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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
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January 21, 1986

MEMORANDUM

TO: Representative John Sund
ATTN: John Hartle
FROM: Mary Jennings *MJ*
Legislative Analyst
RE: Bonded Indebtedness of Schools in Alaska
Research Request 86-063

You requested a short history of the State program which reimburses construction costs incurred by schools in Alaska. You also requested a tabulation of debt by election district and the amount of the debt covered by the State.

History

Under AS 14.11.100 (originally enacted in 1970 as AS 43.18.100), the State reimburses municipalities 50, 80, 90, or 100 percent of cash expenditures on school construction and debt service on bonds issued to finance school construction. The percentage depends on the year in which the costs were incurred or the debt was issued. School construction costs in Regional Education Attendance Areas (REAs) are paid by the State and are not included in the reimbursement program.

Although the statute specifies reimbursement rates, the actual amount reimbursed through the program is dependent on annual legislative appropriations to the school construction account and on the amount of cigarette tax receipts allocated to the districts. Historically, appropriations have usually been sufficient to fully fund the level of payments authorized by statute. When amounts in the account are insufficient, the available funds are allocated pro rata among the eligible districts. This was done in FY 79, FY 80, and FY 83.

The 1970 statute provided for a two-year lag between the debt service payment by the municipality and reimbursement by the State. This lag does not apply to debt authorized by the voters after June 30, 1983,

but it still applies to all cash payments. The 1970 statute also stated that reimbursement of debt service is "exclusive of any funds from state or federal sources", which includes cigarette tax receipts. This language continues to be applied.

Table 1 contains a chronology of changes in the percentage of school construction costs reimbursed by the State. The first column lists the percentage of coverage for bonds, notes, or other indebtedness. The second column lists the coverage for cash payments made by the municipality to pay the costs of school construction, additions to schools, and major rehabilitation projects.

For municipalities that constructed schools with cash prior to the enactment of the reimbursement law, the State bases payments on the debt service costs that would have been incurred if the municipality had issued debt securities of 10 years' duration bearing interest at the rate of six percent per year.

Debt

Table 2 shows the amount of school debt outstanding at the end of FY 84 and 85. The percentage of school debt covered by the State is a blending of reimbursement rates in effect for the years in which the debt was incurred.¹ The figures represent maximum potential coverage; they will be realized only if full funding is available every year and there are no cigarette tax receipts.

¹The Department of Revenue has not yet compiled debt coverage figures for FY 85. The information is expected to be available in March.

Table 1

History of Changes in the Percentage of School Construction Costs
Reimbursed by the State of Alaska

	<u>Percentage Reimbursement by the State on Debt Service of the Municipality</u>	<u>Percentage Reimbursement by the State for Cash Payments made by the Municipality</u>
1970	50 percent	0 percent
1971		50 percent*
1972	75 percent (Vocational Education)	
1973		50 percent
1977	100 percent before 7-1-77 50 percent After 7-1-77	100 percent Before 7-1-76 50 percent After 7-1-77
1978	80 percent After 6-30-77	80 percent After 6-30-76
1982	90 percent After 6-30-77	90 percent After 6-30-76
1983	50 percent After 6-30-83	50 percent After 6-30-83
1985	80 percent After 6-30-83	80 percent After 6-30-83

*For municipalities that constructed schools with cash prior to 1973, the State bases payments on the debt service cost that would have been incurred if the municipality had issued debt securities of 10 years duration bearing interest at the rate of six percent per year. The 1973 amendments allowed recovery of the entire amount of cash payments made two years prior to the current year.

Prepared by the House Research Agency, January 1986.

State of Alaska School Debt and Debt Service

School Debt Outstanding

State and Local Shares of School District Debt Service FY 1977-1985

House Election District	School District	Marine 1 of School		1 of Statewide		Sum of FY 1979-1985 School Debt Service	Cigarette Tax	Percent of Debt Service Covered by Cigarette Tax	Calculated State Share Before Deducting Cig Tax	Calculated Actual State Reimbursement (Cigarette Tax Deducted)		Calculated Local Share (Cig Tax Deducted)		
		School Debt Outstanding 6-30-84	Debt Paid by State 6-30-84	School Debt Outstanding 6-30-85	School Debt Outstanding 6-30-85					Amount	Percent	Amount	Amount	Percent
1	Ketchikan	120,630,000	921	131,000,000	41	115,492,049	11,091,044	7%	113,733,090	112,442,054	82%	61,758,951	61,758,951	11%
	Ketchikan	29,450,000	92	19,175,000	3	9,990,952	720,340	7	9,030,131	8,309,783	83	960,821	960,821	10
	Petersburg	5,225,000	93	2,440,000	0	4,251,617	199,686	5	3,842,964	3,643,278	86	408,653	408,653	10
	Wrangell	2,355,000	90	9,305,000	1	1,242,200	171,010	14	866,803	680,993	55	381,477	381,477	31
2	Inside Passage	555,000	100	500,000	0	1,042,026	653,447	63	956,719	593,083	57	86,107	58,790	6
	Craig	0	0	0	0	0	46,231	0	0	0	0	0	0	0
	Haines	555,000	100	500,000	0	663,092	158,662	24	623,330	464,668	78	48,562	48,562	6
	Heenah	0	0	0	0	0	79,659	0	0	0	0	0	0	0
	Hydaburg	0	0	0	0	0	43,500	0	0	0	0	0	0	0
	Kake	0	0	0	0	86,202	91,768	106	58,005	0	0	27,317	0	0
	Klawock	0	0	0	0	0	39,392	0	0	0	0	0	0	0
	Palican	0	0	0	0	0	28,146	0	0	0	0	0	0	0
	Stagnay	0	0	0	0	209,175	89,116	43	199,303	110,187	53	9,872	9,872	5
	Takotna	0	0	0	0	83,557	36,973	60	75,201	18,228	22	8,356	8,356	10
3	Baranof-Chichagof (Sitka)	2,129,000	100	2,852,250	0	4,793,276	588,294	10	4,249,059	3,748,765	78	544,217	544,217	11
4	Juneau	41,406,350	60	42,009,010	6	29,490,873	1,144,604	6	18,386,610	17,242,014	84	2,111,455	2,111,455	10
5	Kenai Coast Inlet (Kenai)	186,615,000	94	188,000,000	13	68,149,268	1,668,454	3	51,755,513	58,095,059	83	8,393,755	8,393,755	14
6	Prince of Wales Sound	24,385,000	93	22,153,009	3	17,834,662	454,768	3	16,287,768	15,753,000	88	1,624,982	1,624,982	9
	Cordova	445,000	100	268,009	0	912,904	174,214	19	851,212	676,998	74	61,692	61,692	7
	Valdez	23,940,000	93	21,885,000	3	16,921,758	280,546	2	15,356,540	15,876,882	89	1,565,218	1,565,218	9
7-15	Anchorage	212,275,000	91	214,390,000	29	186,556,696	8,865,266	8	96,371,897	87,566,651	82	18,184,799	18,184,799	10
16	Mat-Su	78,340,000	93	103,368,000	14	48,346,136	1,161,726	3	36,238,886	35,877,168	87	4,187,258	4,187,258	10
17	Interior Highways (Hoonah)	0	0	198,000	0	214,376	88,974	42	187,952	98,978	46	26,424	26,424	12
18-21	Fairbanks	82,115,516	94	134,731,120	18	48,863,438	2,418,822	5	44,497,754	42,886,934	86	4,365,674	4,365,674	9
22	North Slope-Kotzebue	143,822,000	91	67,900,000	9	76,921,675	441,674	1	67,646,412	67,204,738	87	9,274,663	9,274,663	12
23	Norton Sound (Hoonah)	0	0	0	0	97,475	239,895	246	81,238	0	0	16,245	0	0
24	Interior Rivers	0	0	0	0	887,257	141,774	18	662,891	521,117	65	144,366	144,366	18
	Calena	0	0	0	0	615,185	79,842	13	528,481	448,559	73	86,784	86,784	14
	St. Mary's	0	0	0	0	192,152	61,932	32	134,498	72,558	38	57,662	57,662	30
	Tanana	0	0	0	0	0	0	0	0	0	0	0	0	0
26	Bristol Bay-Aleutian Is	7,032,472	90	4,455,000	1	2,993,960	419,128	14	2,531,897	2,163,988	72	462,863	454,975	15
	Bristol Bay	3,665,000	90	3,535,000	0	1,576,869	181,085	6	1,352,253	1,251,248	79	224,616	224,616	14
	Dillingham	0	0	0	0	878,684	139,639	16	717,524	577,885	66	141,168	141,168	18
	King Cove	0	0	0	0	83,397	63,882	74	55,914	0	0	29,483	22,395	26
	Sand Point	0	0	0	0	0	44,851	0	0	0	0	0	0	0
	Unalaska	3,367,472	90	920,000	0	453,810	71,431	16	486,287	334,776	74	46,883	46,883	10
27	Kodiak-E. Ad Peninsula	29,725,000	83	25,515,000	3	12,823,773	617,694	5	11,548,664	10,922,970	85	1,283,189	1,283,189	10
	Total	1756,430,346	906	1750,256,285	1001	1409,435,132	119,832,336	51	1365,049,152	1345,716,431	841	144,385,988	144,335,330	111

*Parts of the Kenai school district are in four different election districts. Because the majority of the school district is in election district five, we have attributed all Kenai school district debts to election district five.

Note: Election District 25 contains Rural Education Attendance Areas. There is no debt outstanding because construction costs are paid by the State.

Representative Sund
January 21, 1986
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Table 2 also shows the State and local shares of school district debt service for the period FY 79 through FY 85.² The column labeled "Cigarette Tax" refers to the school district's share of cigarette tax receipts.³ The cigarette tax is an excise tax of two and one-half mills on the value of all cigarettes imported or acquired in the state. These proceeds and those derived from manufacturer, retailer, and vendor machine license fees are paid into a State fund entitled "School Fund" and are used exclusively to rehabilitate, construct, and repair the State's school facilities and for the insurance to cover these activities. The allocation of this tax is independent of the amount of debt service and/or construction activity of school districts.

The "Calculated State Share" indicates the amount of debt service the State would have reimbursed if cigarette tax allocations were not deducted from the State's share. The "Actual State Reimbursement" is payments net of the cigarette tax allocations. The "Calculated Local Share" and the "Actual Local Share" are the municipalities' shares of debt service before and after deducting cigarette tax, respectively.

Generally, the cigarette tax allocations, actual State reimbursement, and actual local share add up to 100 percent of debt service costs. However, there are some cases where cigarette tax allocations exceed the State and/or State plus local share of debt service. Kake, Norton Sound and King Cove had the local share of debt service reduced by "surplus" cigarette tax allocations.

The average actual State reimbursement of debt service was 84 percent, the average local share was 11 percent, and cigarette tax allocations covered the remaining five percent.

I have attached AS 14.11.100, giving the current percentages of reimbursement and years to which the two-year lag applies. Also attached are amendments to this statute. If you have any questions about this memorandum, or if we can be of further assistance, please contact us.

MJ

Attachments

²Although data for earlier years may be available from the Department of Education, FY 79 is the earliest data we have on file.

³In a given year, the Cigarette tax allocation made two years prior is deducted from the State's share of debt service. Table 2 shows the cigarette tax receipts distributed between 1977 and 1983.

Sec. 14.11.100 State aid for retirement of school construction debt. (a) During each fiscal year, the state shall allocate to a municipality that is a school district, the following sums:

(1) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality during the fiscal year two years earlier to pay costs of school construction;

(3) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11);

(4) subject to (h) and (i) of this section up to 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981, and authorized by the qualified voters of the municipality before July 1, 1983, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982, and before July 1, 1983, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(C) payments made by the municipality during the current year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are submitted to the Department of Education for approval under AS 14.07.020(11) before July 1, 1983, and approved by the qualified voters of the municipality before October 15, 1983, not to exceed a total project cost of (i) \$6,600,000 if the annual growth rate of average daily membership of the municipality is more than 7 percent but less than 12 percent, or (ii) \$20,000,000 if the annual growth rate of average daily membership of the municipality is 12 percent or more; payments made by a municipality under this paragraph on total project costs that exceed the amount set out in (i) and (ii) of this paragraph are subject to (a)(5)(A) of this section.

(5) subject to (h), (i) and (j) of this section, 80 percent of

(A) payments made by the municipality during the fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1983 to pay costs of school construction, additions, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1983 by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11).

(b) The commissioner shall administer the program of reimbursement authorized under this section and shall provide by regulation for the filing of applications for reimbursement, the form of proof of costs for which application for reimbursement is made, and other regulations necessary to administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall

(1) Offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140;

(2) Repealed. (Sec. 10 ch 92 SLA 1982)

(c) The school construction account is established. Funds to carry out the provisions of this section may be appropriated annually by the legislature to the account. If amounts in the account are insufficient for the purpose of providing the share to which a borough or city is entitled under this section, those funds that are available shall be distributed pro rata among the eligible local governments.

(d) Money in the school construction account which, at the end of the fiscal year for which the money is appropriated, exceeds the amount required for the allocations authorized in this section reverts to the general fund.

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section, including but not limited to, the amount of state aid paid on a per capital and per student basis and the resultant effect on the rate of levy of taxes by the municipality for educational purposes.

(f) Repealed. (Sec. 17 ch 147 SLA 1978)

(g) Repealed. (Sec. 47 ch 6 SLA 1984)

(h) An allocation under (a)(4) or (5) of this section for school construction begun after July 1, 1982, shall be reduced by the amount of money used for the construction of residential space, hockey rinks, planetariums, saunas, and other facilities for the single purpose of sporting or recreational uses that are not suitable for other activities and the money used for construction that exceeds the amount needed for construction of a facility of efficient design as determined by the department. An allocation under (a)(4) or (5) of this section may not be reduced by the amount of money used for construction of a small swimming pool, tank, or water storage facility used for water sports. However, an allocation shall be reduced by the difference between the amount of money used to construct a swimming pool that exceeds the standards adopted by the department and the amount of money that would have been used to construct a small swimming pool, tank, or water storage facility, as determined by the commissioner.

(i) For the purpose of (a)(4) and (5) of this section

(1) an indebtedness for bonds is incurred after the bonds are sold;

(2) reimbursement for a cash payment may only be made after the payment is made to a vendor; and

(3) payments may not be made for costs that are incurred under a contract after the contract has been released.

(j) The state may not allocate money to a municipality for a school construction project under (a)(5) of this section unless the municipality complies with the requirements of (1) - (4) of this subsection and the project is approved by the commissioner before the local vote on the bond issue for the project. In approving a project under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the bond issue the estimated total cost of each project including estimated annual operation and maintenance costs and the estimated amounts that will be paid by the state and by the municipality;

(2) that the bonds may not be refunded unless the annual debt service on the refunding issue is not greater than the annual debt service on the original issue;

(3) that the bonds must be repaid in approximately equal annual principal payments or approximate equal debt service payments over a period of at least 10 years.

(k) An amount equal to the interest earned on the investment of the proceeds of bonds issued for a school construction project shall be used by the municipality to

- (1) pay the costs of the project;
- (2) pay accrued interest on the bond issue;
- (3) redeem all or part of the bonds; or
- (4) pay the costs of issuing the bonds;

(4) the municipality to demonstrate need for the project by establishing that the school district has

(A) projected long-term student enrollment that indicates the district has inadequate facilities to meet present or projected enrollment; or

(B) facilities that require repair or replacement in order to meet health and safety laws or regulations or building codes.

Sec. 14.11.102. EVALUATION OF PROJECTS. The department shall evaluate projects for which retirement of school construction debt is requested by school districts in accordance with the procedures set out in AS 14.11.010. A request for an allocation of funds under AS 14.11.100 must be submitted to the department by the school district no later than October 15 of the fiscal year before the fiscal year for which the request is made.

