

1 Public Facilities to pay for construction and renovation of port and harbor facilities from the
 2 proceeds of the revenue bonds described in sec. 3 of this Act that are issued by the Alaska
 3 Housing Finance Corporation, or a subsidiary of the corporation, and is allocated among the
 4 following projects in the amounts set out:

5 **CORPS OF ENGINEERS MATCH**

6	Program Formulation	100,000
7	Ketchikan Harbor Study	200,000
8	Wrangell	500,000
9	Metlakatla - Tamgass	850,000
10	Ouzinkie	1,300,000
11	Seward Harbor Expansion	2,925,000
12	Perryville Harbor Feasibility	102,000

13 (d) In this section, "subsidiary of the corporation" means a subsidiary corporation of
 14 the Alaska Housing Finance Corporation created under a statute enacted by the Twenty-First
 15 Alaska State Legislature that permits the corporation to create subsidiary corporations for the
 16 purpose of financing or facilitating the financing of school construction, facilities for the
 17 University of Alaska, or facilities for ports and harbors.

18 * Sec. 2. The appropriations made by this Act are for capital projects and lapse under
 19 AS 37.25.020.

20 * Sec. 3. CONTINGENT EFFECT. This Act takes effect only if a bill is passed by the
 21 Twenty-First Alaska State Legislature and is enacted into law that authorizes the commissioner
 22 of revenue to sell to the Alaska Housing Finance Corporation the right to receive a portion
 23 of the revenue derived from the settlement of State of Alaska v. Philip Morris, Incorporated,
 24 et al, No. 1JU-97-915 CI (Alaska Super. 1997) and authorizes the Alaska Housing Finance
 25 Corporation or a subsidiary of the corporation to issue revenue bonds that are to be repaid
 26 either from the revenue derived from the settlement or from the revenue of the Alaska
 27 Housing Finance Corporation. In this section, "subsidiary of the corporation" has the meaning
 28 given in sec. 1 of this Act.

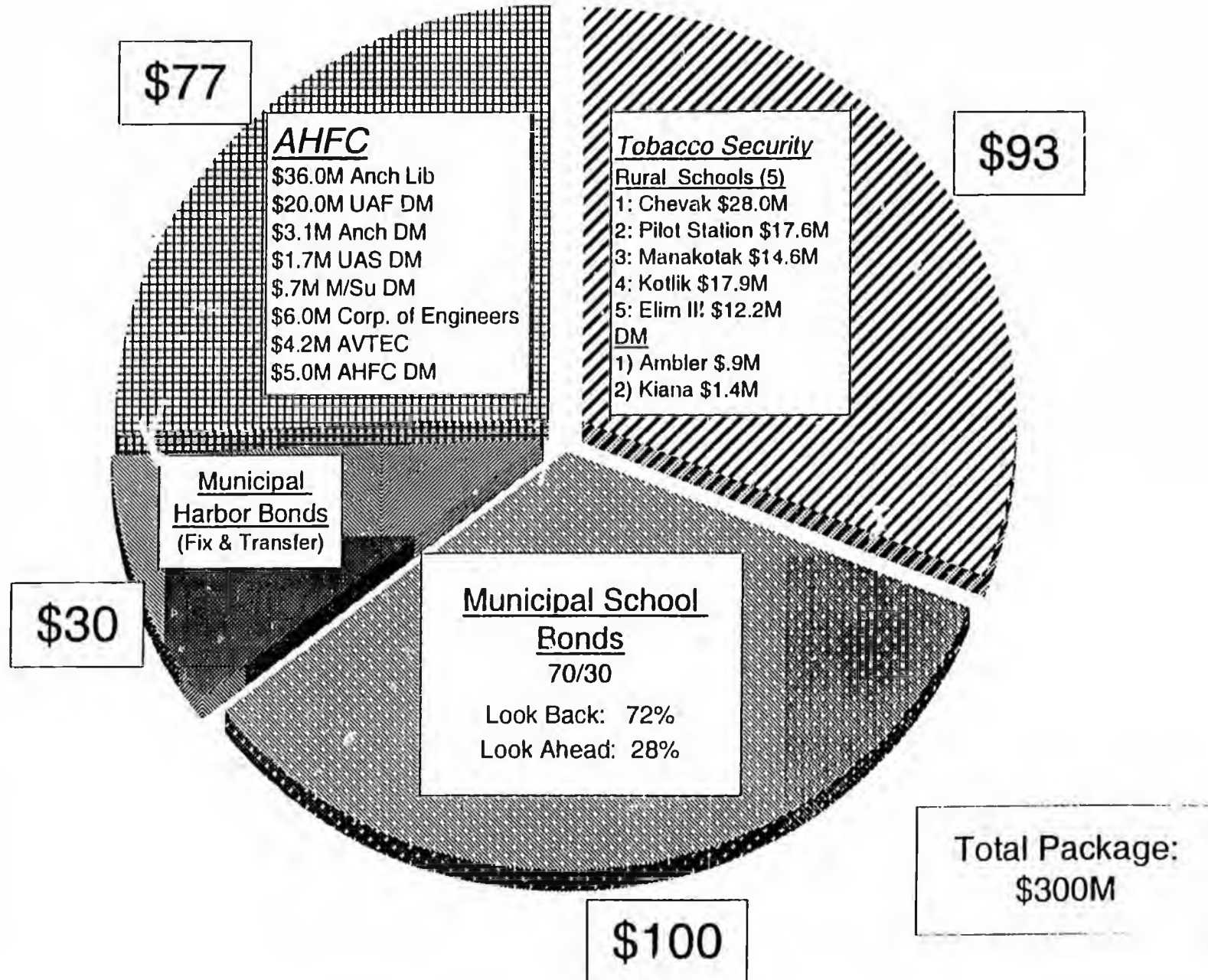
29 * Sec. 4. If, under sec. 3 of this Act, this Act takes effect, it takes effect July 1, 2000.

