

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1160 SCOMM 34: HOUSE SPEC. COMMITTEE ON STATE LOANS 1983-84

3. We are concerned that an "independent" financial advisor may not be appropriate for each debt-issuing entity in the State just because the State Bond Committee has decided to use one. Also, we urge the Legislature to consider Sections 3(d) and 3(e) to determine if the State Bond Committee has the legal standing to enforce them. It might be that such limitations to the powers of municipalities would be placed better in a different statute.
4. We do not object to compiling a debt calendar as mentioned in Section 3(f), but caution that an annual calendar, as described, would become obsolete quickly. To be useful, an information calendar would have to be compiled monthly as a minimum.
5. Finally, while we believe that the Department of Revenue should staff adequately to assist the State Bond Committee in its obligations, we do not believe that the staff should be staff of the Committee itself. We understand staff in a line agency and staff in an independent authority, but we do not understand staff to a committee within a line agency.

We thank you for the opportunity to provide input into the bill. We hope, of course, that you will consider the current version of the bill in light of our concerns.

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

BILL SHEFFIELD, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH 8B
JUNEAU, ALASKA 99811
PHONE:

March 2, 1984

The Honorable Rick Uehling
Chairman
House Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Representative Uehling:

In response to questions raised at your committee's hearing on HB 609 on February 25, 1984, I am submitting the following information which I believe may be of interest:

1. a survey of other states' use of financial advisors for debt issuance and management;
2. a summary of limited information currently available to the Treasury Division on the terms of bond counsel and financial advisor contracts of Alaskan municipalities;
3. regarding the roles of bond counsel, financial advisors, and underwriters, a memorandum from the Department of the Treasury for the State of New Jersey and excerpts from the Government Finance Research Center study, A Review of Debt Capacity and Debt Management for the State of Alaska on this subject.

In regard to the last point, the roles of bond counsel, financial advisor, and underwriter may be briefly stated as follows:

1. bond counsel - through the final approving opinion of the bonds, assures bond buyers of the legality of the issue; counsel prepares all legal documents;
2. financial advisor - assists the issuer in deciding on timing, amount, and structure of bond sales, in securing bond ratings, and in marketing bonds; the advisor prepares the official statement (bond prospectus) and may assist in formulation of debt policy;

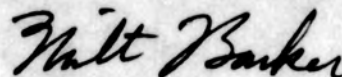
March 2, 1984

The Honorable Representative Uehling

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3. underwriter - in a competitive sale, the underwriter is the firm with the low bid which purchases and resells the bonds to investors; in a negotiated sale the underwriter performs the same wholesaling function as well as assisting the issuer in deciding on timing, amounts, and structure of the issue.

Sincerely yours,

A handwritten signature in cursive script that reads "Milt Barker".

Milt Barker
Deputy Commissioner

MB:mw

Enclosure

Municipal Contract Terms
for
Financial Advisor, Bond Counsel, & Underwriter

The following indicates the number of firms known to the Treasury Division on contract with municipalities for a given period of time versus on contract for a single issue:

	<u>Number of Firms</u>	<u>Term Contracts</u>	<u>Issue Contracts</u>
Financial Advisor	4	1	2
Bond Counsel	5	3	1
Underwriter	3	?	?

In general, state bonding authorities contract for these services for a specified term.

The Treasury Division does not have information on the methods of compensation being used in these contracts.

STATE OF ALASKA
SURVEY
OF
USE OF FINANCIAL ADVISORS
IN STATE DEBT ISSUANCE

The attached questionnaire was mailed to all other 49 states on January 6, 1984. As of February 28, 1984, responses had been received from 35 states.

Of those states responding, the following do not currently issue bonds for constitutional, statutory, or policy reasons:

Colorado
Indiana
Kansas
Nebraska
Texas

Of those responding, the following do not employ a financial advisor, at least for general obligation bond issues:

Georgia
Hawaii
Louisiana
Maryland
Minnesota
New Jersey
North Carolina
North Dakota
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Virginia

The responses of the states utilizing advisors are tabulated in the attached tables. Some respondents did not answer all questions, the answer was unclear or the question was inappropriate to them. In such cases, the table was left blank.

The results of the survey may be summarized as follows:

1. states generally reimburse advisors with a dollar amount or percent per bond issue; retainers are not uncommon; hourly fees are used sporadically;
2. reimbursement is generally contingent on sale although it is almost by definition not contingent on sale where retainers are used;

3. most advisors perform some research or policy work although many respondents stress that policy decisions are the state's purview;
4. there is a slight tendency for larger or more frequent issuers to utilize retainer fees;
5. retainer fees do not seem to be inherently more expensive but rather track fairly well the amount and type of work being provided; however, no advisors on retainer are prohibited from serving as advisor or underwriter for other state agencies or municipalities which would undoubtedly require increased compensation;
6. reimbursement is generally paid from bond proceeds and in some cases agency budgets;
7. a few respondents prohibited the state advisor from serving as such for other state agencies; however, none restricted advisory work for municipalities; likewise, underwriting activities were not restricted at all except for prohibitions to underwrite issues on which a firm served as financial advisor;
8. several states do not use investment banking firms as financial advisors; these and a couple others use advisors independent of the investment banking industry;
9. a few states appear to use multiple advisors; one in particular seeks second opinions on all refunding bond issues;
10. as might be expected retainer contracts have a fixed term, frequently one year, while advisory work paid on a per issue basis usually have contracts on a per issue basis;
11. it might be suspected that states which do not use advisors for debt issuance are larger or more frequent issuers; however, these respondents generally did not go ahead and indicate the amounts or numbers of their bond issues.

FINANCIAL ADVISOR QUESTIONNAIRE

Please return this form to:

Debt Manager
State of Alaska
Department of Revenue
Treasury Division
Pouch SB
Juneau, AK 99811

1. Person Responding

Name: _____

Address: _____

Phone: _____

2. Method of Reimbursement

How is your financial advisor reimbursed? Retainer, percent of bonds issued, dollar amount per bonds issued, hourly basis?

3. Is reimbursement contingent on successful sale of bonds?

4. Does the advisor perform significant policy or research work?

5. What is the level of your bonding activity? Specifically, how many general obligation and how many revenue bond issues would the advisor be responsible for in an average year?

6. What total amount of fees are paid for advisory services annually?

7. What is the source of funds for reimbursement? Bond proceeds, agency budget, special appropriation?

8. Do you have an independent advisor? That is, may the advisor also serve as: advisor to other state agencies in your state: _____

advisor to municipalities or local government in your state: _____

underwriter for state agencies: _____

underwriter for municipalities or local government: _____

9. Are investment banking firms or others who might have a vested interest in bond issuance excluded from advising on debt capacity and policy questions or is other independent advice obtained for such questions?

10. Are multiple advisors used?

11. What term of contract is used for advisors?

12. Any other comments?



State of New Jersey
DEPARTMENT OF THE TREASURY

KENNETH R. BIEDERMAN
STATE TREASURER

OFFICE OF FINANCIAL MANAGEMENT
19 CHANCERY LANE, CN 214
TRENTON, NEW JERSEY 08625

ELIZABETH B. FELKER
DIRECTOR

January 18, 1984

MEMORANDUM TO: Greg Stevens
FROM: Elizabeth B. Felker *EBF*
RE: Underwriting, Bond Counsel, and Auditor Compensation

Several weeks ago, we prepared for you a summary of the compensation earned by professionals in the above categories for the calendar years 1982 and 1983. In reviewing this report myself, I realized that it may be very difficult for you to assess the relative value of the business done by these professionals with the State without some understanding of how this compensation can be earned. I have prepared an interpretation of each type of compensation to lend perspective in sorting out the various claims and complaints of those who aspire to maintain, enhance, or initiate such relationships with the State and its agencies.

jb

cc: Kenneth R. Biederman

bcc: ✓George J. McElroy

received 1/19/84

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UNDERWRITER COMPENSATION

Underwriters are compensated almost always on a transaction basis. They may work for many years on a single transaction and receive no fee until it is completed. On the other hand, there are some transactions which are readily accomplished and require very little time. There is not necessarily a relationship between size of compensation and amount of time it takes to earn it.

PUBLIC OFFERINGS

Underwriters of public offerings are compensated in three ways. Each of these forms of compensation is included in the "gross spread" or "discount," which is the amount of money the underwriters retain from the proceeds of a public sale of stock, bonds, notes, etc. In every public offering there are certain underwriters who are selected by the issuer (the State, the authority, etc.) to be managers. Their work differs from the others in that they structure the offering and bear the brunt of the risk. Usually there is one manager among them who is deemed to be the senior manager, and the senior manager takes on the task of the structuring of the transaction. In fact, the senior manager usually refuses to allow any of the other managers to help because this position is important and jealously guarded by the senior manager.

The managing group shares among itself a portion of the gross spread called the management fee. This is shared among them in a ratio which the issuer may establish as part of the assignment of underwriters. If the issuer does not do this, the senior manager generally decides how much of these management fees each underwriter will get. Those fees are computed on a dollars-per-bond basis. A bond is equivalent to one thousand dollars of an offering; so, for a \$100 million offering, there are one hundred thousand bonds, and the management group will receive \$250,000 to \$400,000, since a typical management fee is in the \$2.50- to \$4.00-per-bond range. The senior manager generally receives 40 percent or more, depending upon the number of co-managers. On the \$100 million transaction just mentioned, the senior manager would earn from \$100,000 to \$160,000 and the co-managers would split the balance. There are many fees which exceed this range. It is up to the issuer to negotiate a fair fee with the managers.

The second portion of the underwriters compensation is the risk component, also known as the underwriting fee. This is the money which the underwriters are paid to compensate them for the risks they undertake when they purchase the bonds of the issuer and undertake to resell them. Sometimes, the actual

risk is minimal because there are many ready purchasers. Sometimes, the risk is extreme because the market might move in a direction unfavorable to the issue which has just been priced. If no one buys the bonds, they are left "on the shelf," and the underwriters must themselves finance the purchase of the issue until they can resell it. This compensation is generally in the area of \$1.00 to \$1.25 per bond. Of course, it is in the issuer's interest to obtain the lowest possible interest rate when a bond is priced. This increases the underwriter's risk. The underwriting fee also is a subject of negotiation between the issuer and the management group.

The amount of bonds on which each underwriter receives the fee is equivalent to the amount which is underwritten. This is not the amount of bonds which that particular underwriter might sell. The managers may underwrite as much as 40-50 percent of the issue. In our \$100 million example, total underwriting compensation may be \$100,000 to \$125,000, with \$4,000 to \$62,500 shared among the managers. The underwriting syndicate led by the managers is arranged in tiers, with the senior managers each underwriting the same amount of bonds, the underwriters of the next tier underwriting a smaller amount, etc. In very large offerings, there can be hundreds of members in the syndicate. The membership in the syndicate is determined by the senior manager in consultation with his co-managers. If the issuer wishes to have a firm included in the underwriting syndicate in a particular tier (tiers are also called brackets), it is within the issuer's prerogative to request this.