Sec. 14.11.105. Public School facilities construction advance account. The public school facilities construction advance account is established. The account consists of appropriations for distribution under AS 14.11.105-14.11.135 to boroughs and cities which are school districts to assist in paying the costs of the public school facilities projects approved under AS 14.07.020(11) for which construction is commenced after June 30, 1978 and for which no bonding, notes, or other indebtedness was incurred before July 1, 1978. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.110. Eligibility. Eligibility of a proposed construction project for funding assistance under AS 14.11.105-14.11.135 shall be determined by the department based on standards and criteria established by regulation. The standard and criteria to be considered in determining eligibility include the following:

- (1) emergency requirements;
- (2) number of unhoused students;
- (3) new elementary or secondary programs;

- (4) existing community and school facilities and their condition;
and
- (5) economic and social stability of the community. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.115. State Aid. (a) The amount of state aid payable in advance under AS 14.11.105-14.11.135 is the amount by which the cost of construction of the approved school construction project would cause the debt-to-valuation ratio of the municipality to exceed 12 percent.

(b) A payment under (a) of this section is limited to an amount which, when combined with estimated payments to the school district for the retirement of the principal and interest on bonds, notes or other indebtedness or reimbursement of cash payments for a school construction project for which payment is made under AS 14.11.100(a)(1) or (2) or for an approved school construction project for which payment is made under AS 14.11.100(a)(3), does not exceed 80 percent of the cost of the school construction project.

(c) For purposes of this section,

(1) "debt" means the principal amount of the direct and general obligation indebtedness of the municipality for which all taxable property is subject to taxation to pay the bond, note or other evidence of the debt, determined and reported in accordance with AS 14.17.140(c);

(2) "valuation" means the full and true value of the real and personal property of the municipality determined in accordance with AS 14.17.140(a). (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.120. Application for Aid. (a) The commissioner shall prescribe the necessary forms and procedures to be used in applying for construction cost assistance under AS 14.11.105-14.11.135.

(b) A borough or city which is a school district seeking construction cost aid shall apply to the department by October 15 prior to fiscal year.

(c) Based on the commissioner's review of applications and determination of project eligibility, the commissioner shall recommend to the governor an appropriation of funds for state aid for those projects under AS 14.11.105-14.11.135. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.125. Conditions of state aid. (a) Funds distributed to a borough or city which is a school district during a school year under AS 14.11.105-14.11.135 shall be received, held, and expended by the district in accordance with the applicable provisions of law and of regulations adopted by the department. Funds provided under AS 14.11.105-14.11.135, but which are not required for the project for which they were granted or which are in excess of that borough's or city which is a district's entitlement for aid under AS 14.11.115 shall be returned to the department and deposited in the general fund.

(b) Each borough or city which is a school district shall maintain financial records of the receipt and disbursement of state funds received under AS 14.11.105-14.11.135 and money provided toward local effort. The records shall be in the form prescribed by the department and are subject to audit by it at any time.

(c) Upon completion of the construction project, the chief school administrator of the district shall report the total cost of the project and means of financing it to the commissioner.

(d) Boroughs and cities that are school district shall secure and maintain in full force and effect adequate property loss insurance for the replacement cost of all facilities constructed after July 1, 1978 and for which state funds are available under AS 14.11.100-14.11.135. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.130. Construction and Implementation. (a) AS 14.11.105-14.11.135 may not be construed so as to create a debt to the state.

(b) Funds to carry out the provisions of AS 14.11.105-14.11.135 may be appropriated annually by the legislature into the public school facilities construction advance account. If amounts in the account are insufficient to meet the allocations authorized by the commissioner under AS 14.11.105-14.11.135, such funds as are available shall be distributed pro rata among each borough and city which is a school based upon its computed entitlement. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.135. Definitions. In this chapter, unless the context requires otherwise.

(1) "approved school construction project" means the plan for a new school or an addition to or major rehabilitation of an existing school to the extent to which approved by the commissioner in accordance with AS 14.07.020(11);

(2) "commissioner" means the commissioner of education;

(3) "costs of school construction" means the cost of acquiring, construction, enlarging, repairing, remodeling, equipping or furnishing of public elementary secondary school buildings and includes the sum total of all costs of financing or carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special service, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositories, financial advisors, and paying agents for the bonds issued as the issuer considers necessary;

(4) "department" means the Department of Education.

Sec. 14.11.140. REGULATIONS. The department shall adopt regulations to carry out the purpose of this chapter.

Sec. 9 LEGISLATIVE REVIEW. Proposed permanent regulations under AS 14.11.140 as enacted in sec. 8 of this Act shall be submitted to the legislature no later than the 10th day of the Second Session of the Fourteenth Alaska State Legislature. Notwithstanding AS 44.62, permanent regulations adopted under AS 14.11.140 take effect the 90th day of the Second Session of the Fourteenth Alaska State Legislature, unless a law is enacted disapproving the regulations.

Ch



LAWS OF ALASKA

1970

Chapter No

249

AN ACT

amending state aid to organized boroughs and cities for payment of school construction debt; and providing for an effective date.

ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA

Section 1. AS 43.18 is amended by adding:

ARTICLE 2. STATE AID FOR SCHOOL CONSTRUCTION DEBT.

Sec. 43.18.100. STATE AID FOR PAYMENT OF SCHOOL CONSTRUCTION DEBT. (a) During each fiscal year the state shall allocate to an organized borough or city which is a school district one-half the sum, exclusive of any funds from state or federal sources, which the federal government pays during the fiscal year two years prior for the payment of principal and interest on bonds, notes, or other indebtedness issued or incurred to pay for school construction.

(b) The commissioner shall administer the program of reimbursement authorized under this section. The commissioner shall provide by regulation for the filing of applications for reimbursement, the form of proof of cost, and the information necessary to administer the program. If the conditions for reimbursement, the commissioner shall withhold against the amount of reimbursement authorized for any funds distributed to the borough or city in the preceding fiscal year from the school construction account in AS 43.50.140.

(c) The school construction account shall be established and funds to carry out the provisions of this section shall be appropriated annually by the legislature. If amounts in the account are insufficient to carry out the provisions of providing the share to which a borough or city is entitled, the commissioner shall advise the legislature.

① 90
② 7 year long
③ Cash Payments



LAWS OF ALASKA

Source

Chapter 14

15

AN ACT

to provide for state aid for school buildings in organized boroughs and cities which are subject to the provisions of this act, effective date.

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

Section 1. AS 43.18.100(a) is amended to read:

(a) During each fiscal year (1) the state shall pay to an organized borough or a city one-half of the following: (a) the amount of the principal and interest on the bonds issued for the purpose of financing the construction costs:

(1) payments made by the state during the fiscal year two years prior to the year in which the principal and interest on the bonds were first incurred to pay costs:

(2) the amount of the principal and interest on the bonds expended by a borough or city for the purpose of financing the retirement of principal and interest on the bonds issued for other indebtedness incurred by the borough or city for the purpose of financing construction had the borough or city not incurred such other indebtedness of 10 percent of the amount of the principal and interest on the bonds at the rate of six per cent per annum, rather than paying therefor from local sources.

Section 2. This Act takes effect upon the approval or disapproval of the Governor.

Approved by Governor: _____
Effective Date: _____

... While the ... such funds as are available to the district and provide among the eligible local ...

(d) Money in the school construction account which, at the end of the fiscal year for which the money is appropriated, exceeds the amount required for the allocation ... shall be transferred to the general ...

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section.

(f) In this section, unless the context requires otherwise,

(1) "commissioner" means the commissioner of education;

(2) "costs of school construction" means the costs of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing of public elementary and secondary school buildings and includes but is not limited to the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of bonds, notes, or other evidences of debt.

Sec. 2. This Act takes effect July 1, 1970.



LAWS OF ALASKA

1970

Source

FCCS SCS CSHB 452

Chapter No.

255

AN ACT

Appropriating for the operating and capital expenses of departments, offices and agencies of state government; and providing for an effective date.

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

Section 1. The sum of \$314,120,500 is hereby appropriated from the general fund and from the unreserved special accounts in the general fund for the period beginning July 1, 1970, to be apportioned according to the schedules in secs. 8, 9 and 10 of this Act.

General Fund	\$302,000,000
Highway Fuel Tax Account	7,000,000
Aviation Fuel Tax Account	2,000,000
Watercraft Fuel Tax Account	3,120,500

Sec. 2. The sum of \$915,100 is appropriated from special fund reserve accounts in the general fund for the period beginning July 1, 1970, to be apportioned according to the schedules in secs. 8, 9 and 10 of this Act.

FICA Administration Fund Reserve Account	\$
Special Surplus Property Revolving Fund Reserve Account	
Small Business Enterprise Revolving Fund Reserve Account	
Second Injury Fund Reserve Account	
Sick and Disabled Fishermen's Fund Reserve Account	
Oil and Gas Conservation Fund Reserve Account	

Sec. 3. The sum of \$18,903,900 is appropriated from special funds of the state for the period beginning July 1, 1970, to be apportioned according to the schedules in secs. 8, 9 and 10 of this Act.



LAWS OF ALASKA

1972

Source

CSHB 441

Chapter No.

137

AN ACT

Relating to state support for vocational education; and providing for an effective date.

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

Section 1. AS 14.17.041(c) is repealed and re-enacted to read:

(c) Vocational education schedule:

ADM Full-Time Equivalent	No Instructional Units
5 - 10	1
11 - 25	2
26 - 40	3
41 and over	3 plus 1 for each 20 pupils or fraction of 20 pupils in Full- Time Equivalent ADM

Sec. 2. AS 43.18.100(a) is amended to read:

(a) During each fiscal year the state shall allocate to an organized borough or a city which is a school district one-half, or if school construction is for vocational education facilities as determined by the commissioner, three-quarters of the following sums, exclusive of any funds received from state or federal sources for school construction costs:

(1) payments made by the borough or city during the fiscal year two years prior for the retirement of

principal and interest on bonds, notes, or other indebtedness incurred to pay costs of school construction;

(2) the amount of payments that would have been expended by a borough or city two years prior for the retirement of principal and interest on bonds, notes, or other indebtedness incurred to pay costs of school construction had the borough or city issued bonds, notes, or other indebtedness of 10 years duration bearing interest at the rate of six per cent a year to finance the costs rather than paying those costs through taxes or other local sources.

• Sec. 3. This Act takes effect on July 1, 1972.



LAWS OF ALASKA

Source

Chapter

AS 43.18

AN ACT

relating to state school building...
effective date.

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

Section 1. AS 43.18.100 is amended to read:

Sec. 43.18.100. STATE DEBT. (a) The state shall allocate to an organized borough, city or school district one-half, or if the school district vocational education facilities and facilities of the commissioner, three-quarters of the amount of the

(1) payments made by the state during the fiscal year two years prior to the retirement of principal and interest on bonds, or the amount incurred to pay costs of school construction.

(2) the amount of payments made by the state expended by a borough or city to pay the retirement of principal and interest on bonds, or the indebtedness incurred to pay costs of school construction had the borough or city, instead of the state, had an indebtedness of 10 years duration to the state at a rate of six per cent a year to the date of the state paying those costs through the state.

(3) cash payments made by the state during the fiscal year two years prior to the school construction.

(b) The commissioner shall administer the reimbursement authorized by this section and shall provide by regulation for the form of reimbursement, the form of payment to the state for

reimbursement is made, and other regulations necessary to administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140.

(c) The school construction account is established. Funds to carry out the provisions of this section may be appropriated annually by the legislature to the account. If amounts in the account are insufficient for the purpose of providing the share to which a borough or city is entitled under this section, those funds that are available shall be distributed pro rata among the eligible local governments.

(d) Money in the school construction account which, at the end of the fiscal year for which the money is appropriated, exceeds the amount required for the allocations authorized in this section reverts to the general fund.

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section.

(f) The provisions of (a)(2) of this section apply only to payments made before July 1, 1971. The provisions of (a)(3) of this section apply to payments made after that date, 1971.

(g) In this section

(1) "commissioner" means the commissioner of education;

(2) "costs of school construction" means the costs of acquiring, constructing, enlarging, repairing, renovating, equipping, or furnishing, including but not limited to, the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of bonds, notes, or other evidences of debt.

* Section 1. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.



LAWS OF ALASKA

1971

Source

HCSSB 11

Chapter No.

29

AN ACT

Extending workmen's compensation benefits to firemen in certain situations where they would not otherwise be covered.

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

* Section 1. AS 23.30 is amended by adding a new section to read:

Sec. 23.30.243. EXTENDING COVERAGE TO CERTAIN FIREMEN.

(a) For the purposes of workmen's compensation, any injury, disability or death incurred by a fireman by reason of his proceeding to or engaging in a fire suppression or rescue operation, or the protection or preservation of life or property, anywhere in the state shall be considered to have arisen out of and been sustained in the course of employment, and the fire department or regularly organized volunteer fire department of his primary employment or registration is considered to be the employer, except when the injured, at the time of injury or death, is acting for compensation from another.

(b) Nothing in this section requires the extension of benefits to a fireman employed by a home rule or general law municipality which by law or regulation expressly prohibits the activity giving rise to the injury, disability or death.

Approved by governor: March 29, 1971
Local effective date: June 27, 1971

Approved by governor: March 29, 1971
Local effective date: March 29, 1971

quantities, shall be made by the commissioner upon recommendations of the director, the state geologist or the United States Geological Survey under AS 41.08.060.

• Sec. 41. AS 38.05.181(s) is amended to read:

(s) Short title. This section may be cited as the Geothermal Resources Act.

• Sec. 42. AS 39.25.110 is amended by adding a new section to read:

(14) commissioners and employees of the Alaska Commercial Fisheries Entry Commission.

• Sec. 43. AS 42.05.351 is amended to read:

Sec. 42.05.351. TESTING OF APPLIANCES. The commissioner shall provide for the examination and testing of appliances used for the measuring of a service of a public utility. A person may purchase equipment, apparatus, and standards required for this purpose. The commissioner of commerce may perform the examination and testing function to the section of weights and measures. Upon the payment of a reasonable fee established by the commission, a consumer may have an appliance, which is used by him, tested. The commissioner shall establish by regulation allowable tolerances with respect to the functioning or operation of the appliance. If the measuring appliance does not perform within the tolerances, the utility concerned shall pay the cost of the test by reimbursing the person requesting the test for the fee paid by him. This reimbursement shall be made no later than at the time of the next regular billing following the test.

• Sec. 44. AS 43.18.010(h)(4) is amended to read:

(4) funds received by a local government under (1), (2) or (3) of this subsection shall be used for the operation, maintenance, or health services or facilities, as the local government or hospital outside a municipality determines;

• Sec. 45. AS 43.18.040 is amended to read:

Sec. 43.18.040. REGULATIONS. The Department of Community and Regional Affairs shall adopt regulations necessary to carry out the purposes of secs. 10 - 99 of this chapter.

• Sec. 46. AS 43.18.050 is amended to read:

Sec. 43.18.050. SPECIFIC EXPENDITURES. A municipality shall expend funds received for the operation and maintenance of hospitals and health facilities and services under secs. 10 - 99 of this chapter only for those specific facilities and services.

• Sec. 47. AS 43.18.100(g) is amended to read:

(g) In this section, unless the context requires otherwise,

(1) "commissioner" means the commissioner of education;

(2) "costs of school construction" means the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing of public elementary and secondary school buildings and includes but is not limited to the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of bonds, notes, or other evidences of debt.

• Sec. 48. AS 43.20.335(a) - (e) are amended to read:

(a) A person who wilfully attempts to evade the tax imposed by this chapter is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than \$5,000, or imprisoned for not more than five years, or both.