Adams COMMITTEE
2000 COMMITTEE ACTION

Bill Number	HB 287		
Amendment	CS "I"		
Motion	as Workdraft		
<u>Motion by</u>	Parnell		
<u>Objection by</u>	Phillips		
Removed			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Al Adams	✓		
Senator Gary Wilken	✓		
Senator Pete Kelly	✓		
Senator Lyda Green	✓		
Senator Randy Phillips			✓
Senator Dave Donley			✓
Senator Loren Leman	✓		
Co-Chair Sean Parnell	✓		
Co-Chair John Torgerson	✓		
<u>Tally</u>			
Yea	7		
Nay	2		
Absent	-		
<u>MOTION</u>	Pass		

4/30/00

Proposed Bond Package - A



Bond Projects as of 4-29

Bond projects as of 4-29-00

<u>ED</u>	<u>Project Name</u>	<u>Bond Projects</u>	<u>AHFC Bonds</u>	<u>Tobacco Revenue Securitization</u>	<u>Municipal Bond Harbor Transfer (100% reimbursed)</u>	<u>Municipal school bonds (reimbursed at 70/30)</u>
1-2	Ketchikan Harbor Transfer	7,000,000			7,000,000	
	Corp of Engin. - Ketchikan Harbor Study	200,000	200,000			
	Election District 1-2 Schools: District-wide Projects and Deferred Maintenance	1,112,000				1,112,000
	Petersburg Harbor Transfer	3,300,000			3,300,000	
	Corp of Engin. - Wrangell	500,000	500,000			
	Sitka Harbor Transfer	4,040,000			4,040,000	
3-4	Auke Bay Elem Roof Replacement	653,000				653,000
	Marie Drake Roof Replacement	599,000				599,000
	Harborview Elem Gym Replacement	106,000				106,000
	High School Heating/Ventilation	65,000				65,000
	High School Aux Gym Floor Replacement	109,000				109,000
	Floyd Dryden Sch Gym Floor	108,000				108,000
	Castineau Elem Heating Coil Replacement	133,000				133,000
	Floyd Dryden Middle School Renovation	3,629,000				3,629,000
	Auke Bay Transfer	492,000			492,000	
	Douglas Dock-Harbor Transfer	1,241,000			1,241,000	
	Taku Harbor Transfer	38,000			38,000	
5-6	Kake City - Kake Elementary School Addition	2,237,000				2,237,000
	Klawock Harbor Transfer	860,000			860,000	
	Corp of Engin. - Metlakatla - Tamgass	850,000	850,000			
	Corp of Engin. - Ouzinkie	1,300,000	1,300,000			
	Peterson Elem Addition	756,000				756,000
	Kodiak High School	1,106,000				1,106,000
7-9	Peninsula Schools: District-wide Projects and Deferred Maintenance	5,200,000				5,200,000
	Corp of Engin. - Seward Harbor Expansion	2,925,000	2,925,000			
	Seldovia Harbor Transfer	2,500,000			2,500,000	