The selling of the bonds is compensated for in the "take-down" or "selling concession," which is the largest portion of the gross spread. These monies are paid directly or indirectly to the sales personnel who locate investors for the bonds. The compensation level is justified based on the difficulty of selling the particular bonds. Longer maturities and bonds with poor credit ratings may require a higher compensation than shorter maturities, and an offering which is expected to appeal only to retail investors (individuals) might call for a higher selling compensation than one which is sold only to institutions where transactions are very large, so it is not necessary to put so much compensation on each bond. The selling expense is usually computed on an "average takedown," which may range in the area of \$10 to \$25 per bond. In our example, the selling expense would range from \$1,000,000 to \$2,500,000. It is in the

interest of the issuer to minimize the amount of this compensation, but it is a trade-off against the interest rate, and it is usually better to look for the lowest interest rate; even if the compensation for the selling work needs to be higher. The underwriters are compensated for selling in proportion to the number of bonds which they actually do "take down" from the issue and sell. Sometimes the managers will sell no bonds, or one manager will sell the bulk of the bonds. This is a function of how well the manager has mobilized his sales force; how good that sales force is; and, frankly, how much he wants to impress the issuer.

MANAGEMENT EVALUATION OF COMPENSATION

The reporting of the amount of the discount and its breakdown is not routinely made to the Treasurer or the Governor by the authorities issuing bonds in a form which would enable us to understand the relative performance and pay which each underwriter receives. Sometimes, authorities do not even question the components of the proposed gross spread, but simply accept it as a "given." Where we have some influence over the pricing of a transaction, my office counsels the issuer's executive director and board if they are interested in what would constitute an aggressive negotiation position. Infrequent issuers cannot possibly know where the real market compensation levels have been and can be fooled into agreeing to an unnecessarily large spread.

UNDERWRITER RELATIONSHIPS

Underwriting relationships are established within a complex system of trade-offs of political and personal loyalties; performance; product innovation; and, sometimes, luck. Wall Street keeps close track of who has been in management groups for each issuer, what the relative position of each member is; when there are changes, it creates a great deal of fuss. The relative position of the underwriters and their very presence in an account seem to mean more to them than the dollars they might earn on an assignment. Therefore, we will often receive pleas from a firm to simply be included as a manager, regardless of the fact that there are already enough firms in the account to do the job. Of course, the discount must be divided more ways; and the smaller the net compensation received, the less real incentive

there is to work on the transaction. To place large numbers of underwriters in a group simply to keep them quiet is not very sensible since no one is heavily committed over the long run to the issuer. Conversely, a large group builds pressure for a larger discount.

PRIVATE PLACEMENTS

Not every securities offering is sold to the public. Many smaller issues are placed directly with investors, usually institutions, by an underwriter. The underwriter receives a fee for this placement, which is usually computed as a percentage of the total dollars placed. This might range in the area of 1/2 to 1 percent. There is no underwriting fee because the underwriter is not taking the risk of purchasing and then reselling bonds, but is simply acting as placement agent. Such transactions occur frequently at New Jersey EDA with corporate industrial development bonds. Some of the hospital financings of the Health Care Facilities Financing Authority are done as private placements. The staff of that Authority itself sometimes arranges placements and, since there is no underwriter involved, no placement fee is paid.

COMPETITIVE BIDS

General obligations bonds, which are sold on the full faith and credit of a state or local government, are usually sold at competitive biddings. Not only do the statutes require this, but evidence shows that unless an issuer is in financial trouble and needs much hand-holding to get into the market successfully, competitive bidding produces the lowest cost of money. In a competitive bid, the underwriters form groups and bid on the securities on the basis of the net interest cost which the issuer must pay. They need not reveal the amount of discount they take for underwriting and selling, but the fees are generally much smaller than for negotiated public offerings. Underwriters will argue passionately that negotiated sales are better for the issuer because they can time the offerings adeptly and work out a better arrangement for the structure of the bonds and for the other documentation which goes along with the deal. They are frequently correct in this assessment when it comes to revenue bonds of a complex nature. Even some revenue bonds can be and have been sold at competitive bidding; the State itself

sells its general obligation bonds at competitive bidding. When we do a refunding negotiation of the State general obligation bonds, we will most likely request proposals for negotiation of the issue because of the intricate financial computations which must take place on the transaction. There are considerably more variables in a refunding than there are in a new issue. We will also be offering for bids certificates of participation in State installment purchases of equipment.

FINANCIAL ADVISORS

There is another class of financial service, sometimes rendered by those who do public underwritings and sometimes by firms organized specifically for this purpose. This is called "financial advisory work" and is generally compensated on a lower level than management fees or public offerings. There are times when financial advisors charge very large amounts of money, especially to bail out troubled cities like Cleveland, Chicago, and New York, but generally fees are more modest. Financial advisors can be compensated on an annual retainer basis or on a per-transaction basis as a function of issue size. The retainer is preferable because it does not induce the financial advisors to recommend larger financings than might really be called for. There are very few capable independent financial advisors. Underwriting firms will sometimes offer to provide financial advisory services without compensation or for very low compensation. The danger in permitting this is that when it comes time to do a public offering, they have been known to resign as financial advisor and leave the issuer with no one to guide them.

It has been our policy to require an informal bidding process for financial advisory contracts when State authorities need such advisors. Issuers request proposals from interested candidates and review them for cost, skill, and insight with the issuer's particular needs. A financial advisor must agree not to seek to be an underwriter for the issuer's securities during the term of the contract. Financial advisors are most often used when the issuer does a competitive offering. (The State itself used a financial advisor for its sale of general obligation bonds in April, 1982, and we are using one for the equipment transaction mentioned above.) For very complicated negotiated offerings, the issuer sometimes will engage a financial advisor in addition to a managing underwriter group to "keep the managers honest."

The main responsibility of bond counsel is to give comfort to the marketplace that an issue is legal by rendering an opinion to that effect. Some bond counsel firm's opinions are worth more than others. Some bond counsel are much more capable than others of working out a transaction which is beneficial to the issuer. The complexity of the work of bond counsel varies depending on the type of security to be offered. For a municipal general obligation bond, under normal circumstances, the bond counsel does not have to work very hard. For a housing revenue bond, which is undertaken within a complex system of federal and State statutory and regulatory strictures, bond counsel must be very adroit and expert at tax law, as well as securities law and State statutory law.

The bond counsel is not the only attorney who works on a transaction. In a negotiated issue, and often for private placements, the underwriters engage a counsel of their choice. This can be helpful if there are several firms with which the issuer wishes to do business, but only one bond counsel is needed and/or all are not equally qualified. It is also possible to find a role for a special counsel or local counsel to do some of the non-financing work, such as determining the legality of the corporate structure of the issuer. Bond counsel are compensated per transaction and generally submit a fee which includes payment for their time and a separate bill for their expenses. Guidelines can and are established for the levels of such compensation, i.e., how much per hour should be paid for each type of lawyer who works on the deal, as well as overall limits on what a total transaction may cost. Issuers are successful at doing this sometimes, but not uniformly so.

In selecting bond counsel, our overriding concern must be that they are truly equipped to provide a marketable opinion, one which will not come back to haunt us later on when it could be discovered that there were legal problems and we end up in court defending the tax-exemption of the issue.

AUDITORS

All independent public authorities engage an outside auditing firm to review their books and to give opinions on their financial statements. For authorities which issue bonds to the public, it is generally felt that the auditor should be a recognized accounting firm which credit analysts will view as trustworthy. If an authority's financials are certified by an

accountant without such standing, their ability to issue bonds and the perception of the market of their credit worthiness is affected. This does not mean that only the big-eight accounting firms can do authority audits, but issuers should not go to very small firms without national standing.

Another key role which public accounting firms often play in authority financings is the generation of a feasibility study. Underwriters of most revenue bonds require an evaluation by an expert of the likelihood that revenues generated by the projects being financed will be sufficient to cover the debt service on the bonds being sold, in order to market securities. Credit ratings depend on the quality of feasibility studies. The studies can be quite expensive - six-digit fees are not uncommon. Feasibility consultants should be chosen by appraising first, which firms are qualified to give a thorough analysis of the project, and an honest assessment of where it is likely to stand in future years; and second, whether the firm is recognized for its expertise in this area.

Feasibility consultants are not only accounting firms; certain engineering firms are also in the business. Consultants often have specialties, such as hospital or transportation projects. The firm that audits an issuer's books is not necessarily the firm to choose to do the feasibility study, although there is no conflict involved if one has both assignments.

PRO BONO WORK

A common tactic for underwriters, and sometimes for bond counsel, seeking to improve their market penetration is to volunteer to work without compensation (less delicately, "on the come") for an issuer or government trying to create a new issuer. Hoping later to earn sizeable fees, these firms will invest their time in drafting legislation and advising on financial alternatives. New Jersey's Governor's Office has made extensive use of such volunteers. A cautionary note: if the selection of the volunteer is meant to be a final determination of the manager of the business, some care ought to be given to ensure that the volunteer has pertinent experience and will not lead us up blind alleys. On the theory that you get what you pay for, an alternative method to design and develop new financings may at times be superior.

Selection, Use, and Compensation of Financial Advisors and Underwriters

When bonded indebtedness is sold, a fixed-cost contract is established that will be valid for many future years. It is important, therefore, that the interest rate payable on the bonds and any bond covenants result in the lowest possible cost to the issuer. Because of the dynamics and volatility of interest rates, the shifting objectives of bond buyers, and the variety of funding sources and methods that are available it is essential that issuers obtain the most current expert advice when structuring and marketing a bond sale. A financial advisor is a specialist who is able to assist issuers with knowledge of current trends and market conditions, and the bond issuance process in general. An underwriter is a representative of an investment or commercial banking firm that acts as the intermediary between the issuer and the ultimate purchaser of the bonds.

The Use of a Financial Advisor

The services of a financial advisor will vary, depending upon such factors as the nature and size of the bond issuer, the frequency with which bonds are issued, and the competence level of the government's own staff in the debt field. Services commonly provided may include: developing a financial plan, assisting in securing voter approval, designing the features of the bond issue, and assisting in marketing the bonds. Other areas in which a financial advisor can be of assistance are:

- o choosing the type of security to pledge and the credit market position to be accorded the debt;
- o presentation to the rating agencies;
- o deciding upon the timing of the sale;
- o preparing the official statement;
- o selecting and evaluating bond counsel services;
- o assessing the probable range of interest costs for alternative means of financing;
- o analysing pay-as-you-go vs. bond financing;
- o commenting on the reasonableness of fees for other specialized services;
- o assessing the suitability of fees for the underwriters;
- o designing call provisions appropriate for the issue;
- o assuring conformance to bidding requirements and other terms of sale are met;
- o conducting negotiated sales;
- o evaluating bids on a competitive sale; and
- o evaluating the performance of members of the syndicate in negotiated financings.

Professional assistance in each of these phases can improve an issuer's chances of securing a favorable credit rating and obtaining lower interest costs.

State governments, which frequently issue debt, can do most of the preparation for the sale of general obligation bonds with their own in-house staff. Thus, Alaska may use the financial advisor only in technical areas, such as timing the issuance of the bonds, constructing the maturity schedule, and presenting the State's credit to the rating agencies. Other governments benefit most from the services of a financial advisor if they are infrequent users of debt or if a limited liability or revenue bond is being issued. A limited liability or revenue bond is more complex than a general obligation issue and, as such, requires special assistance. Financial advisors are also important in a negotiated sale to represent the issuer in the transaction.