(b) A person required under this chapter to collect, account for, and pay over the tax imposed by this chapter who wilfully fails to collect or truthfully account for and pay over the tax is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than \$10,000, or imprisoned for not more than five years, or both.

(c) A person required under this chapter to pay a tax, make a return, keep records, or supply information, who wilfully fails to pay the tax or estimated tax, make the return, keep the records, or supply the information, is, in addition to other penalties provided by this chapter, guilty of a misdemeanor and, upon conviction, shall be fined not more than \$5,000, or imprisoned for not more than one year, or both.

(d) A person who wilfully makes and subscribes a return, statement, or other document required under this chapter which contains or is verified by a written declaration that it is made under the penalties of perjury which he does not believe to be true and correct as to every material matter is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than \$5,000, or imprisoned for not more than three years, or by both.

(e) A person who wilfully and knowingly aids or assists in, or procures, or counsels the preparation or presentation in connection with any matter arising under this chapter of a return, affidavit, claim, or other document, which is fraudulent or is false as to any material matter is guilty of a felony whether or not the falsity or fraud is with the knowledge or consent of the person required to present the return, affidavit, claim, or document, and, upon conviction, shall be fined not more than \$5,000, or imprisoned for not more than three years, or both.

• Sec. 49. AS 44.62.150 is repealed.

• Sec. 50. AS 44.68.020 is amended to read:

* Sec. 24. AS 43.18.010 is amended by adding a new subsection to read:

(1) For the purposes of (j) of this section, "total project cost" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

* Sec. 25. AS 43.18.100(g)(2) is repealed and re-enacted to read:

(2) "costs of school construction" means the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing of public elementary and secondary school buildings and includes the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

* Sec. 26. AS 43.18.300(h) is amended by adding a new paragraph to read:

(3) "costs of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of

other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary; it does not include the cost of feasibility studies.

* Sec. 27. AS 43.18.460() is repealed and re-enacted to read:

(2) "cost of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary; it does not include the cost of promotion, travel, or feasibility studies;

* Sec. 28. AS 44.33.150 is amended to read:

Sec. 44.33.150. QUALIFYING FOR MATCHING MONEY. In order to qualify for tourist attraction development matching money, the applicant shall submit and have approved by the director of tourism, a feasibility study of the program to be used for carrying out the development of the tourist attraction. Subject to the provisions of sec. 120(8) of this chapter, matching money may also be secured by an applicant for the cost of construction, improvement or operation of a visitor information center established for the intent of providing Alaska visitors and residents with tourist travel information on a local and statewide basis. This may include printing and distributing travel promotion material about Alaska. In order to qualify for visitor information center matching money, the applicant must first submit and have approved by the director of tourism a feasibility study of the construction, improvement or operation of the visitor information center.

* Sec. 29. AS 44.33.150 is amended by adding a new subsection to read:

(b) For purposes of (a) of this section, "cost of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the



LAWS OF ALASKA

1977

Source

Chapter No.

FCCS SCS CSMB 89

120

AN ACT

Relating to state aid for school construction, and providing for an effective date.

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

* Section 1. AS 43.18.100(a) is repealed and re-enacted to read:

(a) During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction, and cash payments made by the borough or city before July 1, 1976 to pay the cost of school construction;

(2) 50 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after July 1, 1977 to pay costs of school construction;

(B) cash payments made after July 1, 1977 by the borough or city during the fiscal year two years earlier to pay costs of school construction.

* Sec. 2. AS 43.18.100(b) is amended to read:

(b) The commissioner shall administer the program of reimbursement authorized under this section and shall

provide by regulation for the filing of applications for reimbursement, the form of proof of costs for which application for reimbursement is made, and other regulations necessary to administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall

(1) offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140;

(2) require the borough or city to provide, with its application, a certified copy of the notice to taxpayers required by sec. 30 of this chapter.

* Sec. 3. AS 43.18.100(e) is amended to read:

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section, including but not limited to, the amount of state aid paid on a per capita and per student basis and the resultant effect on the rate of levy of taxes by the municipality for educational purposes.

* Sec. 4. AS 43.18.030 is amended to read:

Sec. 43.18.030. LOCAL TAX LEVY REDUCTION. (a) The intent of secs. 10 - 100 of this chapter in authorizing state aid for educational purposes and municipal services is that municipalities which levy taxes reduce those levies in reasonable proportion to the amount of state aid received by the municipality for a given fiscal year.

(b) If the municipality levies and collects real or personal property taxes, the governing body shall furnish the following notice with tax statements mailed for the fiscal year for which aid is received under AS 43.17 and secs. 10 - 100 of this chapter:

"NOTICE TO TAXPAYER

For the current fiscal year the (city) (borough) has been allocated the following amount of state aid for school and municipal purposes under the public school foundation program (Alaska Statutes 14.17), the municipal services revenue sharing program of Alaska Statutes 43.18.010 - 43.18.050, and the program of state aid for retirement of school construction debt (Alaska Statute 43.18.100):

PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE	\$
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT	\$
AID BASED ON MUNICIPAL SERVICES FURNISHED (fire protection,	\$

police protection, air or water pollution control, land use planning, road maintenance, parks and recreation, transportation facilities and services, hospital operation)

Total Aid

The millage equivalent of this state aid, based on the dollar value of a mill in the municipality for the current assessment year and for the preceding year, is:

	MILLAGE EQUIVALENT PREVIOUS YEAR
PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE	... MILLS
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT	... MILLS
AID BASED ON MUNICIPAL SERVICES FURNISHED	... MILLS
TOTAL MILLAGE EQUIVALENT	... MILLS

* Sec. 5. AS 43.18.030 is amended by adding a new subsection to read:

(c) If the municipality levies and collects a sales tax, the governing body shall provide a notice substantially in the form set out in (b) of this section. In providing notice under this subsection, the governing assembly shall substitute for the millage equivalent estimate of the equivalent sales tax rate for each category of financial assistance set out in (b) of this section. Notice shall be provided

(1) by publishing in a newspaper of general circulation within the municipality a copy of the notice once each week for a period of three successive weeks with first publication to occur not earlier than 60 days before the first day of the municipality's fiscal year;

(2) if there is no newspaper of general circulation in the municipality, by posting a copy of the notice for at least 20 days in at least two public places within the municipality, with posting to occur not less than 45 days before the first day of the municipality's fiscal year.

* Sec. 6. This Act takes effect July 1, 1978.

LA 78

Chapter 14

Chapter 147

necessary, the commissioner may require as a condition of agreement approval of the agreement by the federal government. Regulations adopted, amended or repealed by the department under this section which relate to educational facilities shall be developed in conjunction with the Alaska Association of School Boards and the Alaska Association of School Administrators and reviewed by those associations before final action on the regulations is taken by the department.

* Sec. 8. AS 35.15.090 is amended to read:

Sec. 35.15.090. USE OF APPROPRIATED FUNDS. Upon assumption by a municipality or regional educational attendance area of the department's responsibilities under sec. 80(a)(1) of this chapter, or upon execution of an agreement under sec. 80(a)(2) of this chapter, state funds appropriated for a public works project which is the subject of the assumption or the agreement shall be transferred to a special account in the state treasury. A municipality or regional educational attendance area administering the project under the assumption or agreement may draw on the account for costs of the project, under fiscal control of the department. If an agreement provides for joint or cooperative administration of the project, payment of costs shall be made to the party incurring the costs.

* Sec. 9. AS 35.15.110(a) is amended to read:

(a) Title acceptable to the department to a suitable project site shall be vested in the state before work is begun on the site, except that, if the project involves construction of an educational facility, title or sufficient interest determined acceptable by the department to an approved site for a school building shall be vested in the municipality, the regional educational attendance area or the state before advertisement for bids or initiation of construction contract negotiations.

* Sec. 10. AS 14.07.020 is amended by adding a new paragraph to read:

(10) review plans for construction of new public elementary and secondary schools and for additions to and major rehabilitation of existing public elementary and secondary schools and, in accordance with regulations adopted by the department, determine the extent of eligibility for state aid of a school construction project begun after the effective date of this Act; for purposes of this paragraph, a "plan" includes educational specifications, schematic designs, and final contract documents.

* Sec. 11. AS 14.14.060(e) is amended to read:

(e) The borough school board is responsible for the design criteria of school buildings. To the maximum extent consistent with education needs, a design of a school building shall provide for multiple use of the building for community purposes. Subject to the approval of the assembly, the school board shall select the appropriate professional personnel to develop the designs. The school board shall submit preliminary and subsequent designs for a school building to the assembly for approval or disapproval;

if the design is disapproved, a revised design shall be prepared and presented to the assembly. A design or revised design approved by the assembly shall be submitted by the board to the department in accordance with AS 14.07.020(10)

* Sec. 12. AS 43.18.100(a) is repealed and re-enacted to read:

(a) During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 80 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the borough or city during the fiscal year two years earlier to pay costs of school construction;

(3) 80 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 to pay costs of school construction projects approved under AS 14.07.020(10);

(B) cash payments made after June 30, 1978 by the borough or city during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(10).

* Sec. 13. AS 43.18 is amended by adding new sections to read:

Sec. 43.18.105. PUBLIC SCHOOL FACILITIES CONSTRUCTION ADVANCE ACCOUNT. The public school facilities construction advance account is established. The account consists of appropriations for distribution under secs. 105 - 135 of this chapter to boroughs and cities which are school districts to assist in paying the costs of public school facilities projects approved under AS 14.07.020(10) for which construction is commenced after June 30, 1978 and for which no bonding, notes, or other indebtedness was incurred before July 1, 1978.

Sec. 43.18.110. ELIGIBILITY. Eligibility of a proposed construction project for funding assistance under secs. 105 - 135 of this chapter shall be determined by the

Handwritten notes:
Before 7-1-77
1977
90%
7-1-77 Bonds
7-1-78
50%
7-1-77
7-1-78
90%
7-1-77
7-1-78
Bonds
7-1-77
7-1-78
Bonds
7-1-77
7-1-78
Bonds
7-1-77
7-1-78
Bonds

82

Chapter 92

* Sec. 7. AS 35.15.090 is amended to read:

Sec. 35.15.090. USE OF APPROPRIATED FUNDS. Upon [ASSUMPTION OF MUNICIPALITY OR REGIONAL EDUCATIONAL ATTENDANCE AREA OF THE DEPARTMENT'S RESPONSIBILITIES UNDER AS 35.15.080(a)(1), OR UPON] execution of an agreement under AS 35.15.080(a) [AS 35.15.080(a)(2)], state funds appropriated for a public works project which is the subject of the [ASSUMPTION OR THE] agreement shall be transferred to a special account in the state treasury. A municipality [OR REGIONAL EDUCATIONAL ATTENDANCE AREA] administering the project under the [ASSUMPTION OR] agreement shall draw on the account for costs of the project, under fiscal control of the department. If an agreement provides for joint or cooperative administration of the project, payment of costs shall be made to the party incurring the costs.

* Sec. 8. AS 43.18.100(a) is amended to read:

(a) During each fiscal year, the state shall allocate to a municipality that [AN ORGANIZED BOROUGH OR A CITY WHICH] is a school district the following sums:

(1) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 [80] percent of

(A) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality [BOROUGH OR CITY] during

fiscal year two years earlier to pay costs of school construction (3) 90 [80] percent of

(A) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11);

(4) subject to (h) and (i) of this section 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982 by the municipality during the fiscal year two years earlier for the retirement of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11).

Sec. 9. AS 43.18.100 is amended by adding new subsections (g) and (h). (g) An allocation under (a)(4) of this section for school construction begun after July 1, 1982, shall be reduced by the amount expended for the construction of residential space, hockey rinks, pools, saunas, and other facilities for single purpose recreation or recreation.



LAWS OF ALASKA

1982

Source

SCS CSHB 159(L&C)

Chapter No.

93

AN ACT

Relating to workers' compensation, and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: June 14, 1982
Actual Effective Date: July 1, 1982

Chapter 92

tional uses that are not suitable for other activities. An allocation under (a)(4) of this section may not be reduced by the amount of money used for construction of a small swimming pool, tank, or water storage facility used for water sports. However, an allocation shall be reduced by the difference between the amount of money used to construct a swimming pool that is competition size or larger and the amount of money that would have been used to construct a small swimming pool, tank, or water storage facility, as determined by the commissioner.

(1) For the purposes of (a)(4) of this section

(1) an indebtedness for bonds is incurred after the bonds are sold;

(2) reimbursement for a cash payment may only be made if the payment is made to a vendor; and

(3) payments may not be made for costs that are incurred under a contract after the contract has been released.

* Sec. 10, AS 14.08.161 and AS 43.18.100(b)(2) are repealed.

* Sec. 11. This Act takes effect July 1, 1982.



LAWS OF ALASKA

1983

Source

CCSHB 251

Chapter No.

82

AN ACT

Relating to state support for education; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: July 19, 1983
Actual Effective Date: July 20, 1983

83

AN ACT

Relating to state support for education; and providing
for an effective date.

* Section 1. AS 43.18.100(a)(4) is amended to read:

(4) subject to (h) and (i) of this section up to 90 percent

of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981, and authorized by the qualified voters of the municipality before July 1, 1983, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982, and before July 1, 1983, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(C) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes, or other indebtedness to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are submitted to the

63

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Department of Education for approval under AS 14.07 before July 1, 1983, and approved by the qualified voters of the municipality before October 15, 1983, not to exceed a project cost of (i) \$6,600,000 if the annual growth rate of average daily membership of the municipality is more than 12 percent but less than 12 percent, or (ii) \$20,000,000 if the annual growth rate of average daily membership of the municipality is 12 percent or more; payments made by a municipality under this paragraph on total project costs that exceed the amounts set out in (i) and (ii) of this paragraph are subject to (a)(5)(A) of this section.

* Sec. 2. AS 43.18.100(a) is amended by adding a new paragraph to (5) subject to (h) and (i) of this section, 50 percent of the amount of the following:

(A) payments made by the municipality during the fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1983 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1983 by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11).

* Sec. 3. AS 43.18.100 is amended by adding a new subsection to read:

1) The state may not allocate money to a municipality for a school construction project under (a)(5) of this section unless the project is approved by the commissioner before the local vote on

and issue for the project. In approving a project under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the bond issue the estimated total cost of each project and the estimated amounts that will be paid by the state and by the municipality;

(2) that the bonds may not be refunded unless the annual debt service on the refunding issue is not greater than the annual debt service on the original issue;

(3) that the bonds must be repaid in approximately equal annual principal payments or approximate equal debt service payments over a period of at least 10 years;

(4) the municipality to demonstrate need for the project by factors such as increased enrollment in the school district, the health and safety of the students, and the factors listed in AS 14.11.010(c).

* Sec. 4. FINDINGS. The legislature finds that the present system of providing assistance to school systems should be studied for modification and improvement. The legislature further finds that during the period of study an alternative mechanism to the existing foundation support system is desirable.

* Sec. 5. The operation of AS 14.17.021(a), 14.17.022, 14.17.024, 14.17.031(a), (b), (c), and (e), 14.17.041, 14.17.051, 14.17.056, 14.17.057, 14.17.160, 14.17.180, 14.17.225(b), and the provision of 14.17.170 that requires the withholding of one-half of the June payment of state aid pending a final determination of each school district's state aid is suspended from July 1, 1983, through June 30, 1984. During the period of suspension, the provisions of AS 14.17.031(d) remain in effect except that the number of students in average daily membership in each school district may be used instead of instructional units to calculate reductions in

Chapter 82

state aid. During the period of suspension, funding for the basic state aid and supplemental equalization aid that otherwise would have been provided under the provisions of AS 14.17.021(a), 14.17.022, and 14.17.023 shall be provided to school districts and for centralized correspondence study in accordance with the provisions of sec. 6 of this Act.