Bond Projects as of 4-29

Bond projects as of 4-29-00

<i>ED</i>	<i>Project Name</i>	Bond Projects	AHFC Bonds	Tobacco Revenue Securitization	Municipal Bond Harbor Transfer (100% reimbursed)	Municipal school bonds (reimbursed at 70/30)
10-25	Bartlett High School, Phase I	3,500,000				3,500,000
	Eagle River/ Chuglak High School	14,563,000				14,563,000
	East High School, Phase I	7,295,000				7,295,000
	Service High School, Phase I	4,998,000				4,998,000
	Wendler Middle School, Phase I	4,231,000				4,231,000
	Denali Elementary, Replacement	8,211,000				8,211,000
	District Wide Projects/ Major Maintenance	11,730,000				11,730,000
26-28	Mat-Su Schools: District-wide Projects and Deferred Maintenance	4,230,000				4,230,000
29-34	Fairbanks Schools: District-wide Projects and Deferred Maintenance	10,200,000				10,200,000
35	Whittier Harbor Transfer	1,835,000			1,835,000	
	Valdez Harbor Transfer	3,013,000			3,013,000	
	Cordova Harbor Transfer	4,337,000			4,337,000	
36	Lwr Yukon - Pilot Station School Replacement	17,654,000		17,654,000		
37	Ambler K-12 Improvements	924,000		924,000		
	Kiana K-12 Improvements	1,395,000		1,395,000		
	Noorvik K-12 Improvements	13,633,000				13,633,000
38	Kashunamiut - Chevak School Replacement	28,272,000		28,272,000		
	Lwr Yukon - Kotlik School Replacement	17,910,000		17,910,000		
	Bering Straits School - Elim School Phase III	12,146,000		12,146,000		
	Nome Harbor Transfer	1,000,000			1,000,000	
39	Manokotak School Replacement	14,689,000		14,689,000		
40	Lake & Peninsula - Pedro Bay School Renovation /Relocation/Reconstruction	1,557,000				1,557,000
	Corp of Engin. - Perryville Harbor Feasibility	102,000	102,000			
99	Corp of Engineers Program Formulation	100,000	100,000			

Bond Projects as of 4-29

Bond projects as of 4-29-00

<i>ED</i>	<i>Project Name</i>	Bond Projects	AHFC Bonds	Tobacco Revenue Securitization	Municipal Bond Harbor Transfer (100% reimbursed)	Municipal school bonds (reimbursed at 70/30)
	AHFC deferred maintenance projects	5,000,000	5,000,000			
	UNIVERSITY					
	University of Alaska - Southeast Deferred Maintenance, Renewal & Replacement, Code					
4	Compliance	1,687,000	1,687,000			
	Department of Education: AVTEC - Seward Student					
7-9	Housing	4,200,000	4,200,000			
	University of Alaska - Anchorage					
10-25	Consortium Library	36,000,000	36,000,000			
	UAA Deferred Maintenance	3,200,000	3,200,000			
	Mat-Su Ortner Building Replacement	685,000	685,000			
	University of Alaska - Fairbanks					
19-34	Deferred Maintenance	20,000,000	20,000,000			
	Totals	299,356,000	76,749,000	92,990,000	29,656,000	99,961,000

October 14, 1999

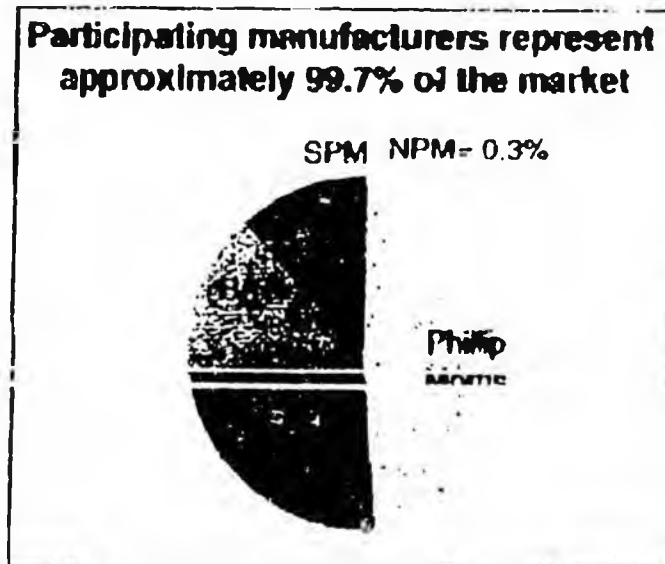
The Economics of the Master Settlement Agreement