There are three types of firms which provide financial advisory services:

1. investment banking firms;
2. commercial banking firms; and
3. independent consultants who do not trade in municipal bonds.

The first two sources, investment banking firms and the municipal departments of commercial banks trading in bonds, may provide financial advice for a fee or, as is often the case, they will not directly charge for services in exchange for the exclusive right to purchase the bonds without competitive bidding through a negotiated sale. These advisor's services are often paid for out of its profit (a component of the underwriting spread, described below) made in reselling the bonds. Alternatively, the public finance department of one of these firms may be hired to provide financial advice independent of underwriting the bonds. The State of Alaska currently follows this approach because its financial advisor is also an investment banking firm and is not paid from the underwriter's spread. In the later case, compensation should be based upon the services provided.

The third source of assistance is the independent consultant who does not trade in municipal bonds but, for a fee, agrees to help plan, design, and market the issue. The issue can be sold at a public sale to the lowest bidder, to a third party in a privately negotiated sale, or through a negotiated underwriting with investment bankers. Independent advisors typically provide technical assistance only; they do not buy, sell, or trade tax-exempt securities nor do their fees derive from such activity. Since a conflict of interest may arise when the same firm provides advice on the structuring of tax-exempt bond issue, on the one hand, and then markets the same bond issue, some governments as a matter of policy elect to separate the advisory function from the underwriting function. This can be accomplished either by contractually prohibiting the advisor from an active role or participation in the buying or trading of the government's securities in the primary market during such period as the firm acts as advisor, or by utilizing the services of an independent financial advisor. The Alaska State Bond Act (AS 37.15) prohibits firms which provide financial advice under contract to the State from bidding on or otherwise participating in an underwriting syndicate which purchases the bonds. Furthermore, AHFC and the Municipal Bond Bank preclude their advisors, because they currently are

investment banking firms, from an underwriting role on bond issues for which the firms serve as advisor. These are responsible practices and should be continued.

Selection of Financial Advisors

The generally preferred method of selecting firms to provide financial advice is to solicit proposals from as diverse a body of potential firms as possible. A Request for Proposals (RFP) should be written and sent to those advisors who have the general qualifications to do the work. Several sources of assistance are available in identifying financial advisors to whom the RFP can be sent are:

1. state and national associations of governmental units or public officials;
2. governments in the region which have had extensive experience with fiscal advisors; and
3. Directory of Municipal Bond Dealers of the U.S., which lists both dealers and municipal finance consultants. This is prepared annually by the Bond Buyer. Note that this directory does not include all financial advisors and should only be used as a supplement to firms otherwise identified. Advisors are listed by state locations, but generally serve a national clientele.

The RFP for consulting services should cover all the particular job requirements. On the basis of the proposals received, the state government can then decide on the most qualified fiscal advisor and write a contract for the work. Alaska has generally used the RFP approach in selecting advisors and appears to evaluate responses and make ¹⁸contract awards in a manner that is consistent with sound business practices.

Compensation of Financial Advisors

The fee paid an independent advisor can be structured as fixed, hourly compensation, a minimum guarantee (or retainer) plus an hourly amount, or a flat fee based upon an estimate of necessary services. The compensation for financial advice should be based upon the services provided, regardless of whether an underwriting firm or an independent firm is providing these services, and not upon the size of the bond sale (amount of issue) or the successful delivery of the bonds. Tying the advisor's compensation to the amount of bonds sold or to the successful delivery of the bonds builds in an unnecessary risk of conflict of interest. Obviously, the quality, motivation, and impartiality of advice might be questioned if the advisor's compensation is directly related to either the amount of bonds or to the completion of the sale. For example, it may not be in the issuer's best interests to finance a certain project through the sale of bonds, or to enter the market at a period of high interest rates; however, a financial advisor whose compensation depends upon the successful

completion of bond sales may not recommend alternative financing techniques, such as using current revenues, or postponement of the bond sale.

The industry standard, however, has been to calculate compensation as a certain percentage of the amount of bonds sold (for example, \$1 per \$1,000 of bonds sold or .1 percent). This standard is due to the preponderance of commercial and investment banking firms that also act as financial advisors. These firms are accustomed to payment through the underwriting spread and the charge per bond for financial advice is similar to this method. However, independent financial advisory firms, and certain investment banks, often charge hourly rates, just as do many bond counsels and other professionals, regardless of the amount of bonds sold. Although the work required to advise on a \$100 million bond sale is generally greater than on a \$10 million sale, the level of effort required can be estimated in advance, making it unnecessary to compensate advisors on a percentage basis.

In our review of selected financial advisory (and bond counsel) contracts, we noted that compensation of advisors to the State and its agencies has historically been tied to a rate per bond or a fixed percentage of the principal amount sold. Such a method of compensating those providing financial and other advice may not be in the State's best interest. The State should review its existing financial advisory contracts to determine the method of compensation used and seek to provide for compensation arrangements that do not encourage situations where conflicts may arise between advisory services and the payment thereof. Flat fee or hourly compensation is most appropriate for professional and impartial financial advice.

Compensation and Use of Negotiating Underwriter

In a competitive bond sale the underwriting firm which purchases the issuer's bonds is the firm whose bid results in the lowest overall borrowing cost to the State. If for whatever reason (as discussed above) the sale is to be negotiated, the underwriting firms or syndicate of firms must be selected in advance of the sale by criteria different from a competitive sale. One method of selection is to solicit proposals from underwriting firms detailing their expertise in selling and structuring the type of bonds to be sold. Factors to consider when evaluating negotiating underwriters are described above on page 182.

Underwriters are compensated by the "spread" between what they pay the issuing government for its bonds and the price at which they are able to re-sell the bonds to investors. This is true of both competitive and negotiated underwritings. However, in a negotiated sale, the spread is negotiated along with the terms of sale (maturity structure, coupon rates). In a competitive sale, the spread is included in the price and interest rates bid for the bonds.

The syndicate divides the spread among four purposes. First, a provision will be made for expenses which are incurred by the syndicate in the form of

bills from other parties. Second, the managing underwriters will receive a management fee for putting the bond issue together and bringing it to market. These two components compensate the underwriter for any financial advice provided in conjunction with the issue; however, if a firm independent from the transaction provides this advice, its fee will not be included in the spread. Third, a selling concession (often called a "take-down allowance") will be paid to syndicate members in proportion to the amount of bonds sold by each. The selling concession is the source of funds from which the individual salesmen are compensated for their efforts. Fourth, the underwriting profit will be divided among members of the syndicate in proportion to the underwriting participation taken by each firm at the time of the purchase of the bonds.

The expenses customarily incurred by the underwriting syndicate, which will be passed on to the issuer in the spread are:

- o Legal fees of underwriter's counsel;
- o Certain printing costs for syndicate documents such as the agreement among underwriters, bond purchase agreement, institutional lists, blue sky survey, and legal investment memorandum, letter of instructions, etc.;
- o Expenses of advertising for the bond issue, both presale ads and the final "tombstone" ad;
- o Costs of securing a day loan and/or Federal funds to pay for the bonds at the closing;
- o Reasonable computer costs for computation of debt service schedules, performing cash flow analysis, and calculating net interest cost for the bond issue;
- o Out-of-pocket expenses for travel, lodging and meals incurred by the managing underwriters;
- o Communications expenses such as telegraphic notice to syndicate members of pricing information; and
- o Certain other minor expenses relating to the marketing and delivery of the bonds.

Normally, neither the syndicate nor the managing underwriters undertake to pay the following expenses. These costs must generally be covered by the issuer.

- o Fees of bond counsel;

- o Costs of printing of the bond resolution, final official statements, and other legal documentation for the transaction;
- o Fees of auditors of the issuer; or
- o Fees of independent financial advisors.

The procedure in a negotiated bond sale normally follows along the following lines. When the bond issue is ready for sale, the underwriter will present a preliminary bond purchase proposal to the issuer. The proposal will be made after careful assessment of the acceptability of the bonds through "pre-marketing" feedback from prospective purchasers. The proposal will state the interest rate or rates to be borne by the bonds, the re-offering prices, the purchase price, and the spread. It will also state the division of the spread among the four purposes. Detailed information about interest rates and spreads on other comparable bond issues sold under similar bond market conditions should be made available.

The issuer will then consider the preliminary proposal, ask questions and respond with approval, comments, or suggested changes. Negotiations on the preliminary terms of the bond issue ensue until the underwriting syndicate is comfortable that the bonds can be successfully marketed, and the issuer is convinced that it is receiving an equitable and competitive pricing.

After the preliminary terms have been negotiated, the underwriter will release the terms to all members of the underwriting syndicate. After a day or two of promoting the sale, the managing underwriters will review the investors' reactions. This "test marketing" will be discussed with the issuer, and adjustments to the bond issue's terms which fit actual market conditions will be negotiated. For example, if the entire issue is "oversubscribed" (i.e., pre-sale orders exceed the amount of bonds to be sold), then the underwriting profit should be reduced to reflect the syndicate's low risk of being left with unsold bonds.

Since bond market conditions change rapidly, the spread necessary to place a bond issue is not finally determined until the pricing is complete. Depending upon the size of the issue and prevailing market conditions, a representative revenue bond spread (or "underwriters' discount") and its components are as follows:

<u>Item</u>	<u>Per \$1,000</u>
Expenses	\$ 2.50
Management Fee	4.50
Selling Concession or Takedown	12.50
Underwriting Profit or Risk Factor	<u>1.50</u>
TOTAL	\$21.00

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date 3/14/84

REQUEST

Bill/Resolution No: CS HB 609 (Loans)
Title: Labt of the State, Agencies,
and Municipalities
Sponsor: House Loans
Requestor: House Loans
Date of Request: 3-14-84

FISCAL DETAIL

Agency Affected: Revenue
Program Category Affected: _____
BRU, Program or Subprogram(s) Affected:
State Bond Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	50.0	50.0	50.0	50.0	50.0
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	50.0	50.0	50.0	50.0	50.0
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Funds are requested to provide for the annual report and guidelines.

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350

Date: 3-14-84

Approved by Commissioner: *Donna M. Wells*
Agency: *Revenue*

Date: 3/14/84

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

3/14/84

REQUEST

Bill/Resolution No: CS HB 609 (Loans)
Title: Debt of the State, Agencies,
and Municipalities
Sponsor: House Loans
Requestor: House Loans
Date of Request: 3-14-84

FISCAL DETAIL

Agency Affected: Revenue
Program Category Affected: _____
BRU, Program or Subprogram(s) Affected: _____
State Bond Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	50.0	50.0	50.0	50.0	50.0
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	50.0	50.0	50.0	50.0	50.0
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Funds are requested to provide for the annual report and guidelines.