* Sec. 6. For fiscal year 1984 the amount of state aid for each school district and for centralized correspondence study is the following amount subject to adjustment under AS 14.17.021(b), for each pupil in average daily membership less any aid overpaid as determined by the commissioner of education:

Anchorage School District	5,330
Bristol Bay Borough School District	9,111
Cordova City School District	5,000
Craig City School District	6,000
Dillingham City School District	8,600
Fairbanks North Star Borough School District	3,500
Galena City School District	4,500
Haines Borough School District	6,000
Hoonah City School District	6,000
Hydaburg City School District	6,000
City and Borough of Juneau School District	1,500
Kake City School District	5,000
Kenai Peninsula Borough School District	3,500
Ketchikan Gateway Borough School District	3,500
King Cove City School District	6,000
Klawock City School District	6,000
Kodiak Island School District	2,000
Matanuska-Susitna Borough School District	3,500
Tanana City School District	10,500

Chapter 82

... City School District	7,165
North Slope Borough School District	9,202
Pelican City School District	12,438
Petersburg City School District	4,049
Sand Point City School District	8,283
Sitka Borough School District	3,711
Shagway City School District	1,379
St. Mary's City School District	14,946
Tanana School District	13,361
Unalaska City School District	8,210
Valdez City School District	4,786
Wrangell City School District	4,726
Yakutat City School District	7,749
Adak Regional School District	6,643
Alaska Gateway School District	8,639
Aleutian Chain School District	16,674
Annette Island School District	6,572
Bering Straits School District	12,197
Chatham School District	8,682
Chugach School District	11,758
Copper River School District	7,178
Delta School District	5,915
Iditarod Area School District	14,977
Kuspuk School District	16,376
Lake and Peninsula School District	15,476
Lower Kuskokwim School District	11,033
Lower Yukon School District	9,864
Northwest Arctic School District	10,387
Pribilof Islands School District	11,475

Upper Railbelt Regional School District	4.4
Southeast Island School District	4.7
Southwest Regional School District	13.0
Yukon Flats School District	13.0
Yukon Koyukuk School District	13.0
Central Correspondence	2.14

* Sec. 7. The commissioner shall determine the state aid for each school district on the basis of the reports submitted under AS 14.17.061 for fiscal year 1983. Beginning July 15 of the fiscal year, and on the 15th of each month, for seven successive months, 1/12th of each district's state aid shall be distributed.

* Sec. 8. Appropriations made for fiscal year 1984 for supplementary programs under AS 14.17.061(a) may be used only for average daily membership increases beyond the average daily membership reported by school districts under AS 14.17.170 for fiscal year 1983. If the amount appropriated for fiscal year 1984 is insufficient to meet the average daily membership allocations authorized under sec. 6 of this Act with respect to the increased average daily membership, the available funds shall be distributed on a pro rata basis among the school districts with increased average daily membership.

Sec. 9. During the period of suspension under sec. 5 of this Act, each school district shall continue to provide services to students in need of bilingual, special, and vocational education commensurate with the needs of the students and in strict accordance with applicable state and federal laws and regulations.

* Sec. 10. The commissioner of education shall recommend to the legislature a method of revising and improving the public school foundation program no later than January 9, 1984. If the commissioner of education does not make recommendations to the legislature by January 9, 1984,

notwithstanding, the amount of basic state aid to each school district and regional educational attendance area under the public school foundation program as calculated by fiscal year 1984 revised average daily membership calculations, beginning in fiscal year 1985, shall be adjusted and identified in January 1984 to reflect the changes in the Consumer Price Index for all Urban Consumers for the Anchorage Metropolitan Area compiled by the Bureau of Labor Statistics, United States Department of Labor in January 1984, for the preceding twelve-month period. The index for January 1983 is the reference base index.

* Sec. 11. Sections 4 - 10 of this Act are repealed June 30, 1985.

* Sec. 12. Sections 1 - 3 of this Act take effect July 1, 1983.

* Sec. 13. Sections 4 - 13 of this Act take effect immediately in accordance with AS 01.10.070(c).

Chapter 77

1 right-of-way of the highway to gain access to the [NIS] mining

2 * Sec. 3. This Act is retroactive to October 5, 1980.

3 * Sec. 4. This Act takes effect immediately in accordance with
4 (C.F.R. 101.0101(c)).

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LAWS OF ALASKA

1985

Source

CCFSB 51

Chapter No.

79

AN ACT

Relating to state aid for school construction; and providing
for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO
THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES
DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL
REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY
LINE OF EACH BILL SECTION.

Approved by the Governor June 2, 1985
Actual Effective Date July 1, 1985

AN ACT

Relating to state aid for school construction; and providing for an effective date.

* Section 1. AS 14.11.100(a)(5) is amended to read:

(5) subject to (h), AND (i), and (j) of this section, 80 percent of

(A) payments made by the municipality during the fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1981, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1981, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.020(11).

2. AS 14.11.100(h) is amended to read:

(h) An allocation under (a)(4) or (5) of this section for school construction begun after July 1, 1982, shall be reduced by the amount used for the construction of residential space, health centers, saunas, and other facilities for single purpose sporting or recreational uses that are not suitable for other activities and by

the money used for construction that exceeds the amount needed for the construction of a facility of efficient design as determined by the department. An allocation under (a)(4) or (5) of this section may be reduced by the amount of money used for construction of a swimming pool, tank, or water storage facility used for water sports. However, an allocation shall be reduced by the difference between the amount of money used to construct a swimming pool that exceeds standards adopted by the department [IS COMPETITION SIZE OR LARGER] and the amount of money that would have been used to construct a swimming pool, tank, or water storage facility, as determined by the commissioner.

* Sec. 3. AS 14.11.100(1) is amended to read:

(1) For the purposes of (a)(4) and (5) of this section

(1) an indebtedness for bonds is incurred after the bonds are sold;

(2) reimbursement for a cash payment may only be made if the payment is made to a vendor; and

(3) payments may not be made for costs that are incurred under a contract after the contract has been released.

* Sec. 4. AS 14.11.100(j) is amended to read:

(j) The state may not allocate money to a municipality for a school construction project under (a)(5) of this section unless the municipality complies with the requirements of (1) - (4) of this subsection and the project is approved by the commissioner before a local vote on the bond issue for the project. In approving a project under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the bond issue the estimated total cost of each project including annual operation and maintenance costs and the estimated amount

will be paid by the state and by the municipality.

(2) that the bonds may not be refunded unless the total debt service on the refunding issue is not greater than the total debt service on the original issue;

(3) that the bonds must be repaid in approximately equal annual principal payments or approximate equal debt service payments over a period of at least 10 years;

(4) the municipality to demonstrate need for the project by establishing that the school district has

(A) projected long-term student enrollment that indicates the district has inadequate facilities to meet present or projected enrollment; or

(B) facilities that require repair or replacement in order to meet health and safety laws or regulations or building codes [; FACTORS SUCH AS INCREASED ENROLLMENT IN THE DISTRICT, THE HEALTH AND SAFETY OF THE STUDENTS, AND THE FACTORS LISTED IN AS 14.11.010(c)].

* Sec. 5. AS 14.11.100 is amended by adding a new subsection to read:

(k) An amount equal to the interest earned on the investment of the proceeds of bonds issued for a school construction project shall be used by the municipality to

- (1) pay the costs of the project;
- (2) pay accrued interest on the bond issue;
- (3) redeem all or part of the bonds; or
- (4) pay the costs of issuing the bonds.

* Sec. 6. AS 14.11 is amended by adding a new section to read:

Sec. 14.11.102. EVALUATION OF PROJECTS. The Department shall evaluate projects for which retirement of school construction bonds is requested by school districts in accordance with the provisions of

out in AS 14.11.010. A request for an allocation of funds under AS 14.11.100 must be submitted to the department by the school district no later than October 15 of the fiscal year before the fiscal year for which the request is made.

* Sec. 7. AS 14.11.135 is amended to read:

Sec. 14.11.135. DEFINITIONS. In this chapter [AS 14.11.100 to 14.11.135], unless the context requires otherwise,

(1) "approved school construction project" means the project for a new school or an addition to or major rehabilitation of an existing school to the extent to which approved by the commissioner in accordance with AS 14.07.020(1);

(2) "commissioner" means the commissioner of education;

(3) "costs of school construction" means the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping, furnishing of public elementary and secondary school buildings includes the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of necessary studies, surveys, plans and specifications, architectural engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, bondholders, advisors, and paying agents for the bonds issued as the issuer considers necessary;

(4) "department" means the Department of Education.

* Sec. 8. AS 14.11 is amended by adding a new section to read:

Sec. 14.11.140. REGULATIONS. The department shall adopt regulations to carry out the purposes of this chapter.

* Sec. 9. LEGISLATIVE REVIEW. Proposed permanent regulations under AS 14.11.140 as enacted in sec. 8 of this Act shall be submitted to the legislature no later than the 10th day of the Second Session of the Fourteenth Alaska State Legislature. Notwithstanding AS 44.62, permanent regulations adopted under AS 14.11.140 take effect the 90th day of the Second Session of the Fourteenth Alaska State Legislature, unless a law is enacted disapproving the regulations.

* Sec. 10. (a) The amendments to AS 14.11.100(j) provided for in sec. 4 of this Act apply only to school construction projects approved by the commissioner of education after the effective date of this Act.

(b) The requirement of AS 14.11.102, added by sec. 6 of this Act, that requests for an allocation of funds under AS 14.11.100 be submitted by October 15 of the fiscal year before the fiscal year for which the request is made, does not apply to requests for fiscal year 1987.

* Sec. 11. This Act takes effect July 1, 1985.

Moody's **Municipal** Department

1985 Medians

Selected Indicators of Municipal Performance

State Indicators and Rankings

City and County Debt Medians

Enterprise Performance Medians

As a measure of a government's burden of debt, a ratio is calculated between its net debt and the estimated full value of taxable property. The estimated full value serves as a direct measure of local government wealth and, therefore, is reflective of the government's capacity to service its debt. Taxable valuation is utilized as a wealth measure because it tends to be up-to-date and readily available for all sizes of municipal government.

Ratio of Net Debt to E.F.V. (%) ¹

Population Range	Direct	Overall Net Debt		
	Net Debt	Low	Median	High
	Median			
Under 250	12	10	42	59
250,000 to 299,999	21	11	31	104
300,000 to 399,999	22	15	26	90
400,000 to 499,999	18	03	25	93
500,000 to 699,999	17	10	28	161
700,000 to 999,999	15	01	29	150
1,000,000 to 1,499,999	21	02	33	245
Under 1,500,000	24	01	36	200

Ratio of Net Debt to E.F.V. (%) ²

Population Range	Direct	Overall Net Debt		
	Net Debt	Low	Median	High
	Median			
Under 250	14	03	42	41
250,000 to 499,999	15	07	25	52
500,000 to 999,999	19	05	28	55
1,000,000 and over	27	04	21	122

¹ Figures for the ratio of net debt to E.F.V. in these categories have been derived according to the following methodology:

² Figures for the ratio of net debt to E.F.V. in these categories have been derived according to the following methodology:



Amendments to HB 519

1. Page 2, lines 5-7: delete

"until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770"

and ~~insert~~ add

"unless the ~~public~~ public building to be provided has been specifically approved by law"

~~2. ~~Page 3, lines 27-28: delete~~~~

2. Page 3, lines 27-28: delete

ditto #1

3. Page 4, lines 22-23: delete

ditto #1

~~5. Page 4, lines ~~25~~²⁵ - 29 and~~

~~Page 5, lines 1-7: ~~delete~~ amend to ~~delete~~~~

~~AS 37.05.280 (a) in its entirety~~

~~5. Page 5, 1~~

~~4. Page 4, line 24: amend to read~~

~~"Sec. 8. AS 37.05 ~~280~~ is ~~repealed~~ is amended~~
by adding a new section to read"

4. Page 4, line 25: delete

"(a)"

5. Page 5, after line 7: insert

" * Sec. 9. AS 37.05 is amended by adding a new section to read

Sec. 37.05.285 "

~~Page~~ continue with ~~section~~ line 8, and renumber succeeding bill sections.

6. Page 5, line 8: delete

"(b)"

7. Page 5, lines 18-19: delete

Ditto # 1

8. Page 7, lines 28-29 and

Page 8, lines 1-6: ~~delete~~ delete and insert

~~Sec. 37.15.150. Bond terms.~~ (a) The bonds shall be sold in ^{the manner, and price or prices,} [such] amounts or series, and at such time or times as determined by the committee. [Before selling a series of bonds, the committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.]

at either public or private sale

9. Page 8, after line 13: insert

Sec. 16. AS 37.15.460 is amended to read:

Sec. 37.15.460. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide ^{whether the} notice of sale is to be published ^{elsewhere in} addition to the publication required by AS 37.15.450.

Sec. 17. AS 37.15.650 (a) is amended to read.

Sec. 37.15.650. Bond terms. (a) The toll facilities bonds are sold in the amounts or series, and at the time as determined by the committee. ^{Before selling a series of bonds, the committee shall give notice inviting sealed bids. If satisfactory bids are received, the bonds offered for sale are awarded to the highest responsible bidder. If the committee determines that a bid received is not satisfactory as to price or responsibility of the bidder, the committee may reject the bid received.} Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of 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. Interest is payable annually or semiannually.

Sec. 18. AS 37.15.660 is amended to read:

Sec. 37.15.660. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide ^{whether the} notice of sale is to be published ^{elsewhere in} addition to the publication required by AS 37.15.650.

~~at either~~ manner, price or
prices

at either
public or
private sale

HB 519
No State Agency or quasi State Agency may incur long-term debt except in accordance with the provisions of this chapter.

State Agency or quasi State Agency includes but is not limited to the following:

All Operating Departments of the Executive Branch
All Agencies of the Judicial Branch
All Agencies of the Legislative Branch
The University of Alaska
The Alaska State Housing (Building) Authority
The Alaska Municipal Bond Bank Authority
The Alaska Power Authority
The Alaska Industrial Development Authority

Long-term debt is defined as any debt with a payment period that extends beyond the end of the fiscal year in which the debt is incurred.

So called "lease financing" contracts where the object is for the state to acquire the attributes of ownership of real property after making "rent" payments for a number of years are considered long-term debt and are subject to the provisions of this chapter.

Leases that are cancellable at the end of each fiscal year without penalty to the State are not considered long-term debt for purposes of this chapter.

A State Agency or quasi State Agency with the authority by statute or regulation to incur long-term debt shall do so in accordance with the terms of legislation signed into law by the Governor and approved by a vote of the people in a general election.

No State Agency or quasi State Agency may issue bonds or sign contracts for long-term debt until the state bond committee has approved the proposal for the issuance of debt in accordance with the terms of this chapter.



ADOPTED AUGUST 1972

CITY of WRANGELL, ALASKA

INCORPORATED JUNE 15, 1903

BOX 531, 99929 (907) 874-2381

February 26, 1986

Senator Robert H. Ziegler, Sr.
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

RE: Alaska Legal Services Funding

Dear Senator Ziegler:

The Wrangell City Council has been informed that the Ketchikan office of Alaska Legal Services is closing due to a cutback in State funding. Although we do not know the actual number of cases in Wrangell, we do know that Alaska Legal Services has provided the assistance necessary to some of our senior citizens to resolve problems on their property descriptions and/or title. From all reports, many persons receive assistance from Alaska Legal Services that they would otherwise be unable to afford.

The City Council request your support for the funding necessary to maintain the office in Ketchikan to at least continue the level of service previously provided to the area.