JPMorgan

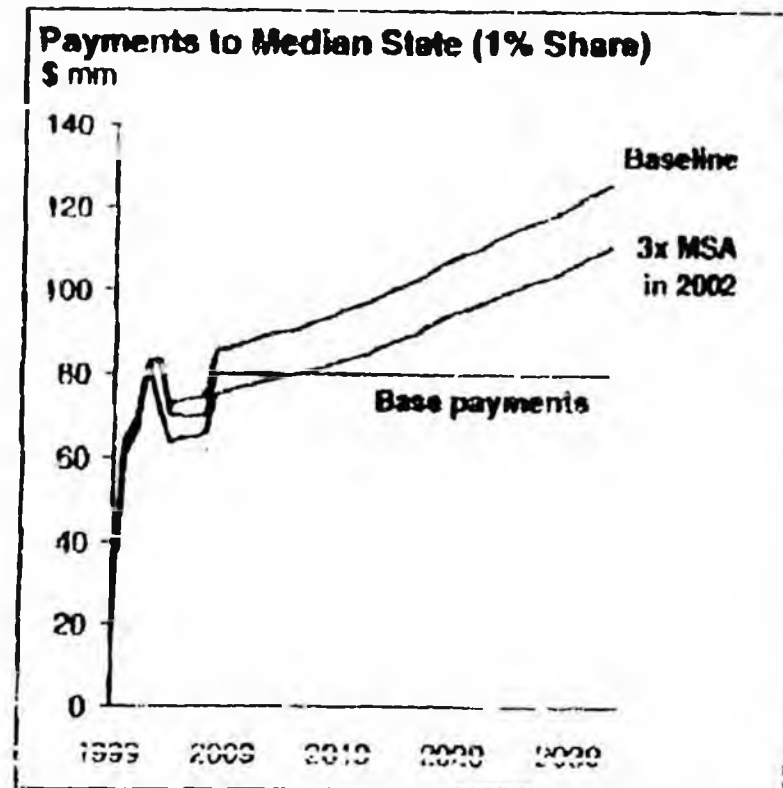
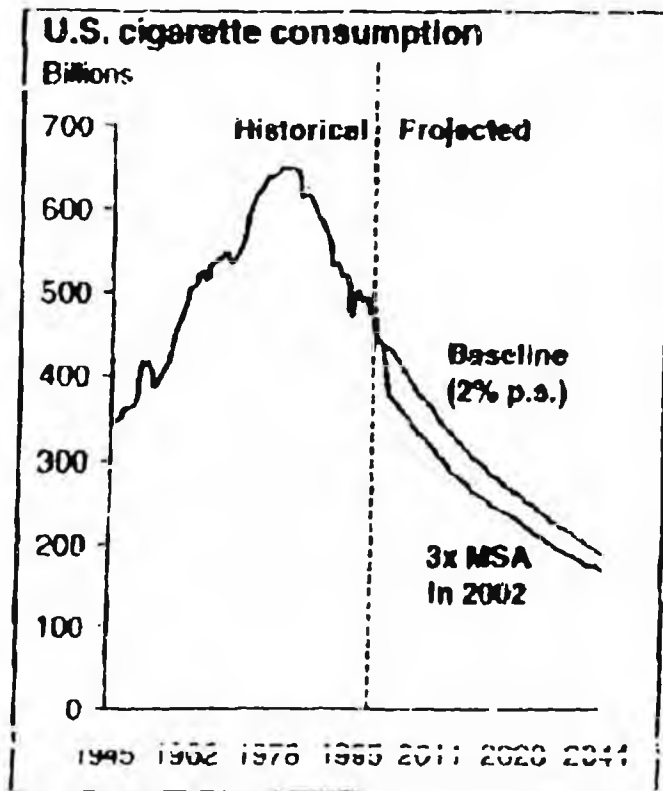
Eric Altman, *Managing Director*
J.P. Morgan Securities Inc.
60 Wall Street
New York, NY 10280
212 648-4592
altman_eric@jpmorgan.com

Overview of the Master Settlement Agreement


- The MSA is an industry wide agreement
 - Participating manufacturers represent approximately 99.7% of the domestic cigarette market
- MSA payments function like a tax on national cigarette consumption
- Aggregate payments are unaffected by changes in market shares among manufacturers



Cigarette consumption forecasts indicate growth in MSA revenues



Actual MSA payments larger than base paym



Effect of price
Declining trend of cigarette
consumption

Expected ne
average annual pay

JPMorgan

are expected to be
ents



adjustment
ent growth

Types of Debt Instruments

◆ General Obligation Bond

- full faith and credit pledge of issuer

◆ Certificates of Participation and Lease Revenue Bonds

- limited obligation pledge subject to annual legislative appropriation

◆ Revenue Bonds (i.e. GARVEE)

- pledge of enterprise revenues or revenues from pledged collateral
- limited recourse by bondholders to pledged revenues

◆ Other Bonds and Securitizations (i.e. Tobacco)

- limits state risk and obligations
- credit risk is shifted entirely to investor