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350
Date: 3-14-84

Approved by Commissioner: *Donna M. Wells*
Agency: _____

Date: 3/14/84

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST

Bill/Resolution No: CS HB 609 (Finance)
Title: Debt of the State, Agencies &
Municipalities
Sponsor: House Finance
Requestor: House Rules
Date of Request: 3-30-84

FISCAL DETAIL

Agency Affected: Revenue
Program Category Affected:
BRU, Program or Subprogram(s) Affected:
State Bond Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	50.0	50.0	50.0	50.0	50.0
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	0.0	50.0	50.0	50.0	50.0
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Funds are requested to provide for the annual report and guidelines.

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: 3-30-84

Approved by Commissioner: *Thomas Mitchell*
Agency:

Date: 4/2/84

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST

Bill/Resolution No: HB 609
Title: Debt of the State, Agencies,
and Municipalities
Sponsor: Uehling
Requestor: House Loans
Date of Request: 2-16-84

FISCAL DETAIL

Agency Affected: Revenue
Program Category Affected: _____
BRU, Program of Subprogram(s) Affected:
State Bond Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<u>OPERATING</u>						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	50.0	50.0	50.0	50.0	50.0
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<u>TOTAL OPERATING</u>	-	-	-	-	-	-
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	50.0	50.0	50.0	50.0	50.0
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<u>TOTAL</u>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	1	1	1	1	1
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury Division

Phone: 465-2350
Date: 2-21-84

Approved by Commissioner: [Signature]
Agency: Revenue

Date: 2/23/84

Distribution (by Agency preparing fiscal note):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

HB 609
Fiscal Note Analysis

Funds are requested to provide for the annual report and guidelines.

1 IN THE HOUSE

BY UEHLING

2 HOUSE BILL NO. 609.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to debt of the state, its agencies,
7 and municipalities; and providing for an effective
8 date."

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

10 * Section 1. AS 37.15.110 is amended to read:

11 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.

12 There is created within the Department of Revenue a committee known as
13 the "state bond committee," the members of which are the commissioner
14 of commerce and economic development, the commissioner of administra-
15 tion, [AND] the commissioner of revenue, the commissioner of community
16 and regional affairs, and a member of the board of directors of a
17 public corporation which is an instrumentality of the state authorized
18 to issue bonds. The board member is appointed by the governor and
19 serves at the pleasure of the governor. If a member of the committee
20 is absent or otherwise unable to act, the member's designee [IN THE
21 DEPARTMENT] shall act as a member of the committee in the member's
22 place.

23 * Sec. 2. AS 37.15.130 is amended to read:

24 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. (a) The
25 commissioner of revenue [COMMERCE AND ECONOMIC DEVELOPMENT] is the
26 chairman of the state bond committee [AND THE COMMISSIONER OF REVENUE
27 IS THE SECRETARY]. A majority of the members of the committee
28 constitute a quorum. The committee shall keep a full, complete, and
29 permanent record of its proceedings. All records and correspondence

1 of the committee shall be kept in the office of the commissioner of
2 revenue.

3 (b) The committee may meet and transact business by electronic
4 media if

5 (1) public notice of the time and locations where the
6 meeting will be held by electronic media has been given in the same
7 manner as if the meeting were held in a single location;

8 (2) participants and members of the public in attendance
9 can hear and have the same right to participate in the meeting as if
10 the meeting were conducted in person; and

11 (3) copies of pertinent reference materials, statutes,
12 regulations, and audio-visual materials are reasonably available to
13 participants and to the public.

14 (c) A meeting by electronic media as provided in this section
15 has the same legal effect as a meeting in person.

16 (d) For the purposes of this chapter public notice of 24 hours
17 or more is adequate notice of a meeting of the committee at which the
18 issuance of bonds is authorized.

19 * Sec. 3. AS 37.15.140 is amended to read:

20 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state
21 bond committee shall adopt the resolution and prepare the documents
22 necessary for the issuance, sale, and delivery of bonds.

23 (b) The state bond committee shall prepare an annual report to
24 be submitted to the governor and legislature before January 31 of each
25 year. The report must show (1) all outstanding debt of debt issuing
26 entities of the state; (2) the anticipated impact on the finances and
27 credit of the state, including the effect on long-term debt capacity
28 and creditworthiness resulting from that debt; (3) which long-term
29 debt is tax supported and which is supported only by revenues

1 attributable to the project being financed by the debt; (4) all
2 long-term lease obligations of the state; (5) the volume of short-term
3 debt issued and retired during the year by debt issuing entities of
4 the state; and (6) specific identification of each issue for which the
5 state has pledged some form of indirect support for the debt including
6 any moral obligation of the state to support the debt. The committee
7 may require that any information needed to prepare the report be fur-
8 nished by debt issuing entities of the state at a time determined by
9 the committee.

10 (c) The state bond committee shall develop written informational
11 guidelines concerning management of all debt by each debt issuing
12 entity of the state. The guidelines shall include recommended level
13 of debt, structuring of debt offerings, and repayment schedule.

14 (d) The state bond committee shall require that a person who
15 provides financial programming or marketing assistance in connection
16 with the issuance of debt of debt issuing entities of the state shall
17 be compensated for services on a determined fee basis that may not be
18 based on the amount of the debt issued.

19 (e) The state bond committee shall require that true interest
20 costs be the basis for determining the lowest bid on debt issued by
21 debt issuing entities of the state. "True interest cost" means the
22 sum of the following:

23 (1) the annual interest rate that when compounded semi-
24 annually will discount the principal and interest payments on the debt
25 obligation from their payment dates to the issue date; and

26 (2) the price bid to the issuer.

27 (f) The state bond committee shall require the debt issuing
28 entities of the state to prepare and submit to the committee by Jan-
29 uary 15 of each year a calendar of all debt proposed to be issued

1 showing the amount and type of the debt and the month in which issu-
2 ance is proposed.

3 (g) For purposes of this section the term "debt issuing entities
4 of the state" includes the state, each agency or instrumentality of
5 the state authorized to issue tax exempt obligations, and each munic-
6 ipality of the state.

7 * Sec. 4. AS 37.15.150 is amended to read:

8 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
9 VICES. The state bond committee may appoint an executive director who
10 may with approval of the committee select and employ additional staff
11 as necessary. Employees of the committee are in the partially exempt
12 service under AS 39.25.120. If the [STATE BOND] committee considers
13 it necessary and advisable, it may procure architectural or engineer-
14 ing, fiscal agent or municipal investment, legal and other expert or
15 specialized services at reasonable and customary fees to assist it in
16 accomplishing the most advantageous sale of the bonds. The fees may
17 be paid from the proceeds of the sale or advanced from the contingency
18 fund in the office of the governor or otherwise.

19 * Sec. 5. AS 39.25.120 is amended by adding a new paragraph to read:

20 (19) employees of the state bond committee.

21 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
22 10.070(c).
23
24
25
26
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29

DRAFT

13-1619
Berrier
2/7/84
Version 1✓

1 IN THE HOUSE

BY UEHLING

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to debt of the state, its agencies,
7 and municipalities; and providing for an effective
8 date."

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

10 * Section 1. AS 14.11.125 is amended by adding a new subsection to
11 read:

12 (e) To be eligible to receive funds under AS 14.11.105 - 14.11.-
13 135 for payments made for the retirement of principal and interest on
14 bonds, notes, or other indebtedness incurred after the effective date
15 of this Act, boroughs and cities that are school districts must issue
16 and sell the bonds, notes, or other indebtedness through the Alaska
17 Municipal Bond Bank Authority under the provisions of AS 44.85. The
18 state bond committee established under AS 37.15.110 shall waive this
19 requirement if

20 (1) the borough or city received a bond rating on its most
21 recent issue of general obligation bonds from a nationally recognized
22 rating organization that equals or exceeds the rating given by the
23 organization to the Alaska Municipal Bond Bank Authority;

24 (2) the Alaska Municipal Bond Bank Authority is unable to
25 issue the bonds because the amount in the reserve fund established by
26 AS 44.85.270 is inadequate or because issuance of the bond would cause
27 the limit imposed by AS 44.85.180(c) to be exceeded; or

28 (3) in the opinion of the committee the cost to the state
29 over the life of the bonds would be less if the bonds were issued by

1 the borough or city.

2 * Sec. 2. AS 29.13.100 is amended by adding a new paragraph to read:

3 (48) AS 29.58.360 (Compliance with requirements of the state
4 bond committee.)

5 * Sec. 3. AS 29.58 is amended by adding a new section to read:

6 Sec. 29.58.360. COMPLIANCE WITH STATE BOND COMMITTEE REQUIRE-
7 MENT. A home rule or general law municipality shall comply with re-
8 quirements established by the state bond committee under AS 37.15.140.

9 * Sec. 4. AS 37.15.110 is amended to read:

10 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.
11 There is created within the Department of Revenue a committee known as
12 the "state bond committee," the members of which are the commissioner
13 of commerce and economic development, the commissioner of administra-
14 tion, [AND] the commissioner of revenue, the commissioner of community
15 and regional affairs, and a member of the board of directors of a
16 public corporation which is an instrumentality of the state authorized
17 to issue bonds. The board member is appointed by the governor and
18 serves at the pleasure of the governor. If a member of the committee
19 is absent or otherwise unable to act, the member's designee [IN THE
20 DEPARTMENT] shall act as a member of the committee in the member's
21 place.

22 * Sec. 5. AS 37.15.130 is amended to read:

23 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. (a) The
24 commissioner of revenue [COMMERCE AND ECONOMIC DEVELOPMENT] is the
25 chairman of the state bond committee [AND THE COMMISSIONER OF REVENUE
26 IS THE SECRETARY]. A majority of the members of the committee
27 constitute a quorum. The committee shall keep a full, complete, and
28 permanent record of its proceedings. All records and correspondence
29 of the committee shall be kept in the office of the commissioner of

1 revenue.

2 (b) The committee may meet and transact business by electronic
3 media if

4 (1) public notice of the time and locations where the
5 meeting will be held by electronic media has been given in the same
6 manner as if the meeting were held in a single location;

7 (2) participants and members of the public in attendance
8 can hear and have the same right to participate in the meeting as if
9 the meeting were conducted in person; and

10 (3) copies of pertinent reference materials, statutes,
11 regulations, and audio-visual materials are reasonably available to
12 participants and to the public.

13 (c) A meeting by electronic media as provided in this section
14 has the same legal effect as a meeting in person.

15 (d) For the purposes of this chapter public notice of 24 hours
16 or more is adequate notice of a meeting of the committee at which the
17 issuance of bonds is authorized.

18 * Sec. 6. AS 37.15.140 is amended to read:

19 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state
20 bond committee shall adopt the resolution and prepare the documents
21 necessary for the issuance, sale, and delivery of bonds.

22 (b) The state bond committee shall prepare an annual report to
23 be submitted to the governor and legislature before January 31 of each
24 year. The report must show (1) all outstanding debt of debt issuing
25 entities of the state; (2) the anticipated impact on the finances and
26 credit of the state, including the effect on long-term debt capacity
27 and creditworthiness resulting from that debt; (3) which long-term
28 debt is tax supported and which is supported only by revenues
29 attributable to the project being financed by the debt; (4) all

1 long-term lease obligations of the state; (5) the volume of short-term
2 debt issued and retired during the year by debt issuing entities of
3 the state; and (6) specific identification of each issue for which the
4 state has pledged some form of indirect support for the debt including
5 any moral obligation of the state to support the debt. The committee
6 may require that any information needed to prepare the report be fur-
7 nished by debt issuing entities of the state at a time determined by
8 the committee.