Sincerely,

A handwritten signature in cursive script that reads "Joyce Rasler".

Joyce Rasler
City Manager

cc: Representative John Sund
Representative Robin Taylor



**City of
Ketchikan**

334 Front Street
Ketchikan, Alaska 99901
907 225 3111

February 25, 1986

The Honorable John Sund
Representative
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Sund:

This letter is a followup to your conversation with Councilmember Tom Friesen regarding House Bill 521. As you know, House Bill 521 would establish a limit on general obligations indebtedness that a municipality could maintain. Although a limit on such borrowing may be appropriate, I have the following concerns.

A summary of the bill shows that the bill limits general obligation bond debt to seven percent of the full property value of the municipality. A municipality is defined as "a municipality or a combination of municipalities that occupy, in whole or in part, the same geographic area." G.O. bonded debt does not include refunding bonds or "self supporting debt".

I have discussed this bill with Al Learned, Finance Director, and we suggest that based on our brief review there are two areas of concern.

1. The seven percent limitation may be too low (based on our interpretation of self-supporting debt). Currently, our debt ratio is approximately 3%. However, with the potential decline in state money available for local projects, including school projects, and the need in the future for various capital projects in the City, including those of the school district, we may find ourselves close to or over the 7% limitation even with our excellent debt ratio.
2. The definition of self supporting debt is not clear. If self supporting debt includes the state's portion of school construction debt and debt supported by sales tax (for example), then the impact of this bill may be lessened. In any case, we (municipality as defined above) can issue approximately \$14 million additional bonds not considered to be self-supporting [there is currently approximately \$20 million outstanding]. This could easily be achieved by a combination of school, borough and city bond issues over the next few years.

The Honorable John Sund
February 25, 1986
Page 2

In order to cushion the effects of this bill on this municipality, I would recommend an increase of the limit to a higher level [15% for example] and a clear definition of debt that is included in self supporting debt.

Sincerely,



Dan Allen
Assistant City Manager

DA:lm

c.c. Tom Friesen, Council Member
Al Learned, Finance Director

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

February 11, 1986

The Honorable John Sund
Chairman
House Special Committee on Loans
P.O. Box V
Juneau, AK 99811

Dear Representative Sund:

Enclosed is information requested by your committee at hearings on HB 519 and HB 521 on February 3 and 4, 1986.

Included are excerpts from various official statements for municipal bonds containing statements regarding State reimbursement for municipal school debt. Also included are Merrill Lynch's comparative tables on State general obligation bonds dating from January 6, 1982, their first publication.

Sincerely,



Milt Barker
Deputy Commissioner

MB/gb
86-46

Enclosures

Matanuska — Susitna Borough Alaska

\$8,460,000

**General Obligation School Construction Bonds
1977 Series A**



Selling Tuesday, April 4, 1978 at 10:00 AM, Alaska Standard Time

PROCEEDS DUE BOROUGH FROM LAND SALES

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1979	\$ 560,757	\$ 316,850	\$ 877,607
1980	560,757	275,790	836,547
1981	546,182	234,731	780,913
1982	428,684	194,545	623,229
1983	325,956	161,407	487,363
1984	258,926	134,845	393,771
	<u>\$2,681,262</u>	<u>\$1,318,168</u>	<u>\$3,999,430</u>

STATE AID TO EDUCATION

Subject to annual legislative appropriations, the State of Alaska Department of Education makes direct payments to the Borough and other governmental units which operate schools under the following major education aid programs:

1. *Reimbursement of Debt Service and Cash Payments on School Facilities.* Except as noted below, the State reimburses 50% of debt service payments on bonds sold, or of cash payments made, for school construction. For some facilities, such as vocational classrooms and equipment, the State's share is 75%. Beginning July 1, 1978, the State law provides for reimbursement of 100% of debt service payments for debt incurred prior to July 1, 1977 and 100% of local cash payments made prior to July 1, 1976, for school construction. These payments lag two years behind the actual debt service or cash payments. The State makes such payments in two installments during the fiscal year.

2. *Construction Funds.* A portion of the cigarette taxes levied by the State and collected within a Governmental Unit's jurisdiction are returned to the Governmental Unit. These funds are designated for new construction, rehabilitation or maintenance and insurance of schools or for the payment of debt service on bonds issued for such purposes. Payments are generally made in December.

3. *Education Operation Expenses.* The State reimburses Governmental Units for 95% (increased from 93% for fiscal years prior to 1976/1977) of their "basic education" operating expenses as defined by the State, calculated on the basis of the pre-fiscal year computations. Beginning July 1, 1978, the State will increase the reimbursement to 97%. The State applies differential adjustments based on area.

4. *Pupil Transportation.* The State reimburses local school districts for 100% of the costs of transporting pupils to and from school for distances greater than one and a half miles.

5. *State Impact.* This program offers financial relief to schools providing free public education to students whose parents work and/or live on State property.

6. *Additional Support.* The State provides additional support to schools for food service, community schools and boarding school home grants.

DEBT SERVICE REQUIREMENTS
GENERAL OBLIGATION BONDS

Fiscal Year Ending 6-30.	Outstanding Bonds			The Bonds			Grand Total Requirements	Estimated State Debt Service Reimbursement(2)	Estimated Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest(1)	Total				
1978	\$ 1,055,000	\$ 1,460,538	\$ 2,515,538	\$ —	\$ —	\$ —	\$ 2,515,538	\$ 905,928	\$1,609,610	
1979	1,355,000	1,401,994	2,756,994	260,000	507,600	767,600	3,524,594	2,192,266	1,332,328	
1980	1,350,000	1,322,700	2,672,700	300,000	492,000	792,000	3,464,700	2,553,985	910,715	
1981	1,555,000	1,240,038	2,795,038	300,000	474,000	774,000	3,569,038	3,129,055	439,983	
1982	1,355,000	1,146,312	2,501,312	300,000	456,000	756,000	3,257,312	3,057,238	200,074	24.54%
1983	1,310,000	1,064,375	2,374,375	300,000	438,000	738,000	3,112,375	3,170,850	(58,475)	
1984	1,115,000	981,488	2,096,488	400,000	420,000	820,000	2,916,488	2,868,400	48,088	
1985	1,220,000	910,700	2,130,700	400,000	396,000	796,000	2,926,700	2,732,738	193,962	
1986	1,160,000	836,800	1,996,800	400,000	372,000	772,000	2,768,800	2,491,263	277,537	
1987	1,160,000	765,475	1,925,475	400,000	348,000	748,000	2,673,475	2,514,025	159,450	49.29%
1988	1,260,000	692,800	1,952,800	400,000	324,000	724,000	2,676,800	2,368,675	308,125	
1989	1,260,000	616,138	1,876,138	500,000	300,000	800,000	2,676,138	2,285,900	390,238	
1990	1,360,000	535,088	1,895,088	500,000	270,000	770,000	2,665,088	2,301,775	363,313	
1991	1,410,000	449,475	1,859,475	500,000	240,000	740,000	2,599,475	2,263,663	335,812	
1992	1,210,000	358,975	1,568,975	500,000	210,000	710,000	2,278,975	2,268,163	10,812	77.18%
1993	1,110,000	279,000	1,389,000	500,000	180,000	680,000	2,069,000	2,218,100	(149,100)	
1994	1,100,000	203,350	1,303,350	500,000	150,000	650,000	1,953,350	1,913,150	40,200	
1995	1,100,000	127,125	1,227,125	500,000	120,000	620,000	1,847,125	1,718,725	128,400	
1996	500,000	50,625	550,625	500,000	90,000	590,000	1,140,625	1,618,625	(478,000)	
1997	500,000	16,875	516,875	500,000	60,000	560,000	1,076,875	1,527,950	(451,075)	
1998	—	—	—	500,000	30,000	530,000	530,000	837,000	(307,000)	100.00%
	<u>\$23,445,000</u>	<u>\$14,459,871</u>	<u>\$37,904,871</u>	<u>\$8,460,000</u>	<u>\$5,877,600</u>	<u>\$14,337,600</u>	<u>\$52,242,471</u>	<u>\$46,937,474</u>	<u>\$5,304,997</u>	

(1) Interest on the Bonds has been calculated at the rate of 6% for purposes of illustration.

(2) See "State Aid to Education".

OFFICIAL STATEMENT DATED: January 3, 1978

RATING: Moody's

NEW ISSUE

SALE DATE: January 17, 1978

S & P

SALE TIME: 9:00 a.m., Alaska Standard Time (11:00 a.m., Pacific Standard Time)

In the opinion of Counsel, interest on the bonds is exempt from federal income tax under present statutes, regulations and court decisions.

KENAI PENINSULA BOROUGH
\$25,970,000
1978 GENERAL OBLIGATION SCHOOL BONDS



FINANCIAL CONSULTANTS



FOSTER & MARSHALL INC.

MEMBERS NEW YORK STOCK EXCHANGE, INC., AMERICAN STOCK EXCHANGE, INC.,
PACIFIC STOCK EXCHANGE, INC., MIDWEST STOCK EXCHANGE, INC.,
CHICAGO BOARD OPTION EXCHANGE

205 COLUMBIA, SEATTLE, WASHINGTON 98104 • AREA CODE 206-344-3500
OFFICES IN ALL THE PRINCIPAL CITIES OF THE PACIFIC NORTHWEST AND ALASKA

ANTICIPATED FUTURE FINANCING

In addition to the improvements to be financed by proceeds of this bond issue, Borough officials indicate a need for additional major capital projects, all of which are for school purposes (primarily new facilities and additions to existing facilities). The combined total costs of needed projects is estimated at approximately \$20 million. The timing of and funding for these projects have not been established nor have bonds been authorized by the voters.

**KENAI PENINSULA BOROUGH
SCHEDULE OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT (1)
June 30, 1977**

Outstanding General Obligation Debt:	
Kenai Peninsula Borough: School Purposes (2)	\$21,822,000
Service Areas: Fire, Recreation and Hospital Purposes (3)	1,870,097
This Issue (4)	<u>25,970,000</u>
Total Direct Debt, Including This Issue	<u>\$49,662,097</u>
Estimated Overlapping Debt (100%):	
Cities of:	
Seldovia	\$ 505,000
Homer	2,381,000
Kenai	4,690,000
Seward	1,489,000
Soldotna	<u>1,648,000</u>
Total Overlapping Debt	<u>\$10,713,000</u>
Direct and Overlapping Debt, Including This Issue	<u>\$60,375,097</u>

- (1) Source: Kenai Peninsula Borough; the Borough has no authorized but unissued general obligation debt.
- (2) Excludes refunded issues; 100% of the debt service requirements on these bonds will be reimbursed by the State of Alaska (see page 14) for payments made in 1976 and after.
- (3) Includes \$334,597 Central Hospital Service Area Small Business Administration Loan (see page 30, Appendix B).
- (4) Approximately 50% of the debt service requirements on these bonds will be reimbursed by the State of Alaska (see page 14).

**BONDED DEBT RATIOS*
June 30, 1977**

Assessed Value (100% of Actual Value)	\$1,188,172,242
Estimated Borough Population (see page 10)	24,611
Ratio of:	
Direct Debt to Assessed Value	4.18%
Direct and Overlapping Debt to Assessed Value	5.08%
Per Capita:	
Assessed Value	\$48,278
Direct Debt	2,018
Direct and Overlapping Debt	2,453

*Includes this \$25,970,000 issue.

Major industrial growth is occurring within the Borough, most notably, expansion of petrochemical industries and petroleum and natural gas exploration in the Gulf of Alaska and Cook Inlet (see page 16). However, District officials predict normal permanent growth (excluding any growth due to major oil related industrial expansion) as follows:

<u>1977-78</u> <u>Actual Enrollment</u>	<u>1978-79</u> <u>Projected</u>	<u>1979-80</u> <u>Projected</u>	<u>1980-81</u> <u>Projected</u>	<u>% Increase</u> <u>1977-78 to</u> <u>1980-81</u>
5,708	6,189	6,531	6,934	21.5%

Any significant additional growth prompted by major industrial expansion is expected to occur after 1980 and much of that growth would have a temporary effect. District officials expect to accommodate any such temporary growth in portable classrooms or rented spaces.

BOROUGH FINANCES

Major sources of revenue for the Borough include contributions from the state and federal governments and levy of property and sales taxes. The largest expenditures are for education, general administration and capital projects.

The State Department of Revenue collects the following taxes at the local level and returns all or a portion of the tax revenues to the local governments: general business license tax, amusement and gaming tax, aviation fuel tax, electric and telephone tax, liquor license tax and raw fish tax.

SCHOOL FINANCES

ESTIMATED REVENUE RECEIPTS FOR PUBLIC SCHOOLS, 1975-76 (1)

	<u>Amount (millions)</u>				<u>Source:</u> <u>Percent of Total</u>		
	<u>Total</u>	<u>Federal</u>	<u>State</u>	<u>Local &</u> <u>Other</u>	<u>Federal</u>	<u>State</u>	<u>Local &</u> <u>Other</u>
Average, All States	\$67,136.9	\$5,345.9	\$29,321.6	\$32,469.4	8.0	43.7	48.3
State of Alaska	\$ 232.9	\$ 35.2	\$ 151.2	\$ 46.5	15.1	64.9*	20.0

*% contribution by State of Alaska exceeded only by Hawaii and North Carolina; "Revenue Receipts" include receipts for: current expenditures, capital outlay and interest, and for summer school, adult programs and community services.

(1) Source: Tax Foundation, Inc.

STATE AID TO EDUCATION

The State of Alaska Department of Education makes direct payments to the Borough and other governmental units which operate schools under the following education aid programs: construction funds, reimbursements for debt service and cash payments on school facilities; general fund operation expenses; state impact; non-resident tuition, and pupil transportation.

None of these programs creates a debt or liability of the State, and each is subject to annual legislative appropriations. The following descriptions are based on Alaska Statutes as amended through the First Session of the Tenth Legislature (1977) and on records and documents of the Department of Education.

1. **Construction Funds** — A portion of the cigarette taxes levied by the State and collected within a Governmental Unit's jurisdiction are returned to the Governmental Unit. These funds are designated for new construction or major rehabilitation of schools or for the payment of debt service on bonds issued for such purposes. Moneys can be accumulated over a period of years as long as they are used only for the designated purposes. Payments are generally made in December following November 15 audits of the prior fiscal year.

2. **Reimbursement of Debt Service and Cash Payments on School Facilities** — Except as noted below, the State reimburses 50% of debt service payments on bonds sold, or of cash payments made, for school construction. For some facilities, such as vocational classrooms and equipment, the State's share is 75%. Beginning July 1, 1978, the State will reimburse 100% of debt service payments for debt incurred prior to July 1, 1977 and 100% of cash payments made prior to July 1, 1976, for school construction. These payments lag two years behind the actual debt service or cash payments. The calculation of school construction costs excludes all state and federal funds included in these costs except funds provided under the Construction Funds Program (described in the preceding paragraph) which are offset against the amount of reimbursement under this program. The State makes such payments in two installments, one in the late fall and one in the early spring of the fiscal year.

3. **General Fund Operation Expenses ("Public School Foundation Act")** — The State reimburses Governmental Units for 95% (increased from 93% for fiscal years prior to 1976/77) of their "basic needs" operating expenses as defined by the State, calculated on the basis of the pre-fiscal year computations. Beginning July 1, 1978, the State will increase the reimbursement to 97% of "basic needs." This money, prorated according to its availability, is generally paid monthly. A formula is used to adjust payments to schools based upon factors such as assessed valuations per pupil for the school district as compared to the Statewide average, location of the schools and the like.