9 (c) The state bond committee shall develop written informational
10 guidelines concerning management of all debt by each debt issuing
11 entity of the state. The guidelines shall include recommended level
12 of debt, structuring of debt offerings, and repayment schedule.

13 (d) The state bond committee shall require that a person who
14 provides financial programming or marketing assistance in connection
15 with the issuance of debt of debt issuing entities of the state shall
16 be compensated for services on a determined fee basis that may not be
17 based on the amount of the debt issued.

18 (e) The state bond committee shall require that true interest
19 costs be the basis for determining the lowest bid on debt issued by
20 debt issuing entities of the state. "True interest cost" means the
21 sum of the following:

22 (1) the annual interest rate that when compounded semi-
23 annually will discount the principal and interest payments on the debt
24 obligation from their payment dates to the issue date; and

25 (2) the price bid to the issuer.

26 (f) The state bond committee shall require the debt issuing
27 entities of the state to prepare and submit to the committee by Jan-
28 uary 15 of each year a calendar of all debt proposed to be issued
29 showing the amount and type of the debt and the month in which

1 issuance is proposed.

2 (g) For purposes of this section the term "debt issuing entities
3 of the state" includes the state, each agency or instrumentality of
4 the state authorized to issue tax exempt obligations, and each munic-
5 ipality of the state.

6 * Sec. 7. AS 37.15.150 is amended to read:

7 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
8 VICES. The state bond committee may appoint an executive director who
9 may with approval of the committee select and employ additional staff
10 as necessary. Employees of the committee are in the partially exempt
11 service under AS 39.25.120. If the [STATE BOND] committee considers
12 it necessary and advisable, it may procure architectural or engineer-
13 ing, fiscal agent or municipal investment, legal and other expert or
14 specialized services at reasonable and customary fees to assist it in
15 accomplishing the most advantageous sale of the bonds. The fees may
16 be paid from the proceeds of the sale or advanced from the contingency
17 fund in the office of the governor or otherwise.

18 * Sec. 8. AS 39.25.120 is amended by adding a new paragraph to read:

19 (19) employees of the state bond committee.

20 * Sec. 9. AS 44.85.180(c) is amended to read:

21 (c) Notwithstanding the provisions of (a) and (b) of this sec-
22 tion, the total amount of bond bank authority bonds and notes out-
23 standing at any one time, except bonds or notes issued to fund or
24 refund bonds or notes, may not exceed \$300,000,000 [\$200,000,000].

25 * Sec. 10. This Act takes effect immediately in accordance with AS 01.-
26 10.070(c).
27
28
29

Original sponsors: Uehling, Hayes,
Adams, et al

IN THE HOUSE

BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 609 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to debt of the state, its agencies, and municipalities; and providing for an effective date."

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

* Section 1. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.

There is created within the Department of Revenue a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, [AND] the commissioner of revenue, the chief fiscal officer of a city or borough, and a member of the board of directors of a public corporation which is an instrumentality of the state authorized to issue bonds. The chief fiscal officer and board member are appointed by the governor and serve at the pleasure of the governor. If a member of the committee who is a commissioner is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 2. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. (a) The commissioner of revenue [COMMERCE AND ECONOMIC DEVELOPMENT] is the chairman of the state bond committee [AND THE COMMISSIONER OF REVENUE IS THE SECRETARY]. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the

1 committee shall be kept in the office of the commissioner of revenue.

2 (b) The committee may meet and transact business by electronic
3 media if

4 (1) public notice of the time and locations where the
5 meeting will be held by electronic media has been given in the same
6 manner as if the meeting were held in a single location;

7 (2) participants and members of the public in attendance
8 can hear and have the same right to participate in the meeting as if
9 the meeting were conducted in person; and

10 (3) copies of pertinent reference materials, statutes,
11 regulations, and audio-visual materials are reasonably available to
12 participants and to the public.

13 (c) A meeting by electronic media as provided in this section
14 has the same legal effect as a meeting in person.

15 (d) For the purposes of this chapter public notice of 24 hours
16 or more is adequate notice of a meeting of the committee at which the
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21 necessary for the issuance, sale, and delivery of bonds issued on
22 behalf of the state.

23 (b) The state bond committee shall prepare an annual report to
24 be submitted to the governor and legislature before January 31 of each
25 year. The report must show (1) all outstanding debt of debt issuing
26 entities of the state; (2) the anticipated impact on the finances and
27 credit of the state, including the effect on long-term debt capacity
28 and creditworthiness resulting from that debt; (3) which long-term
29 debt is tax supported and which is supported only by revenues

1 attributable to the project being financed by the debt; (4) all long-
2 term capital lease obligations of the state; (5) the volume of short-
3 term debt issued and retired during the year by debt issuing entities
4 of the state; and (6) specific identification of each issue for which
5 the state has pledged some form of indirect support for the debt
6 including any moral obligation of the state to support the debt. The
7 committee may require that any information needed to prepare the
8 report be furnished by debt issuing entities of the state at a time
9 determined by the committee.

10 (c) The state bond committee shall develop written policies
11 concerning debt of the state and debt of instrumentalities of the
12 state authorized to issue tax exempt obligations. The committee shall
13 develop written informational guidelines for management of debt of
14 municipalities of the state. The policies and guidelines shall in-
15 clude recommended level of debt, debt management, bidding procedures
16 and bid awards and compensation for financial service.

17 (d) The state bond committee shall require the debt issuing
18 entities of the state to (1) prepare and submit to the committee by
19 January 31 of each year a calendar of all debt proposed to be issued
20 during the calendar year showing the amount and type of the debt and
21 the month in which issuance is proposed, and (2) prepare and submit
22 monthly a report showing all proposed changes to the calendar sub-
23 mitted.

24 (e) In this section the term "debt issuing entities of the
25 state" includes the state, each agency or instrumentality of the state
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27 the state.

28 (f) In this section the term "debt" means (1) long-term bonded
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1 unit, (2) long-term bonded indebtedness secured by a mortgage or lien
2 on specific properties or receivables, (3) short-term notes, (4)
3 warrants, and (5) capital lease obligations; but "debt" does not in-
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10 as necessary. Employees of the committee are in the partially exempt
11 service under AS 39.25.120. If the [STATE BOND] committee considers
12 it necessary and advisable, it may procure architectural or engineer-
13 ing, fiscal agent or municipal investment, legal and other expert or
14 specialized services at reasonable and customary fees to assist it in
15 accomplishing the most advantageous sale of the state bonds. The fees
16 may be paid from the proceeds of the sale or advanced from the contin-
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20 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
21 10.070(c).

Original sponsors: Uehling, Hayes,
Adams, et al

Version 2
Approved
BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

IN THE HOUSE

CS FOR HOUSE BILL NO. 609 (Loans)
IN THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE - SECOND SESSION

3/20

A BILL

For an Act entitled: "An Act relating to debt of the state, its agencies,
and municipalities; and providing for an effective
date."

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

* Section 1. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.

There is created within the Department of Revenue a committee known as
the "state bond committee," the members of which are the commissioner
of commerce and economic development, the commissioner of administra-
tion, [AND] the commissioner of revenue, the chief fiscal officer of a
city or borough, and a member of the board of directors of a public
corporation which is an instrumentality of the state authorized to
issue bonds. The chief fiscal officer and board member are appointed
by the governor and serves at the pleasure of the governor. If a
member of the committee who is a commissioner is absent or otherwise
unable to act, the member's designee [IN THE DEPARTMENT] shall act as
a member of the committee in the member's place.

* Sec. 2. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. (a) The
commissioner of revenue [COMMERCE AND ECONOMIC DEVELOPMENT] is the
chairman of the state bond committee [AND THE COMMISSIONER OF REVENUE
IS THE SECRETARY]. A majority of the members of the committee consti-
tute a quorum. The committee shall keep a full, complete, and perma-
nent record of its proceedings. All records and correspondence of the

1 committee shall be kept in the office of the commissioner of revenue.

2 (b) The committee may meet and transact business by electronic
3 media if

4 (1) public notice of the time and locations where the
5 meeting will be held by electronic media has been given in the same
6 manner as if the meeting were held in a single location;

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27 credit of the state, including the effect on long-term debt capacity
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(c) The state bond committee shall develop written policies concerning management of state debt and written informational guidelines concerning management of all debt by each debt issuing entity of the state. The policies and guidelines shall include recommended level of debt, debt management, bidding procedures and bid awards and compensation for financial service.

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(e) In this section the term "debt issuing entities of the state" includes the state, each agency or instrumentality of the state authorized to issue tax exempt obligations, and each municipality of the state.

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STATE FINANCIAL ADVISOR SURVEY

(1) State	(2) Method of Reimbursement			(3) Reimbursement Contingent on Sale	(4) Research or Policy Work by Advisor	(5) Level of Bond Issuance		
	Hourly	Retainer	\$ or % Per Bond Issue			Less than 3 or \$200 Million	3 - 5 or \$200 to \$500 Million	Over 5 or \$500 Million
Alabama			X	YES	YES			
Connecticut	X	X	X	NO	YES			X
Iowa		X	X	NO	YES	X		
Kentucky			X	YES	NO			X
Michigan		X		YES	YES		X	
Missouri			X	YES	YES		X	
Montana						X		
Nevada	X			YES	YES	X		
New Hampshire		X	X	NO	YES	X		
New York		X		NO	YES		X	
Ohio			X	YES	YES	X		
Oregon	X		X	YES	YES			X
Utah			X	YES	NO	X		
Washington			X	YES	NO		X	
West Virginia		X		NO	YES			
Wyoming			X	YES	NO	X		

STATE FINANCIAL ADVISOR SURVEY

(1) State	(6) Amount of Annual Advisory Fees			(7) Source of Reimbursement			(8) Advisor May Serve As			
	Less Than \$100,000	\$100,000 to \$200,000	More Than \$200,000	Bond Proceeds	Agency Budget	Special Appropriation	Advisor		Underwriter	
							Agencies	Municipalities	Agencies	Municipalities
Alabama				X			NO			
Connecticut			X	X	X		YES	YES	YES	YES
Iowa	X			X			YES	YES		
Kentucky			X	X			NO			
Michigan		X		X		X	YES	YES	YES	YES
Missouri		X		X			YES	YES	YES	YES
Montana										
Nevada	X			X			YES	YES	YES	YES
New Hampshire	X			X			YES	YES	YES	YES
New York	X				X		YES	YES	YES	YES
Ohio	X				X		YES	YES	YES	YES
Oregon				X			YES	YES	YES	YES
Utah	X			X			YES	YES	YES	YES
Washington		X		X			YES	YES	YES	YES
West Virginia					X		YES	YES	YES	YES
Wyoming	X			X			NO	YES		

STATE FINANCIAL ADVISOR SURVEY

(1) State	(9a) Investment Banking Firms Excluded as Advisor	(9b) Independent Advisor Used	(10) Multiple Advisors	(11) Term of Contract		
				Single Issue	Fixed Term (Years)	Open
Alabama	NO	NO	YES	X		
Connecticut	NO	YES	YES	X	1	
Iowa	YES	YES	NO		4	
Kentucky	NO		NO	X		
Michigan	NO		NO	X	1	
Missouri			NO	X		
Montana	YES	YES	NO			
Nevada	YES	YES	NO	X		
New Hampshire	NO		NO		1	
New York	NO		NO		1	
Ohio	YES	YES	NO	X		
Oregon	NO	YES	YES		2	
Utah	NO	NO	NO			X
Washington	NO		NO		1.5	
West Virginia			YES	X		
Wyoming	NO		NO			

Introduced: 2/13/84
Referred: House Special Committee
on State Loans and Finance

BY UEHLING, HAYES, ADAMS,
BETTISWORTH, ABOOD, FULLER,
GOLL, LINDAUER, RINGSTAD
AND SHULTZ

1 IN THE HOUSE

2 HOUSE BILL NO. 609

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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16 and regional affairs, and a member of the board of directors of a
17 public corporation which is an instrumentality of the state authorized
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20 is absent or otherwise unable to act, the member's designee [IN THE
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*True Lease
Financial Lease*

1 attributable to the project being financed by the debt; (4) all
2 long-term lease obligations of the state; (5) the volume of short-term
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9 the committee.

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11 guidelines concerning management of all debt by each debt issuing
12 entity of the state. The guidelines shall include recommended level
13 of debt, structuring of debt offerings, and repayment schedule.

14 (d) The state bond committee shall require that a person who
15 provides financial programming or marketing assistance in connection
16 with the issuance of debt of debt issuing entities of the state shall
17 be compensated for services on a determined fee basis that may not be
18 based on the amount of the debt issued.

19 (e) The state bond committee shall require that true interest
20 costs be the basis for determining the lowest bid on debt issued by
21 debt issuing entities of the state. "True interest cost" means the
22 sum of the following:

23 (1) the annual interest rate that when compounded semi-
24 annually will discount the principal and interest payments on the debt
25 obligation from their payment dates to the issue date; and

26 (2) the price bid to the issuer.

27 (f) The state bond committee shall require the debt issuing
28 entities of the state to prepare and submit to the committee by Jan-
29 uary 15 of each year a calendar of all debt proposed to be issued

*Gallagher
definition*

1 showing the amount and type of the debt and the month in which issu-
2 ance is proposed.

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*Continually changes
with change in AS 37.15
from responsibility only for
to greater responsibility*
*Bond Comm
State 60 Bonds*

Furnace

get together tomorrow
& resolve difficulties
on #8609

Stirling Gallagher
9 & a with Furnace.
on municipal debt.

? on definition of 'debt.'
'internal - interagency -
vs. debt of the state.

Billy Berrin
acted like he
wanted to speak.

? from Wendt on calendar -
"next" year.
word should be taken out.

Page 3 lines 16-17

Done.

Testimony from Bob Nelson -
Version 1 - March date.

top of page 4 - "of the state."

? on Exec Director authorization
AHSHA - AIDA does that already.

costs the Corp. money on occasion.
Bond Counsel says the authority rests with
the agency?
The market can move $\frac{1}{2}$ a point in a
couple of days.

Sec. 6 - "limits"

? on Sec 3 - owner occupied.
ambiguity - arises when a person already
has a loan - circumstances change &
he/she reappplies for another loan.

AHFC

Theresa Walker

Pg. 1 line 14 - intention to give
more authority.

line 27 - lower & moderate income.
does it include Mobile Homes.

28% - vs. 25%.

(The higher it is the better off they
are -).

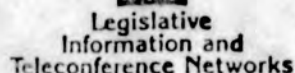
Has a problem when a State agency has the
ability to buy & sell without public input.

HB 664 - dedicated funds
Still an unanswered question.

HB 666

HB 665 - Financial advisor from -
New York requested. -

Lynch said he could get someone from Solomon
Bros -
etc.



DATE: February 25, 1984

LOCATION: Anchorage

SPONSOR/SUBJECT: ^{House} Special Committee on Loans
HB 609, State Bond Committee

HB 609, State Bond Committee

Here to
Observe
Here to
Testify

PLEASE PRINT

NAME/REPRESENTING

ADDRESS

PHONE

PHIL BLUMSTEIN	Baruch Hutton	1127 W. 7th Ave	216-1550		X
Bob Heath	DOR	JUN 24	465-220	X	
Michael S. Lynch	AHFC	Anchorage AK	243-5116	X	
Gerald N. Davidson	North Slope Borough	Barrow AK	352-2611		X
JOHN H. LEWIS	North Slope Borough	Barrow AK	852-8750		X
Lloyd Ahluwalia	NSB	Barrow AK	852-2611		X
BOB NELSON	Municipality of Anchorage		264-6660	X	
John Moore Foster & Marshall		205 Columbia Seattle	206-344-5880		X
PERRY DAVIS		AMBB	274-7366		X
WES HUGH	GFRC/MFDA	Washington DC	202-416-2824	X	

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4821



REPRESENTATIVE RICK UEHLING
CHAIRMAN
REPRESENTATIVE WALT FURNACE
REPRESENTATIVE NILO KOPONEN
REPRESENTATIVE JERRY WARD
REPRESENTATIVE RON WENDTE

House Special Committee on State Loans

Slater

MEMORANDUM

To: House Special Committee on State Loans
From: Rep. Rick Uehling, Chairman
Date: February 23, 1984
Subject: Schedule for the Loans Committee

The tentative schedule for the next two weeks is as follows;

February 25,	HB 609 Hearing in Anchorage	10 am
February 28,	HB 627, Loans for Forest Products Work Sessions - Budget Analysis Commerce & Economic Development Loans Alternative Technology & Energy Commercial Fishing Loan Act	5 pm
March 1,	HB 640 Historical Grants Work Sessions - Budget Analysis Scholarship Loan Program	5 pm
March 5,	Work Session - Budget Analysis Alaska Housing Finance Corporation	8 am
March 6,	Work Session - Budget Analysis Community & Regional Affairs Housing Assistance Loans	5 pm

Alaska State Legislature

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House Special Committee on State Loans

SPECIAL COMMITTEE ON STATE LOANS

Saturday February 25, 1984

10 o'clock a.m.

Anchorage Legislative Information Office

Agenda

Call to Order

HB 609, "An Act relating to debt of the state, its agencies, and municipalities; and providing for an effective date.

Remarks by the Chairman, Rep. Uehling

✓ Presentation by Speaker of the House,
Representative Joe Hayes

① ✓ Presentation by Mr. Wes Hough, Manager
Government Finance Research Center

Others to testify;

Dep Comm.
② ~~Commissioner Lyon~~, Department of Commerce & Economic
Development.

Commissioner Heath, Department of Revenue.

Mr. Scott Burgess, Alaska Municipal League

③ — Mr. Mike Lynch, Alaska Housing Finance Corporation

Mr. Bert Wagnon, Alaska Industrial Development Authority.

Senator Arliss Sturgulewski

Representative Mae Tischer

Representative John Lindauer

Senator Fritz Pettyjohn

Mr. Sterling Gallagher

Ms. "Ski" Olsonoski"

Other participants

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811
907/465-4821



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House Special Committee on State Loans

MEMORANDUM

TO: Members
House Special Committee on State Loans

FROM: Rep. Rick Uehling, Chair *RAU*
House Special Committee on State Loans

DATE: March 13, 1984

SUBJECT: CS HB609

As per my announcement on the Floor, HB 609 will be heard tomorrow night March 14, 1984 at 5:00 p.m. in C118 instead of tonight. Here is the Committee Substitute for your review.

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99801
(907) 465-4821



REPRESENTATIVE RICK UEHLING
CHAIRMAN
REPRESENTATIVE WALT FURNACE
REPRESENTATIVE NILO KOPONEN
REPRESENTATIVE JERRY WARD
REPRESENTATIVE RON WENDT

March 26, 1984

House Special Committee on State Loans

Testimony before House Finance Committee on HB609

Chairman, Members of the Finance Committee, I appreciate the opportunity to testify before you on HB609. As you may be aware, as a part of the Interim work of the House Special Committee on State Loans, the Committee reviewed a recent report to the Legislative Budget and Audit Committee by the Government Finance Research Center (GFRC), which was entitled "A Study of the Debt Management and Debt Capacity of the State of Alaska". In addition, to speaking specifically to the General Obligation Debt Capacity of the State, the report makes a series of recommendations concerning the State's Debt Management practices. The Committee Substitute for HB609, (Loans) is an attempt to institute many of the reports recommendations for the management of State Debt.

There has been growing concern on the part of both the Legislature and the public with the amount of debt which is being incurred by the State of Alaska. As the State looks to financing many large projects, the capacity of the State to issue General Obligation bonds becomes an increasingly important factor. While HB609 contains many of the provisions called for by The GFRC report, it does not provide for some of the more controversial recommendations, such as a ceiling on Municipal Debt, or new provisions controlling the School Debt Retirement Program. Instead, it is a first step towards the Legislature recognizing the need for it to maintain an active role in the management of the debt issuance of the State, its municipalities, and agencies.

There are three central provisions contained in the CS HB609 (Loans), the first being:

1. The State Bond Committee is moved for administrative purposes to the Department of Revenue and the Commissioner of the Department of Revenue replaces the Commissioner of Commerce and Economic Development as the Chair. Furthermore, the State Bond Committee is expanded to include the Chief Fiscal Officer of a local municipality and a member of the Board of Directors of a Debt issuing public corporation such as AHFC or AIDA. These members would be appointed by the Governor.
2. The preparation of an annual report to the Governor and the Legislature outlining the current status of outstanding State Debt. This report would bring together information regarding debt of the State, its debt issuing agencies and the municipalities into one report.

Page Two

3. The establishment of an annual calendar of proposed debt issuance by the State, its agencies and municipalities. This calendar is updated on a monthly basis. The calendar is intended to help the different municipalities and debt issuing entities to plan their debt issuances in a manner which does not conflict with one another.

The Loans Committee Substitute has been drafted in coordination with the Department of Revenue, the Government Finance Research Center and the local municipalities. I believe that this legislation will be the first step in the State maintaining its finances in a responsible manner.

I would be happy to go through the bill on a Section by Section basis if the Chairman wishes.

Thank you.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
BILL ANALYSIS

DEPARTMENT Commerce & Econ. Dev.	DIVISION	BILL NUMBER HB 609	SPONSOR Uehling, Hayes, et al.
DEPARTMENT POSITION Do not support			
PREPARED BY Terry Elder	DATE	COMMISSIONER'S SIGNATURE Richard A. Lyon	DATE 2/21/84

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Department of Administration Department of Revenue Department of Community & Regional Affairs	CONSTITUENT GROUP(S) AFFECTED BY BILL
ORGANIZATIONAL SUPPORT FOR BILL Unknown	ORGANIZATIONAL OPPOSITION TO BILL Unknown

FISCAL IMPACT: ☒ NONE ☐ FISCAL NOTE ATTACHED Fiscal impact to Revenue

BACKGROUND/LEGISLATIVE INTENT

ANALYSIS OF BILL/PROGRAM EFFECTS

See attached Sectional Analysis

RECEIVED
ALASKA DEPARTMENT OF REVENUE
FEB 21 1984
OFFICE OF THE COMMISSIONER

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

BILL ANALYSIS
HB 609

Summary

Generally, while we support much of the thrust of the bill, our position is that the legislation is not needed. If the Administration desires the State Bond Committee to prepare an annual report as described in Section 3(b), then it can be done without legislation by budgeting for appropriate staff and contractual services within the Department of Revenue. In addition to these general concerns, we have some technical reservations about some sections which will be evident in the sectional analysis below.