4. **State Impact** — This program offers financial relief to schools providing free public education to students whose parents work and/or live on State property. The amount of State aid is based on the State average cost of education per student, as reflected in the audit report of district schools for the prior fiscal year, times the number of qualifying students in average daily membership. The State pays 50% of this amount to schools for each pupil with a parent who lives on *and* works on State property, and 25% for each pupil with a parent who lives on *or* works on State property. This money is also prorated according to its availability and generally paid in December based on the prior fiscal year. The Governor line-item vetoed a portion of the legislative appropriation for this program for fiscal year 1977/78 to reduce the amount to approximately 50% of entitlement for fiscal year 1976/77, as the first step of an expected two year phase-out of the program.

5. **Non-Resident Tuition** — When pupils residing outside of a city or borough, where the State is responsible for operating schools, attend a school operated by a city or borough, the State makes tuition payments to the Governmental Unit operating the school.

6. **Pupil Transportation** — The State reimburses local school districts for 100% of the costs of transporting pupils to and from school for distances greater than one and a half miles.

SALES TAX

Alaska Statutes allow boroughs to levy and collect sales tax not exceeding 3%, on sales and rents and on services performed within the borough. The Borough levies a sales tax which is dedicated to school purposes including debt service on school construction bonds. Total annual sales taxes have been collected by the Borough as follows:

<u>Fiscal Year</u> <u>Ending</u> <u>June 30:</u>	<u>Tax Rate</u> <u>% of Sales</u>	<u>Sales Tax</u> <u>Collection*</u>
1978	2	\$2,600,000
1977	2	2,243,065
1976	2**	2,349,342
1975	3	2,144,923
1974	3	1,644,363
1973	3	1,423,111
1972	3	1,304,990
1971	3	1,277,148
1970	3	1,385,452

*Source: Kenai Peninsula Borough.

**The rate was changed from 3% to 2% in October, 1975; Borough officials anticipate maintaining the rate at 2%.

**KENAI PENINSULA BOROUGH
GENERAL OBLIGATION BOND DEBT SERVICE SCHEDULE (1)**

Year	Existing Debt						This \$25,970,000 Issue			Total General Obligation Bond Debt Service	Estimated State Reim- bursement(2)(3)	Estimated Net Debt Service
	General Obligation School Bonds (100% Funded by the State) (2)			Total General Obligation Bonds School and Service Area Bonds			(Approx. 50% Funded by the State) (3)					
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest (assuming 5.5%)	Total			
1978-79	\$ 1,290,000	\$ 1,233,963	\$ 2,523,963	\$ 1,316,500	\$ 1,330,673	\$ 2,647,173	\$ 1,150,000	\$ 1,396,725	\$ 2,546,725	\$ 5,193,898	\$ 2,422,485	\$ 2,771,413
1979-80	1,365,000	1,153,182	2,518,182	1,391,500	1,248,300	2,639,800	1,210,000	1,331,825	2,541,825	5,181,625	2,542,586	2,639,039
1980-81	1,485,000	1,065,949	2,550,949	1,571,500	1,157,753	2,729,253	1,275,000	1,263,488	2,538,488	5,267,741	3,797,325	1,470,416
1981-82	1,575,000	972,237	2,547,237	1,606,500	1,060,411	2,666,911	1,350,000	1,191,300	2,541,300	5,208,211	3,789,095	1,419,116
1982-83	1,675,000	872,421	2,547,421	1,700,000	958,683	2,658,683	1,425,000	1,114,988	2,539,988	5,198,671	3,820,193	1,378,478
1983-84	1,770,000	771,173	2,541,173	1,795,000	855,850	2,650,850	1,500,000	1,034,550	2,534,550	5,185,400	3,817,887	1,367,513
1984-85	1,875,000	663,974	2,538,974	2,605,000	747,063	3,352,063	1,600,000	949,300	2,549,300	5,901,363	3,817,415	2,083,948
1985-86	2,005,000	539,835	2,544,835	2,030,000	575,507	2,605,507	1,685,000	858,963	2,543,963	5,149,470	3,808,448	1,341,022
1986-87	2,150,000	401,310	2,551,310	2,175,000	435,390	2,610,390	1,775,000	763,813	2,538,813	5,149,203	3,813,624	1,335,579
1987-88	2,290,000	271,770	2,561,770	2,320,000	304,257	2,624,257	1,875,000	663,438	2,538,438	5,162,695	3,816,816	1,345,879
1988-89	2,445,000	132,695	2,577,695	2,475,000	163,271	2,638,271	1,975,000	557,563	2,532,563	5,170,834	3,820,717	1,350,117
1989-90	670,000	29,185	699,185	705,000	57,850	762,850	2,100,000	445,500	2,545,500	3,308,350	3,830,989	(522,639)
1990-91				35,000	26,435	61,435	2,225,000	326,563	2,551,563	2,612,998	3,843,976	(1,230,978)
1991-92				35,000	24,206	59,206	2,350,000	200,750	2,550,750	2,609,956	1,971,935	638,021
1992-93				40,000	21,977	61,977	2,475,000	68,063	2,543,063	2,605,040	1,275,781	1,329,259
1993-94				45,000	19,428	64,428				64,428	1,275,375	(1,210,947)
1994-95				45,000	16,562	61,562				61,562	1,271,531	(1,209,969)
1995-96				50,000	13,696	63,696				63,696		63,696
1996-97				50,000	10,511	60,511				60,511		60,511
1997-98				55,000	7,325	62,325				62,325		62,325
1998-99				60,000	3,822	63,822				63,822		63,822
	\$20,595,000	\$ 8,107,694	\$28,702,694	\$22,106,000	\$ 9,038,970	\$31,144,970	\$25,970,000	\$12,166,829	\$38,136,829	\$69,281,799	\$52,616,077	\$16,665,722

- (1) Includes all Kenai Peninsula Borough General Obligation Bonds as listed in Appendix B, page 30. Excludes a Small Business Administration loan for the Central Hospital Service Area with an outstanding principal balance due of \$334,597 at June 30, 1977.
- (2) Beginning July 1, 1978, the State of Alaska will reimburse 100% of debt service payments issued for school construction for general obligation bonds issued prior to July 1, 1977.
- (3) The State will reimburse 50% of debt service payments on bonds sold for school construction (where bonds were issued subsequent to July 1, 1977) except for vocational classrooms (75% reimbursement); reimbursement will lag two years behind actual debt service payments.

Interest exempt, in the opinion of bond counsel, from present federal income taxes under existing statutes, regulations, rulings and court decisions.

OFFICIAL STATEMENT

\$48,000,000

CITY OF VALDEZ, ALASKA

City General Obligation Bonds, Series 1979

Dated: June 1, 1979

Dated: June 1, as shown below

Principal and semi-annual interest (June 1 and December 1) payable at the Seattle-First National Bank, Seattle, Washington, or, at the option of the holder, at The Chase Manhattan Bank, N.A., New York, New York. First interest coupon due December 1, 1979. Coupon bearer bonds, not registrable.

These bonds (the "Bonds") constitute direct and voted general obligations of the City, payable from ad valorem taxes levied, *without limitation as to rate and amount*, on taxable property located within the City. The City has never defaulted.

The Bonds maturing on and after June 1, 1990, will be subject to redemption prior to maturity, at the option of the City, on or after June 1, 1989 at the redemption prices set forth herein.

MATURITY SCHEDULE

<u>Amount</u>	<u>Due June 1</u>	<u>Rate</u>	<u>Yield</u>	<u>Amount</u>	<u>Due June 1</u>	<u>Rate</u>	<u>Yield</u>
\$ 700,000	1983			\$1,700,000	1997		
800,000	1984			1,800,000	1998		
800,000	1985			1,900,000	1999		
900,000	1986			2,000,000	2000		
1,000,000	1987			2,200,000	2001		
1,000,000	1988			2,300,000	2002		
1,100,000	1989			2,400,000	2003		
1,100,000	1990			2,600,000	2004		
1,200,000	1991			2,700,000	2005		
1,300,000	1992			2,900,000	2006		
1,400,000	1993			3,100,000	2007		
1,400,000	1994			3,200,000	2008		
1,500,000	1995			3,400,000	2009		
1,600,000	1996						

(Accrued Interest from June 1, 1979, to be added)

The Bonds are offered for delivery when, as and if issued, and subject to the approving opinion of Wohlforth & Flint, Anchorage, Alaska, Bond Counsel, whose approving opinion will be printed on the Bonds. It is expected that the Bonds will be delivered on or about June 12, 1979.

May 7, 1979

REVENUES FROM OTHER GOVERNMENTAL AGENCIES

Education—Operating

The principal source of aid is the State's basic Foundation Program for support of education operating activities. The formula of the 1976 Legislature according to the State Department of Education would provide support for the operating school budget of \$4,002,468.75 for FY 1976-77, and \$4,402,715.52 for FY 1977-78.

The revisions of the 1977 Legislature resulted in the FY 1977-78 amount being increased to \$4,859,250, and an amount of \$5,232,180 for FY 1978-79.

Education—Construction

The 1977 Legislature passed legislation which as of July 1, 1978 revises the aid program to provide for 100% of the debt service incurred before July 1, 1977 and thereafter reverts back to the 50% formula for debt service incurred after July 1, 1977 or cash payments. The specific statute is as follows:

AS 43.18.100(a): "During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction, and cash payments made by the borough or city before July 1, 1976 to pay the cost of school construction;

(2) 50 percent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after July 1, 1977 to pay costs of school construction;

(B) cash payments made after July 1, 1977 by the borough or city during the fiscal year two years earlier to pay costs of school construction."

(See Table A-3, Appendix A, Projections of Debt Service—State Aid—School Bonds.) This table reflects the aid at 50%. However, those principal and interest payments after July 1, 1978 will result in 100% aid authorization. This additional aid is projected at \$22,670,500 for those projected disbursements from FY 1978/79 above the projected \$12,014,000 outlined for those bonds outstanding as of June 30, 1976 and the \$15,315,000 projected for the \$23,000,000 of this issue for a total aid of \$49,999,500 over the life of the \$40,000,000 in school bonds issued by the Borough.

Other Intergovernmental Receipts

Table IV illustrates the detailed receipts of Revenues from Other Governmental Agencies.

OTHER RECEIPTS

Table V contains details concerning Miscellaneous Revenues of the Borough.

OTHER MISCELLANEOUS DATA

Retirement

As of December 31, 1975, an actuarial study indicated unfunded accrued benefits at \$246,690 to the State Public Employees' Retirement System. The consolidated employer rate is 9.43% of salaries of which 3.10% is for prior service benefits to be amortized over a 40-year period at \$14,382 per year.

TABLE XII
DEBT SERVICE REQUIREMENTS TO MATURITY—ACTUAL AND ESTIMATED
GENERAL OBLIGATION BONDS
(In \$000's to nearest \$1,000)

June 30	Bonds Outstanding		This Issue*—Series H		Estimated Total Debt Service
	Principal	Interest	Principal	Interest—7.00%	
1978	\$ 2,600	\$ 2,218.5	\$ —	\$ — **	\$ 4,818.5
1979	3,100	2,011.5	4,000	7,154	16,265.5
1980	3,600	1,785.5	4,500	3,297	13,182.5
1981	3,300	1,558.6	4,500	2,982	12,340.6
1982	2,800	1,340.9	5,000	2,667	11,807.9
1983	2,200	1,154.8	5,500	2,317	11,171.8
1984	2,100	1,003.7	7,500	1,932	12,535.7
1985	1,800	868.3	5,000	1,407	9,075.3
1986	1,600	742.0	4,500	1,057	7,899.0
1987	2,400	627.3	4,000	742	7,769.3
1988	2,900	437.0	3,000	462	6,799.0
1989	2,900	228.8	2,600	252	5,980.8
1990	1,200	44.8	1,000	70	2,314.8
TOTALS	\$32,500	\$14,021.7	\$51,100	\$24,339	\$121,960.7

*Memo — School Facilities	\$23,000,000	\$3,000,000 1979; \$3,500,000 1980-81; \$4,000,000 1982; \$4,500,000 1983-84
Housing	7,600,000	\$2,000,000 1985-87; \$1,000,000 1988; \$600,000 1989
Roads	7,800,000	\$1,000,000 1979-83; \$800,000 1984; \$1,000,000 1989-90
Light, Power & Heating Systems ...	5,500,000	\$500,000 1984; \$1,000,000 1985; \$2,000,000 1986; \$1,000,000 1987-88
Sanitary Fac.—Prudhoe Bay	5,500,000	\$1,500,000 1985; \$1,000,000 1986-1989
Water Facilities	75,000	\$75,000 1984
Sewer Facilities	350,000	\$350,000 1984
Airport Facilities	175,000	\$175,000 1984
Urban Development	830,000	\$830,000 1984
Sanitary Facilities	270,000	\$270,000 1984
TOTAL	\$51,100,000	

**Included in an 18-month coupon is \$3,577,000 for the 12-month period.

In the opinion of Counsel, interest on the Bonds is exempt from Federal income tax under present statutes, regulations and court decisions.

ALASKA MUNICIPAL BOND BANK

\$16,170,000

1980 SERIES A BONDS GENERAL OBLIGATION SERIES

DATED: August 1, 1980

DUE: August 1, 1982-2000

The Bonds will be general obligations of the Alaska Municipal Bond Bank (the "Bank") issued in the denomination of \$5,000 either in coupon form, payable to bearer and registrable as to principal alone, or in fully registered form without coupons. Both principal of and interest on the Bonds will be payable at the offices of the Trustee, Rainier National Bank, Seattle, Washington, or, in the case of coupon bonds only, coupons and unregistered principal are also payable at Chemical Bank, New York, New York. The Bonds will pay interest semi-annually on the first days of August and February commencing August 1, 1981.

MATURITY SCHEDULE

Amount	Due August 1,	Coupon	Yield or Price	Amount	Due August 1,	Coupon	Yield or Price
\$370,000	1982	9.00%	5.50%	\$ 800,000	1992	7.45%	7.60%
395,000	1983	9.00	5.75	865,000	1993	7.60	7.75
430,000	1984	9.00	6.00	935,000	1994	7.75	7.90
470,000	1985	9.00	6.20	1,010,000	1995	8.00	8.10
510,000	1986	9.00	6.40	1,095,000	1996	8.00	8.20
550,000	1987	9.00	6.70	1,175,000	1997	8.00	8.30
595,000	1988	9.00	6.90	1,275,000	1998	8.00	8.40
635,000	1989	9.00	7.10	1,370,000	1999	8.00	8.50
690,000	1990	7.30	7.25	2,255,000	2000	8.00	8.50
745,000	1991	7.30	7.40				

See Redemption Provision
(Accrued Interest to be Added)

Redemption Provision — The Bank reserves the right to redeem any or all of the Bonds outstanding, in whole or in part, on or after August 1, 1990 at par plus accrued interest to the date of redemption. Notice will be given by publication once a week for two successive weeks, the first such publication not less than 30 days nor more than 60 days prior to date of redemption, in a newspaper of general circulation publishing financial news in New York, New York. A like notice will be mailed to registered owners of any Bonds. Interest on any Bonds called for redemption will cease on such redemption date.

Legal Opinion and No Litigation Certificate — These Bonds are offered when, as and if issued, subject to the approval of legality by Wohlforth & Flint, Bond Counsel, Anchorage, Alaska. The Bank will furnish the unqualified approving legal opinion of Wohlforth & Flint, to the effect that the Bonds are valid and legally binding obligations of the Bank and to the effect that the interest on the Bonds is exempt from Federal income taxation under existing statutes, regulations, rulings and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds or the coupons appertaining thereto, will also be furnished.

It is anticipated that these Bonds in definitive form will be ready for delivery on or about August 21, 1980.

State Payments to Government Units

The State of Alaska disburses funds to the Government Units (as described below) which generally are available for uses other than paying Municipal Bond debt service. However, in event of default by the Government Units, the Bank can cause such funds, held in custody by the State, to be paid over to the Bank.

Three State Departments disburse moneys to Government Units as follows:

(1) *Department of Education* — State appropriations and cigarette taxes earmarked for education, including reimbursements (at rates of 50-100%) of both debt service and cash payments on school facilities.

(2) *Department of Revenue* — Local share of various taxes collected by the State within the jurisdiction of the local governments including corporate income, amusement, aviation fuel, electric, telephone, liquor and raw fish taxes.

(3) *Department of Community and Regional Affairs* — State Aid to local governments includes direct grants and contributions for roads, health facilities, and hospitals under 1980 legislation.

During the year 1979 State payments totalling approximately \$50.1 million for the three categories of payments outlined above were made to Government Units which currently have general obligation Municipal Bonds outstanding (owned by the Bank) under the General Resolution and the 1980 Bond Resolution.

<u>Government Unit</u>	<u>Education Aid (1)</u>	<u>Shared Taxes (2)</u>	<u>State Aid (3)</u>	<u>Totals</u>	<u>Future Average Annual Debt Service (5)</u>	<u>State Payments Ratio (6)</u>
City and Borough of Sitka (4)	\$ 4,150,546	\$ 197,315	\$ 375,960	\$ 4,723,821	\$ 924,804	5.11
Bristol Bay Borough (4)	1,103,482	203,202	34,970	1,341,654	408,360	3.29
City of Kodiak	—	376,621	193,850	570,471	160,314	1.40
City of Seward	—	102,701	218,723	321,424	110,014	2.92
Matanuska-Susitna Borough	12,712,605	229,379	277,661	13,219,645	829,760	15.93
City of Homer	—	109,693	77,893	187,586	225,225	.83
City of Nome	3,430,334	57,669	348,267	3,836,270	46,651	82.14
City of Soldotna	—	135,756	108,066	243,822	171,779	1.42
City and Borough of Juneau	9,872,298	500,371	755,106	11,127,775	374,988	29.67
City of Ketchikan	—	250,278	360,286	610,564	507,376	1.21
City of Bethel	—	93,504	253,997	347,501	86,472	4.05
City of Wrangell	1,310,221	54,159	191,071	1,555,451	135,375	11.52
City of Fairbanks	—	1,307,405	1,533,375	2,840,780	161,506	17.54
City of Palmer	—	91,013	149,820	240,833	183,186	1.32
City of Kenai	—	231,166	223,633	454,799	41,280	11.09
City of Unalaska	743,506	267,447	92,731	1,103,684	102,780	10.71
Kodiak Island Borough	6,843,336	382,864	194,481	7,420,681	1,245,360	5.96
Total	<u>\$40,166,328</u>	<u>\$4,590,543</u>	<u>\$5,389,890</u>	<u>\$50,146,761</u>		

Sources:

- (1) State of Alaska Department of Education, Fiscal Year 1979/80, the Cities of Kodiak, Seward, Homer, Soldotna, Ketchikan, Bethel, Palmer and Fairbanks do not operate schools.
- (2) State of Alaska Department of Revenue, Fiscal Year 1978/79.
- (3) State of Alaska Department of Community and Regional Affairs, Fiscal Year 1978/79.
- (4) Only State payments payable to Bristol Bay Borough and the City and Borough of Sitka after May 1, 1980 may be withheld in the event of default on the general obligation Municipal Bonds which secure the 1980 First Special Issue bonds. These bonds together with Reserve Fund Obligations comprised the 1980 First Special Issue dated April 1, 1980.
- (5) This column shows the future average annual debt service due on Municipal Bonds purchased by the Bank.
- (6) This column represents the ratio of State Payments to Government Units versus future average annual debt service for the respective municipalities on one or more bond issues including this Bond issue. Debt service for this Bond issue was calculated assuming an interest rate of 8% per annum. State aid in future years is subject to legislative appropriation.



KODIAK ISLAND BOROUGH
Kodiak, Alaska

May, 1983

FINANCIAL AND FISCAL MATTERS

Debt Structure

Neither state law nor the Kodiak Island Borough Code imposes any debt limit on Alaskan municipalities. The Borough Code does, however, require general obligation bond issues, except refunding bonds, to be authorized by a majority vote of the electorate voting on the question.

The following statement of direct and overlapping bonded debt relates to the outstanding general obligation bonds of the Borough, including the \$7,400,000 of general obligation bonds sold in May 1983.

Outstanding General Obligation Bonds:		
School Bonds	\$ 22,000,000	
Other Bonds	300,000	
Gross Debt	\$ —	\$ 22,300,000
Less: Self-Supporting Bonds	—	—
Special Assessments	—	—
Total Net Direct Debt		<u>\$ 22,300,000</u>
Assessed Valuation, 1982^①		
Real Property	\$370,439,377	
Personal Property	67,606,123	
		<u>\$438,045,500</u>

Ratios to 1982 Assessed Valuation^①

Net Direct Debt	5.1%
Total Debt	5.1%

Per Capita^②

Net Direct Debt	\$ 1,754
Total Debt	1,754
1982 Assessed Valuation ^①	34,454

^① Valuations are at 100% of estimated full value.

^② Population of 12,714 as of August 1, 1982 per Special Census and accepted by the State Demographer.

Including the recent sale of the \$7,400,000 general obligation bonds, the Borough will have a total of general obligation bonds authorized but unissued of \$9,500,000, all for school purposes. The Borough presently has no other types of bonds authorized.

State Contribution Toward School Bond Debt Service

The State of Alaska contributes to local school construction and debt retirement primarily through two programs. The first involves a share of State tobacco tax revenues, which share the District has dedicated to debt service on school bonds and the amounts of which are included in Table 3 below.

The second program was created by the State Legislature in 1970 and provides a system under which the State, subject to annual appropriation by the Legislature, will reimburse local school districts part of the cost of debt service on school construction bonds and a share of the cost of construction of school plant not financed by bonds. About 90% of the State's revenue comes from oil and gas production in the form of royalties and taxes. A decrease in the world market price of crude oil has had an adverse impact on the State's ability to fund this program. Under the statute (AS 43.18.100), which created the second program, the amount of the tobacco tax allocation received by a school district is offset against the amount of the reimbursement. The reimbursement each year is based upon the amount of debt service on school debt and/or the amount paid for school construction from funds other than bond proceeds during the fiscal year two years prior to the year of the reimbursement. The allocations pursuant to this program received by the School District are shown below and are available for debt service on school bonds, although such allocations are unrestricted revenue and can be used to fund general education expenditures as well.

TABLE 17
STATE CONTRIBUTION TO KODIAK ISLAND BOROUGH SCHOOL DISTRICT CONSTRUCTION

Year Ended June 30	Tobacco Tax Allocation	State Aid Allocation	Total
1982	\$79,326	\$634,491	\$713,817
1981	65,784	616,108	681,892
1980	62,086	317,602	379,688
1979	59,891	283,969	343,860
1978	61,969	173,701	235,670
1977	73,508	157,424	230,932
1976	59,628	215,693	275,321
1975	63,835	223,000	286,835
1974	62,659	168,578	231,237
1973	67,427	8,462	75,889

Source: Kodiak Island Borough.

Legislation entitled "Senate Committee Substitute for Committee Substitute for House Bill No. 279 (Finance)" was enacted in 1982. Such legislation provides generally that for debt issued prior to 1977, the State will reimburse the Borough at 100% of annual costs, but with a two-year lag. Debt incurred after June 30, 1977 and before December 31, 1981 would have the State reimburse 90% of annual costs with a two-year lag. Debt issued after December 31, 1981 (the Bonds would apply) would have the State reimburse 90% debt service in the fiscal year paid. As noted previously, this reimbursement is subject to annual appropriations and could be adversely impacted by a decrease in state revenues due to a decline in crude oil prices.

Revenues and Expenditures

Each year the Borough must approve a budget and a tax levy ordinance. Budget hearings are held during the months of March and April and individual budget sessions follow with departments and agencies. The total 1982/83 budget called for expenditures of \$5,030,760 compared to revenues received in 1981/82 of \$5,964,088.

In fiscal year ended June 30, 1982, General Fund revenues generated locally totalled \$3,260,827 of which 69%—or \$2,236,368—was from property taxes. Receipts from State and Federal governments increased revenues by \$2,703,261 to a total of \$5,964,088 of which only 37% was represented by local property taxes. Total expenditures for the period equalled \$3,893,139.

The Marching Band during the annual Crab Festival



This is a Preliminary Official Statement and is subject to change and correction. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

NEW ISSUE

Ratings: Fitch's:
Moody's:
Standard & Poor's:

OFFICIAL STATEMENT
Relating to the Original Issuance of
\$90,800,000
North Slope Borough, Alaska

General Obligation Refunding Bonds of 1983
Series B

Dated: November 15, 1983

Due: June 30, As Shown Below

The General Obligation Refunding Bonds of 1983, Series B will be issued only as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. These Bonds are not subject to redemption prior to maturity.

Interest from the date of the Bonds will be payable annually at the rates specified below on June 30, commencing June 30, 1984, by check or draft mailed to the owner in whose name the Bond is registered upon the Books of Registry as of the close of business on the fifteenth day of June in each year at his address appearing upon such Books of Registry to be kept by Rainier National Bank, Registrar, at its principal office in Seattle, Washington, and by Chemical Bank, Co-Registrar, at its principal office in New York, New York. Principal payable at Rainier National Bank, Paying Agent, in Seattle, Washington.

The Bonds are general obligations of the Borough, and the full faith and credit of the Borough are pledged to the payment of the principal of and interest on the Bonds. The Borough has the power and is obligated to levy ad valorem taxes on all property within the Borough, subject to taxation by the Borough, without limitation as to rate or amount, for the payment of the principal of and interest on the Bonds. The Bonds are issued for the purpose of refunding certain outstanding bonds of the Borough. The proceeds of the Bonds, together with other funds of the Borough, will be applied to the purchase of direct obligations of the United States the principal of and interest on which will be used to pay the interest on and principal of such outstanding bonds as they become due.

MATURITIES

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
1987	\$18,200,000	8.25 %	%
1988	31,200,000	8.75	
1989	25,500,000	9.25	
1990	15,900,000	9.50	

(Plus accrued interest from November 15, 1983.)

The Bonds are offered when, as and if issued by the Borough, and accepted by the Underwriter named below, subject to prior sale and subject to the approval as to their validity by Wood & Dawson, New York, New York, Bond Counsel. Certain legal matters will be passed upon by Counsel to the Underwriter, Willkie Farr & Gallagher, New York, New York. It is expected that the Bonds will be available for delivery in definitive form on or about November 15, 1983. In the opinion of Bond Counsel interest on the Bonds is exempt from federal income taxation under existing law and regulations. See "Opinion of Bond Counsel."

E. F. Hutton & Company Inc.

Dated: _____, 1983

FEDERAL AND STATE GRANTS AND DISTRIBUTIONS

State Aid for Education—Operations

The Foundation Program of the State is the principal source of aid to education. The formula is as follows:

<u>FY</u>	<u>Amount Per Instructional Unit</u>		<u>District Multiplier</u>	=	<u>State Share</u>	X	<u>Total No. of Units</u>	=	<u>Total Aid</u>
80-81	\$34,935	X	1.55	=	\$54,149	X	97%	X	142 = \$7,458,483
81-82	\$38,590	X	1.55	=	\$59,815	X	100%	X	144 = \$8,613,360
82-83	\$42,450	X	1.55	=	\$65,797	X	100%	X	149 = \$9,803,753*
83-84	\$42,450	X	1.55	=	\$65,797	X	100%	X	149 = \$9,803,753

	<u>Fiscal Year 1977-78</u>	<u>Fiscal Year 1978-79</u>	<u>Fiscal Year 1979-80</u>	<u>Fiscal Year 1980-81</u>	<u>Fiscal Year 1981-82</u>	<u>Fiscal Year 1982-83</u>
Community Education	1	—	—	—	—	—
Reg. Instruct. Units	83	93	92	100	101	106
Vocational Education	14	15	21	18	15	18
Special Education	19	17	16	11	11	12
Correspondence	3	2	3	3	3	3
Bilingual Education	—	—	7	10	14	13
TOTALS	<u>120</u>	<u>127</u>	<u>139</u>	<u>142</u>	<u>144</u>	<u>152</u>

*Note: The Legislature underfunded this program by 4% to date.

State Aid for Education—Construction

Pursuant to Alaska Statutes 43.18.100, State aid is authorized for the payment of 100% of the debt service incurred prior to July 1, 1977 by a municipality for school construction, and 90% of the debt service so incurred or cash payments made subsequent to June 30, 1978 by an organized borough or city for school construction projects, as approved by the State. Alaska Statutes provide as follows:

“(a) During each fiscal year the state shall allocate to a municipality that is a school district, the following sums:

(1) payments made by the municipality during the fiscal year or two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 per cent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality during the fiscal year two years earlier to pay costs of school construction; and

(3) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11).”

(4) subject to (h) and (i) of this section 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 1407.020(11); and

(B) cash payments made after June 30, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed \$25,000 and are approved under AS 14.07.010(11).

Alaska Statutes 14.07.020(11) requires the approval by the State Department of Education of plans for construction and the extent of eligibility for State aid of school construction projects. The critical effect of the preceding statutory requirements on the Borough is the consequent statutory diminution of the financial participation in school construction by the State after July 1, 1978, to 90% of the approved costs of basic educational facilities, as defined by regulation. The remaining 10% of such costs will not be funded by the State. To the extent that such costs for the additional facilities exceed regulatory standards set by the Department of Education, such costs will not be funded by the State.

State aid for construction of educational facilities is projected as follows:

	Aggregate Principal Amount Outstanding (5000)	Total Debt Service (5000)	State Aid* (5000)
Bonds Issued Prior to June 30, 1978	\$ 40,000	\$ 53,838	\$ 49,985
Gen. Obligation Bonds, Series I-K,N,O,P	131,100	205,743	126,398
Bonds Authorized and to be Issued**	36,120	55,338	27,669
	<u>\$207,220</u>	<u>\$314,919</u>	<u>\$204,052</u>

*State Aid is projected at approximately 50% of debt service on bonds issued subsequent to June 30, 1978 to pay the costs of school construction, thereby assuming, among other factors, appropriations by the State Legislature at a level below that authorized by statute.

**Pursuant to Ordinance 82-10A, bonds authorized but unused \$34,555,000 and \$1,565,000 to be authorized (see "Operating and Capital Budget Procedures").

See Table II-8, Code 50-507 Debt Service, for past receipts and budget estimate FY 1982/83.

Federal Aid—Operations

Table II-10 provides a summary of federal aid in prior years as well as budgetary estimates; while Table II-8 outlines the detailed receipt code (asterisked) for aid. The principal single source is Public Law 874 reimbursement for certain children whose parents live or work on federal property. The next major source is in the area of health and social services for various contract work performed throughout the Borough's eight communities.

Federal Aid—Construction

There has been little federal aid for construction directly to the Borough; the exception being for construction of the Point Lay school of \$4,542,000.

**NEW ISSUE
CITIZEN BONDS™**

**RATINGS: Moody's: A1
Standard & Poors: A**

In the opinion of Bond Counsel, interest on the Bonds is exempt from all present Federal income taxes under existing statutes, regulations, court decisions and rulings.

**\$14,000,000
MUNICIPALITY OF ANCHORAGE, ALASKA
1985B GENERAL OBLIGATION GENERAL PURPOSE BONDS**

Dated: June 1, 1985

Due: August 1, 1986-2005

The Bonds are to be issued only as fully registered bonds without coupons and when issued will be registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York, which will act as depository. Individual purchases of Bonds will be made in the principal amount of \$1,000 or integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial-transaction statement stating the details of the Bonds purchased. Certain concepts and procedures employed in the issuance of, and the registration program for, the Bonds are embraced by the CITIZEN BONDSTM program developed by Prudential-Bache Securities Inc. (See "CITIZEN BONDS™" hereinafter.)