Section 1

We prefer to retain the present board structure. Adding DC&RA to the board may appear appealing given other sections of the bill, but it would appear that DC&RA's major contribution would be to reflect the concerns of municipalities. We object to the possibility that a public board member of a bond issuing authority could serve on the State Bond Committee. We think that only commissioners should serve on that committee.

Section 2(a) and (b)

We have no objection to making the Commissioner of Revenue the chair and to conducting business by electronic media.

Section 3(b)

We support the concept of an annual report essentially as outlined. However, the report is to be submitted by January 31, but the section does not say what time period the report is to cover. The prior calendar year is the implied period, but if debt issuance is heavy in December, it may be difficult to meet a January 31 deadline.

Section 3(c)

We have no problem with developing written informational guidelines, but we would limit them to areas related to debt levels. Debt structures and repayment schedules may vary with each debt issue, and may vary with innovation in the bond market. Further, the value of guidelines is questionable since debt levels ultimately are tied to factors such as assessed valuation and revenue sources of the issuing entity. Rating agencies will rate issues and the market must absorb the bonds. This would seem to be as effective a debt limit as is necessary.

Section 3(d)

We do not object to the idea that a financial advisor could be paid on a basis which is unrelated to the amount of debt issued, but this section appears to have several problems. First, it would prohibit bond counsel and underwriters from being paid from a spread which is the standard method of payment for such services. Second, it is not clear that the State Bond Committee can enforce this section since it is created only within the chapter that relates to general obligation and revenue debt issued by the State. Finally, even if the section only related to financial advisors, this section could adversely affect entities of lesser wealth which only use a financial advisor to sell bonds anyway.

Section 3(e)

We support the use of "true interest cost." However, it is already in general use by the State and its authorities. As with the previous section, we question whether the State Bond Committee has either the standing or the ability to enforce this section.

Section 3(f)

An annual debt calendar, as described, is useless. In negotiated sales a large inventory may develop without a known date of issuance. Anticipated debt may be cancelled, and unanticipated debt may be issued, making the calendar obsolete soon after tabulation. An informational calendar would have to be compiled monthly as a minimum.

Section 4

We do not believe that the State Bond Committee should have its own staff. The Department of Revenue generally provides staff support and, therefore, should budget for staff requirements within its Treasury area. The committee only exists when it comes together in meetings, and yet the staff work, current and envisioned by this bill, is of an ongoing nature better suited to line organization as employees of the department, and not as employees of a committee.



Alaska State Legislature

HOUSE CALENDAR

OFFICIAL BUSINESS OF THE HOUSE

EIGHTY-SEVENTH DAY

Wednesday

Reverend Duane Minkler
First Church of God

April 4, 1984
Convenes: 10:00 a.m.

SECOND READING OF HOUSE BILLS

- 39-0
HB 609 "An Act relating to debt of the state, its agencies, and municipalities; and providing for an effective date."
-Loans report, w/CS(Loans), same title, p. 2994
Fiscal Note, House Supplement No. 111
-Finance report w/CS(Fin), same title, p. 3100

SECOND READING OF SENATE BILLS

- HCS "An Act relating to the relocation of utility facilities
CSSB 67 incident to the construction of highway projects by a
(Rls) municipality; and providing for an effective date."
-Held in second reading w/all pending amendments

CITATIONS

- *Honoring - Lawrence E. Heiner by Representative Davis
*Honoring - Yup'ik Antigone by Senators Sackett, V. Fischer, Ferguson, Ray; Representative Vaska, Fuller

ANNOUNCEMENTS

Republican Luncheon
Senator Paul Fischer,
Speaker

Baranof

Noon

Forest Service
Brown Bag Lunch
"Search & Rescue"

Centennial Hall

Noon
& 1:00 p.m.

Committee Announcements on back -- subject to change.

HOUSE

DAILY COMMITTEE ANNOUNCEMENTS

WEDNESDAY 04/04/84

FINANCE CAPITOL 519 1:30 PM

HB 512 ESTAB AK RAILROAD CORP/MANAGE & OPERATE
HB 543 ACQUIRE AK RAILROAD/NEGOTIATE TRANSFER TERMS
CSSB 370(TRSP)AM ACQUIRE RAILROAD/NEGOTIATE TRANSFER TERMS
DEPARTMENT OF HEALTH & SOCIAL SERVICES CLOSE-OUT

HEALTH, EDUCATION & SOCIAL SERVICES CAPITOL 112 1:15 PM

THE COMMITTEE WILL BEGIN AN INVESTIGATION OF THE DEPARTMENT OF
HEALTH AND SOCIAL SERVICES, DIV. OF FAMILY AND YOUTH SERVICES

JUDICIARY CAPITOL 114 1:30 PM

*HB 667 CHILD SUPPORT ENFORCEMENT
*HB 668 CHILD SUPPORT ENFORCEMENT, CREDIT BUREAUS/INFORMATION
HB 693 PRINCIPAL AND INCOME OF TRUSTS
HB 694 ADMINISTRATION OF DECEDENTS' ESTATES
HB 695 RENUNCIATION OF RIGHTS IN DECEDENTS' ESTATES
HB 696 MARRIED PERSONS RIGHTS IN A FAMILY HOME
HB 697 UNIFORM DISPOSITION/CERTAIN PROPERTY RIGHTS AT DEATH
HB 404 MISCELLANEOUS AMENDMENTS TO FISH & GAME CODE.

LABOR AND COMMERCE BEHREND'S 209 8:15 AM

SUNSET REVIEW: BOARD OF PUBLIC ACCOUNTANCY HB 711
*HB 704 AUTOMOBILE CLUBS
CSSB 438(L&C) EXTEND BOARD OF REGISTRATION FOR ARCHITECTS,
ENGINEERS, AND LAND SURVEYORS

RESOURCES CAPITOL 118 3:00 PM

CSSB 371(RES) RELATING TO MINING

STATE AFFAIRS CAPITOL 102 1:15 PM

*HJR 74 MEETING OF POPE JOHN PAUL II AND PRESIDENT REAGAN
*HB 709 FEES FOR GUIDED TOURS THROUGH HISTORICAL SITES

TRANSPORTATION CAPITOL 112 8:30 AM

*HB 622 THIS MEETING HAS BEEN CANCELLED AS OF 4/3/84
*HB 644 CANCELLED

* FIRST PUBLIC HEARING

COMMITTEE REPORT

HOUSE

FINANCE

(6)

FURTHER:

2/13/84

Date: 3/20/84

The Committee on HOUSE SPECIAL COMMITTEE
ON STATE LOANS has had HB 609

"An Act relating to debt of the state, its agencies, and
municipalities, and providing for an effective date."

under consideration and recommends:

- ☒ do pass ☐ do not pass
- ☐ do pass with attached amendments(s)
- ☒ replace with CS for HB 609 (LOANS) ☐ same title
☐ new title
- and recommends _____
- ☐ AND attaches a "Letter of Intent" ☒ New Fiscal Note
- ☐ reports it back without recommendation ☐ Zero Fiscal Note Attached
- ☐ referred to the _____ Committee

MEMBERS SIGNING
DO PASS

Kirk Kelly
Liam Testinger

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Walt Fungible NO rec Heads
Phil Koyama no rec

Kirk Kelly
CHAIRMAN

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811
907/465-4821



REPRESENTATIVE RICK UEHLING
CHAIRMAN
REPRESENTATIVE WALT FURNACE
REPRESENTATIVE NILO KOPONEN
REPRESENTATIVE JERRY WARD
REPRESENTATIVE RON WENDTE

House Special Committee on State Loans

THE HOUSE SPECIAL COMMITTEE ON
STATE LOANS

WILL TAKE PUBLIC TESTIMONY ON

HB 609

An Act relating to debt of the state,
its agencies, and municipalities;

February 25, 1984

10:00 to 12:00 am

1:30 to 3:30 pm

HB 609 would establish an expanded State Bond Committee designed to keep the Legislature and the public informed of the state's bond indebtedness. The hearing, scheduled to begin at 10:00 am in the Anchorage Legislative Information Office, will be available by statewide teleconference.

Rep. Rick Uehling, Chairman of the House Loans Committee, said House Bill 609 "is the first step toward setting restraints and control on the bond indebtedness of the state government." The bill would implement many of the recommendations contained in "The Review of Debt Capacity and Debt Management for the State of Alaska", which was prepared for the Legislative Budget and Audit Committee, and which was the subject of an interim hearing of the Loans Committee.

Additional information may be obtained from the House Special Committee on State Loans or from the Legislative Information Offices.

Rick

Rep. Rick Uehling

New law on bond proposed

Associated Press

Juneau — Alaska needs to manage debt more intently and assert more control over the various state entities issuing bonds, said the chairman of the House Special Committee on Loans.

To keep legislators informed of the status of the state's debt, Anchorage Republican Rick Uehling has proposed legislation to expand the scope and role of the State Bond Committee.

"The bill is the first step toward setting restraints and control on the bond indebtedness of state government," Uehling said. The proposal incorporates recommendations of a report prepared for the legislature last year reviewing Alaska's debt management and debt capacity, he said.

An expanded role for the bond committee was one of the report's recommendations. "Recent fluctuations in the worldwide price of oil and the decline of Prudhoe Bay oil production have alerted investors to the boom and bust nature of the Alaska economy," the report said, making it vital the state annually assess its debt position.

Uehling said he is concerned about the growing debt of the North Slope Borough, and its implications for state government.

The borough has authorized debt of more than \$1 billion, more than any local government in Alaska, he said. Legislators have expressed worries that the state's credit rating would suffer if declining oil production jeopardized the borough's ability to repay its debt.

Uehling's legislation would require review of proposed bond sales by the bond committee. The committee would develop guidelines governing the debt management of each government or entity issuing debt in the state.

The guidelines would recommend a debt level and a repayment schedule.

The legislation is co-sponsored by Reps. Hayes, Adams, Bettisworth, Fuller, Goll, Lindauer, Ringstad and Shultz.

Alaska State Legislature

POUCH V
JUNEAU, ALASKA 99811
907/465-4821



REPRESENTATIVE RICK UEHLING
CHAIRMAN
REPRESENTATIVE WALT FURNACE
REPRESENTATIVE NILO KOPONEN
REPRESENTATIVE JERRY WARD
REPRESENTATIVE RON WENDTE

House Special Committee on State Loans

February 13, 1984

FOR IMMEDIATE RELEASE

CONTACT: REP. RICK UEHLING
465-4821

RAH

REP. UEHLING INTRODUCES BILL TO ESTABLISH EXPANDED STATE BOND COMMITTEE

JUNEAU - Rep. Rick Uehling has introduced a bill which, if approved, would establish an expanded State Bond Committee designed to keep the Legislature and public informed of the status of the state's bond indebtedness.

Uehling, R-Anchorage, said House Bill 609 "is the first step toward setting restraints and control on the bond indebtedness of the state government."

"Considering that the state's bond indebtedness is now over \$6 billion, I feel the Legislature and public need to be kept informed on the status of our bonding situation," said Uehling, chairman of the House Special Committee on State Loans.

Uehling said he became aware of the need for this "watch dog legislation" while hearing testimony from municipal, state and private sector officials during interim committee

meetings. Uehling said his legislation also addresses many of the recommendations set forth in a report by the Municipal Finance Officers Association entitled "Review of Debt Capacity and Debt Management for the State of Alaska."

Under Uehling's legislation:

- The bond committee would be expanded from three to five members;
- The commissioner of Department of Revenue would become committee chairman, instead of the commissioner of Commerce and Economic Development;
- A member of a public corporation which has the authority to issue state bonds, such as the Alaska Housing Finance Corporation or the Alaska Industrial Authority, would be added to the board;
- An annual report on the status of the state's bond indebtedness would be issued annually to the Legislature and Governor;
- The bond committee would require an annual calender of all proposed debt issuances for the upcoming year.

"With the large amounts of bonds we're dealing with each year, I'm certain that this legislation is needed to insure that we have capable supervision in coming years," Uehling said.

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A REPORT ON THE
STATE BOND COMMITTEE
GENERAL BONDED DEBT AND DEBT SERVICE

For the Fiscal Year Ended June 30, 1983

Audit Control Number

08-1127-84-R

State Bond Committee

Chairman

Richard A. Lyon, Commissioner
Department of Commerce and
Economic Development

Secretary

Robert Heath, Commissioner
Department of Revenue

Member

Lisa Rudd, Commissioner
Department of Administration

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PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes, an examination of the State Bond Committee, General Bonded Debt and Debt Service was conducted to determine:

1. If the financial statements appearing in the Annual Financial Report for Fiscal Year 1983 are fairly presented.
2. The compliance of General Bonded Debt and Debt Service with applicable State statutes and regulations governing fiscal activities.

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ORGANIZATION AND FUNCTION

Under the provisions of Article IX, Section 8, of its Constitution, the State of Alaska may contract general bonded indebtedness for capital improvements. These issues must be authorized by the Legislature and must be ratified by a majority of qualified voters prior to sale except for the purposes of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding when the State Constitution became effective. AS 37.15.010 pledges the full faith, credit, and resources of the State as security for general obligation bonds.

General obligation bonds are sold by the State Bond Committee, which is composed of the Commissioners of Commerce and Economic Development (Chairman), Revenue (Secretary), and Administration (Member). Under Title 37, Chapter 15, the Committee is charged with the responsibility for adoption of resolutions and preparation of documents necessary for the sale (by competitive bid), issuance, and delivery of bonds. AS 37.15.030 states that the effective interest rate shall not exceed the statutory limit of 11 percent or the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher.

The Committee sells general obligation bonds in amounts or series and at times which it considers to be in the best interest of the State. The Committee also sets the conditions and covenants of the bonds, terms, denomination, maturity dates and amounts, place of sale and payment and other purely technical considerations.

Article 2 of the State Bonding Act permits the Committee to issue notes in anticipation of bond sales (maturity dates not to exceed one year), and AS 37.10.087 allows borrowing from the General Fund with the approval of the Legislative Budget and Audit Committee. In either case, short-term borrowing for capital improvements must be repaid with the proceeds from the eventual sale of general obligation bonds or Federal program receipts. These were intended solely as stop-gap measures to permit the sale of bonds under more favorable conditions.

During Fiscal Years 1982 and 1983, the State Bond Committee, with approval from the Legislative Budget and Audit Committee, elected to temporarily transfer \$141,410,300 from the General Fund to temporarily exhausted construction fund accounts, rather than sell bonds. In November, 1982, \$185,000,000 in bonds were sold at an approximate effective interest rate of 7.7 percent. The proceeds from the sale were used to reimburse the General Fund for outstanding

loans made to construction funds and to fund various construction funds directly. \$10,400,000 in General Fund loans were not paid off in anticipation of receiving Federal funds after the related projects are completed.

Subsequent to the November, 1982 bond sale, additional General Fund loans were made to various construction funds resulting in an outstanding loan balance of \$14,440,000 as of June 30, 1983. In October, 1983, \$78,000,000 in bonds were sold at an effective interest rate of approximately 7.5 percent.

The State Bond Committee currently employs Foster & Marshall-American Express Inc. as their bond consultant. The bond consultant advises the Committee on market conditions, prepares the official statement and notice of sale, arranges publication, and distributes the prospectus of the offering to potential buyers. All recommendations and documents prepared on behalf of the State are subject to approval by the State Bond Committee.

The State also employs the services of paying agents to service the debt and receive the proceeds of sale. All general obligation bonds issued since Statehood have been serial bonds, with principal and interest maturities to be paid each year. The paying agents maintain registration records, redeem bonds and interest coupons, and periodically invoice the State for their services. During Fiscal Year 1983, the State employed, as paying agents, Rainier National Bank, Chemical Bank, Bank of America, Federal Reserve Bank of Richmond, Virginia, and the Bradford Trust Company.

STATE OF ALASKA

AUDIT DIVISION
POUCH W
JUNEAU, ALASKA 99811

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

December 21, 1983

Members of the
Legislative Budget and Audit Committee:

We have examined the Comparative Balance Sheet of the General Obligation Debt Service Fund, the Comparative Statement of Analysis of Change in Fund Balance of the General Obligation Debt Service Fund, and the related General Obligation Bonds Comparative Statement of Bonded Indebtedness Group of Accounts for the fiscal years ended June 30, 1983 and 1982 and the Statement of Revenues, Expenditures and Fund Balance of the General Obligation Debt Service Fund and the Statement of Debt Service Expenditures and Encumbrances Compared with Appropriations for Operating Programs for the fiscal year ended June 30, 1983. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, present fairly the financial positions of the General Obligation Debt Service Fund and the related Bonded Indebtedness Group of Accounts at June 30, 1983 and 1982 and the results of the General Obligation Debt Service Fund's operations and its changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

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STATE OF ALASKA
STATE BOND COMMITTEE
DEBT SERVICE FUNDS
COMPARATIVE BALANCE SHEET OF THE
GENERAL OBLIGATION DEBT SERVICE FUND
June 30, 1983 and 1982

<u>Assets</u>	<u>1983</u>	<u>1982</u>
Cash in Treasury	<u>\$ 75,597</u>	<u>\$ 360,952</u>
<u>Fund Balance</u>		
<u>Fund Series</u>		
1958 University of Alaska Series A	70,000	70,000
1958 University of Alaska Series B	85	85
1970 Series A	4,008	4,008
1973 Series B	1,219	1,219
1976 Series A	285	285
1976 Series B	-0-	325
1982 Series B	<u>-0-</u>	<u>285,030</u>
<u>Total Fund Balance</u>	<u>\$ 75,597</u>	<u>\$ 360,952</u>

The Notes to the Financial Statements are an integral part of this Statement.

STATE OF ALASKA
STATE BOND COMMITTEE
DEBT SERVICE FUNDS
COMPARATIVE STATEMENT OF ANALYSIS OF CHANGE IN FUND
BALANCE OF THE GENERAL OBLIGATION DEBT SERVICE FUND
For the Fiscal Years Ended June 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
<u>Beginning Balance, July 1</u>	\$ 360,952	\$ 75,922
<u>Additions</u>		
Revenue	<u>143,339,308</u>	<u>102,610,701</u>
<u>Total Balance and Additions</u>	<u>143,700,260</u>	<u>102,686,623</u>
<u>Deductions</u>		
Expenditures	<u>143,624,663</u>	<u>102,325,671</u>
<u>Ending Balance, June 30</u>	<u>\$ 75,597</u>	<u>\$ 360,952</u>

The Notes to the Financial Statements are an integral part of this Statement.

STATE OF ALASKA
STATE BOND COMMITTEE
DEBT SERVICE FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
OF THE GENERAL OBLIGATION DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 1983

Bond Issue	Fund Balance 06/30/82	Revenue From General Fund (Note 3, p. 13)	Expenditures For Principal and Interest	Fund Balance 06/30/83
University of Alaska, 1958 Series A	\$ 70,000(1)	\$ 65,950	\$ 65,950	\$70,000
University of Alaska, 1958 Series B	85			85
Ferries Roads and High- ways Construction		876,500	876,500	
University of Alaska, 1963 Construction		212,175	212,175	
1963 School Construction		212,175	212,175	
Trunk Airport Construction		129,375	129,375	
Composite "1/8/64 Sale"				
Series L		584,960	584,960	
1964 Series B (1967 Issue)		761,887	761,887	
1964 Series C (1967 Issue)		43,350	43,350	
1967 First Series		1,198,560	1,198,560	
1967 Second Series		886,500	886,500	
1968 Bond Series A		1,248,750	1,248,750	
1968 Bond Series B		828,338	828,338	
1969 Bond Series A		705,812	705,812	
1969 Bond Series D		102,300	102,300	
1970 Bond Series A	4,008(2)			4,008
1970 Bond Series C		1,134,298	1,134,298	
1971 Bond Series A		1,569,680	1,569,680	
1971 Bond Series B		1,507,200	1,507,200	
1971 Bond Series C		256,500	256,500	
1971 Bond Series D		104,000	104,000	
1972 Bond Series A		1,878,200	1,878,200	
1972 Bond Series B		2,370,150	2,370,150	
1973 Bond Series A		1,823,500	1,823,500	
1973 Bond Series B	1,219(2)	2,102,850	2,102,850	1,219
1973 Bond Series C		2,575,650	2,575,650	
1974 Bond Series A		3,042,000	3,042,000	
1975 Bond Series A		3,659,400	3,659,400	
1975 Bond Series B		4,012,475	4,012,475	
1975 Bond Series C		4,448,888	4,448,888	
1976 Bond Series A	285(3)	4,117,500	4,117,500	285
1976 Bond Series B	325(3)	4,091,250	4,091,575	
1977 Bond Series A		3,993,750	3,993,750	
1977 Bond Series B		5,155,000	5,155,000	
1978 Bond Series A		6,425,000	6,425,000	
1979 Bond Series A		5,412,000	5,412,000	
1979 Bond Series B		8,496,000	8,496,000	
1980 Bond Series A		18,168,750	18,168,750	
1982 Bond Series A	285,030(4)	41,900,510	42,185,540	
1982 Bond Series B		7,238,125(5)	7,238,125	
Total	\$360,952	\$143,339,308	\$143,624,663	\$75,597

Footnotes

- (1) This fund balance is to be used for the final debt service payment.
- (2) Represents money returned by Bond Construction Funds.
- (3) Represents money returned by the paying agent for funds held one year following the legal payment date.
- (4) Represents \$7,870 premium and \$277,160.28 accrued interest from bond sale.
- (5) Amount includes \$6,477.00 premium and \$844,447.92 accrued interest from bond sale.

The Notes to the Financial Statements are an integral part of this Statement.