Principal of and interest (February 1, 1986, and semiannually thereafter February 1 and August 1) on the Bonds are payable to Cede & Co., and such principal and interest payments will in turn be disbursed to the owners of the Bonds through their nominees. Transfer of ownership interests in the Bonds will be accomplished by book entries made by the depository and the nominees of Bond owners so that a new Bond owner will receive a credit balance on the books of its nominee and a confirming statement in the same manner as an initial purchaser of an ownership interest in the Bonds. The Bonds are subject to redemption prior to maturity on any interest payment date on and after August 1, 1995, at the redemption prices set forth herein.

The Bonds are general obligations of the Municipality of Anchorage, and the full faith, credit and taxing power of the Municipality are pledged for the payment of the principal of and interest on the Bonds when due. The Municipality has irrevocably pledged and covenanted to levy and collect taxes upon all taxable property within the Municipality, without limitation as to rate or amount, in amounts sufficient together with other funds available therefor to pay the principal of and interest on the Bonds when due.

MATURITIES, AMOUNTS, RATES AND PRICES OR YIELDS

<u>Due</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price</u>	<u>Due</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Price</u>
1986	\$340,000	5.50%	100%	1996	\$ 885,000	8.50%	100%
1987	355,000	6.00	100	1997	990,000	8.70	100
1988	395,000	6.50	100	1998	865,000	8.80	100
1989	410,000	7.00	100	1999	945,000	8.90	100
1990	105,000	7.20	100	2000	635,000	9.00	100
1991	560,000	7.40	100	2001	990,000	9.00	100
1992	605,000	7.60	100	2002	1,025,000	9.05	100
1993	425,000	7.80	100	2003	1,040,000	9.10	100
1994	345,000	8.00	100	2004	1,210,000	9.10	100
1995	595,000	8.25	100	2005	1,280,000	9.10	100

(Accrued interest from June 1, 1985 to be added)

The Bonds are offered in book-entry form when, as and if issued and received by the Underwriters and subject to the approving legal opinion of Wohlforth & Flint, Bond Counsel, of Anchorage, Alaska, as to validity and the exemption of interest thereon from Federal income taxation. Certain legal matters will be passed upon for the Underwriters by Preston, Thorgrimson, Ellis & Holman, Underwriters' Counsel, of Seattle, Washington.

It is expected the Bonds will be delivered to the Underwriters for deposit with The Depository Trust Company in New York, New York, on or about June 27, 1985.

June 4, 1985

Prudential-Bache
Securities

Boettcher & Company
Merrill Lynch Capital Markets
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Wedbush, Noble, Cooke, Inc.

E.F. Hutton & Company Inc.
Shearson Lehman Brothers Inc.
Foster & Marshall Division
Dean Witter Reynolds Inc.

Taxes levied by a municipality for purposes other than debt service on general obligation bonds are limited by Alaska Statutes 29.53.050(a) to an amount equal to 3 percent of the assessed valuation of taxable property. Certain types of property related to oil and gas production and transmission, as defined by AS 43.56, are assessed by the State Department of Revenue and, except for taxes levied for debt service on general obligation bonds, taxes against such properties are limited to a State levy maximum rate of 20 mills (2%) on the true value, and levies by municipalities against such properties are treated as credits against the State levy and are subject to certain limitations designed to restrict taxation of such properties by sparsely settled municipalities which have disproportionately large installations of oil and gas facilities within their boundaries. These limitations appear to have no foreseeable material effect upon the financial position or resources of the Municipality, the assessed valuation of such oil and gas properties within the Municipality being only \$85,796,600 for 1984 taxes.

At the October 4, 1983 election, voters of the Municipality approved an initiative measure amending the Municipal Charter effective with the 1984 municipal budget (and the 1984-85 School District budget) which provides that the total amount of municipal tax that can be levied during a fiscal year shall not exceed the total amount approved by the Assembly for the preceding year by more than a percentage determined by multiplying the percentage increase in the Federal Consumer Price Index for Anchorage from the preceding fiscal year times the average percentage growth or loss in the Anchorage municipal population over the preceding five fiscal years as determined by the State Department of Community and Regional Affairs. This tax limitation does not apply to:

1. Taxes on new construction or property improvements which occur during the current fiscal year.
2. Taxes required to fund additional services mandated by voter-approved ballot issues.
3. Special taxes authorized by voter-approved ballot issues.
4. Taxes required to fund the costs of judgments entered against the Municipality.
5. Taxes required to pay principal or interest on bonds, including revenue bonds.
6. Taxes required to fund the cost of an emergency ordinance enacted pursuant to the Municipal Charter.

Any tax increases which result from exceptions 1 through 3 set forth above will be added to the base amount which is used for the calculation of the subsequent year tax increase limit.

STATE CONTRIBUTIONS TOWARD SCHOOL BOND DEBT SERVICE

The outstanding general obligation debt of the Municipality included \$150,235,000 School Bonds, as of December 31, 1984, issued by the Municipality and its predecessor, the Greater Anchorage Area Borough. The Anchorage School District does not have the authority to issue bonds.

The State of Alaska contributes to local school construction and debt retirement primarily through two programs. Under the first program, the State distributes a share of State tobacco tax revenues among local school districts. The Anchorage School District has dedicated its share of these revenues to debt service on school bonds although it is not required to do so.

The second program was created by the State Legislature in 1970 and provides a system under which the State, subject to annual appropriation, will reimburse local school districts part of the cost of debt service on school construction bonds and a share of the cost of construction of school plant not financed by bonds. Under the statute (AS 43.18.100), the amount of the tobacco tax allocation received by a school district is an offset against the amount of the reimbursement. The reimbursement formula has been revised by the State Legislature several times. Under the current formula, the reimbursement for school bond debt service will be calculated as follows:

1. For debt issued prior to July 1, 1977, the amount of the reimbursement will be 100 percent of debt service

during the fiscal year two years prior to the year of reimbursement (in other words, there is a two-year lag between the year of payment of debt service and the year of reimbursement).

2. For debt issued between July 1, 1977, and December 31, 1981, the amount of the reimbursement will be 90 percent of debt service during the fiscal year two years prior to the year of reimbursement.

3. For debt issued on or after January 1, 1982, and authorized on or before June 30, 1983, the amount of the reimbursement will also be 90 percent of debt service, but the reimbursement will be made in the fiscal year in which the debt service is paid.

4. For debt authorized after June 30, 1983, the amount of the reimbursement will be 80 percent of debt service, and the reimbursement will be made in the fiscal year in which the debt service is paid. None of the outstanding school bonds of the Municipality fall within this category.

Approximately 90 percent of the State of Alaska's revenue is derived from oil and gas production in the form of royalties and taxes. A decrease in the world market price of crude oil has an adverse impact on the State's financial position and, consequently, its ability to fund this program.

Under the statute, if the event funds are not available to fully fund the program, the funds that are available will be distributed pro rata among the eligible local governments. State appropriations are also subject to a Constitutional amendment passed in 1982 which limits State appropriations.

The allocations pursuant to the tobacco tax and State aid programs received by the Anchorage School District the past 10 years have been as follows:

<u>Year Ended June 30</u>	<u>Tobacco Tax Allocation</u>	<u>State Aid Allocation</u>	<u>Total</u>
1985 (Preliminary)	\$1,079,068	\$17,368,913	\$18,447,981
1984	1,069,038	18,552,237	19,621,275
1983	3,075,365	14,272,757	17,348,122
1982	1,061,903	9,914,812	10,976,715
1981	855,623	11,446,809	12,302,432
1980	869,367	9,739,183	10,608,550
1979	894,332	9,944,227	10,838,559
1978	957,931	5,598,798	6,556,729
1977	1,090,725	4,866,856	5,957,581
1976	802,369	4,649,923	5,452,292

MUNICIPALITY OF ANCHORAGE

Anchorage, situated on a broad plain at the head of Cook Inlet in southcentral Alaska, was settled in 1915 as a construction base of the Alaska Railroad built by the Federal Government from the Gulf of Alaska to Fairbanks in interior Alaska. The largest of Alaska's cities, Anchorage is a modern, progressive and dynamic metropolitan center with a population, estimated by the Community Planning Department of the Municipality, of 244,030, as of July 1, 1984.

In 1975, the citizens of the Anchorage area ratified a Home Rule Charter for a unified municipal government, and under the Charter the former governments (the City of Anchorage (the "City"), incorporated in 1920; the Greater Anchorage Area Borough (the "Borough"), incorporated in 1964; and two small incorporated communities, Girdwood and Glen Alps) were dissolved as of September 15, 1975, and the Municipality became their legal successor for all rights, titles, actions, suits, franchises, contracts and liabilities and all civil, criminal or administrative proceedings. The area of the Municipality is coterminous with the area of the former Borough and totals approximately 2,006 square miles (approximately 1,717 square miles of land area).

**DEBT SERVICE SCHEDULE
GENERAL OBLIGATION BONDS
MUNICIPALITY OF ANCHORAGE
As of December 31, 1984**

Year	School Bonds				Other Bonds ²				Total Requirements
	Principal Outstanding ¹	Interest	Principal Maturity	Total Debt Service	Principal Outstanding ¹	Interest	Principal Maturity	Total Debt Service	
1985	\$150,235,000	\$10,529,256	\$ 9,645,000	\$ 20,174,256	\$244,107,900	\$ 16,977,162	\$ 13,371,000	\$ 30,348,162	\$ 50,522,418
1986	140,590,000	9,958,059	10,185,000	20,143,059	230,736,900	18,376,562	14,877,000	33,253,562	53,396,621
1987	130,405,000	9,327,957	10,750,000	20,077,957	215,859,900	17,124,303	15,812,000	32,936,303	53,014,260
1988	119,655,000	8,640,202	11,390,000	20,030,202	200,047,900	15,971,130	16,402,000	32,373,130	52,403,332
1989	108,265,000	7,894,394	12,090,000	19,984,394	183,645,900	14,762,824	17,248,000	32,010,824	51,995,218
1990	96,175,000	7,084,265	12,800,000	19,884,265	166,397,900	13,502,768	16,973,000	30,475,768	50,360,033
1991	83,375,000	6,249,123	13,525,000	19,774,123	149,424,900	12,254,559	17,468,000	29,722,559	49,496,682
1992	69,850,000	5,341,370	14,360,000	19,701,370	131,956,900	10,917,146	17,784,000	28,701,146	48,402,516
1993	55,490,000	4,395,700	15,220,000	19,615,700	114,172,900	9,512,267	17,084,000	26,596,267	46,211,967
1994	40,270,000	3,212,325	16,330,000	19,542,325	97,088,900	8,136,609	14,354,000	22,490,609	42,032,934
1995	23,940,000	1,861,239	17,595,000	19,456,239	82,734,900	6,914,227	11,760,000	18,674,227	38,130,466
1996	6,345,000	388,805	2,260,000	2,648,805	70,974,900	5,967,130	11,575,000	17,542,130	20,190,935
1997	4,085,000	220,320	1,285,000	1,505,320	59,399,900	5,074,052	10,456,000	15,530,052	17,035,372
1998	2,800,000	135,680	1,360,000	1,495,680	48,943,900	4,276,520	9,341,000	13,617,520	15,113,200
1999	1,440,000	46,080	1,440,000	1,486,080	39,602,900	3,534,616	8,187,000	11,721,616	13,207,696
2000					31,415,900	2,760,862	7,977,000	10,737,862	10,737,862
2001					23,438,900	2,027,687	7,061,900	9,089,587	9,089,587
2002					16,377,000	1,322,128	6,543,000	7,865,128	7,865,128
2003					9,834,000	756,290	3,354,000	4,110,290	4,110,290
2004					6,480,000	478,418	3,069,000	3,547,418	3,547,418
2005					3,411,000	206,424	3,300,000	3,506,424	3,506,424
2006					111,000	5,273	16,000	21,273	21,273
2007					95,000	4,512	17,000	21,512	21,512
2008					78,000	3,705	18,000	21,705	21,705
2009					60,000	2,850	19,000	21,850	21,850
2010					41,000	1,947	20,000	21,947	21,947
2011					21,000	998	21,000	21,998	21,998
		\$75,284,775	\$150,235,000	\$225,519,775		\$170,872,969	\$244,107,900	\$414,980,869	\$640,500,644

(1) Outstanding at beginning of year plus, for 1985, the Bonds and the \$21,220,000 1985 General Obligation General Purpose Bonds sold January 8, 1985.

(2) Includes the Bonds and the \$21,220,000 1985 General Obligation General Purpose Bonds sold January 8, 1985.

NOTE: School Bonds are shown separately because they are substantially supported by State sources as described under "State Contributions Toward School Bond Debt Service."

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Table
As of 01/22/86

	<u>Moody's</u>	<u>S&P</u>		<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
<u>Group 1</u>	Aa1	AA	Connecticut	-.10	-.10	-.10	-.10
	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	Maryland	-.10	-.10	-.10	-.10
	Aaa	AAA	New Jersey	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
<u>Group 2</u> <u>(BASE GROUP)</u>	Aa	AA+	California	6.10	7.00	7.50	7.70
	Aaa	AAA	Missouri*	6.10	7.00	7.50	7.70
	Aaa	NR	Oklahoma*	6.10	7.00	7.50	7.70
	Aaa	AA+	Tennessee	6.10	7.00	7.50	7.70
	Aaa	AAA	Texas	6.10	7.00	7.50	7.70
<u>Group 3</u>	Aa	AA	Alabama	+.05	+.05	+.10	+.10
	Aa	AA	Delaware	+.05	+.05	+.10	+.10
	Aa	AA	Montana*	+.05	+.05	+.10	+.10
<u>Group 4</u>	A	A+	New York	6.20	7.20	7.70	7.90
	Aa	AA	Kentucky	+.10	+.10	+.10	+.20
	Aa1	AAA	Maine	+.10	+.10	+.10	+.20
	A1	AA	Massachusetts	+.10	+.10	+.10	+.20
	Aa	AA+	Minnesota	+.10	+.10	+.10	+.20
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.20
	Aa	AA	New Mexico*	+.10	+.10	+.10	+.20
	Aa	AA	Ohio	+.10	+.10	+.10	+.20
<u>Group 5</u>	Aa	AA	Florida	+.15	+.15	+.20	+.25
	Aa	AA	Hawaii	+.15	+.15	+.20	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.20	+.25
	Aa	AA	Nevada	+.15	+.15	+.20	+.25
	Aa	AA-	Rhode Island	+.15	+.15	+.20	+.25
	Aa	AA	Wisconsin	+.15	+.15	+.20	+.25
<u>Group 6</u>	Aa	AA-	Alaska	+.20	+.20	+.40	+.35
	Aa	AA	New Hampshire*	+.20	+.20	+.40	+.35
	A	AA-	Pennsylvania	+.20	+.20	+.40	+.35
	Aa	NR	Vermont	+.20	+.20	+.40	+.35
<u>Group 7</u>	A1	AA-	Louisiana	+.25	+.30	+.50	+.50
	Aa	AA	North Dakota*	+.25	+.30	+.50	+.50
	A1	A+	Oregon	+.25	+.30	+.50	+.50
	A1	AA-	West Virginia	+.25	+.30	+.50	+.50
<u>Group 8</u>	A	AA-	Washington	+.30	+.40	+.60	+.60
<u>Group 9</u>	A	A+	Michigan	+.40	+.60	+.60	+.65
<u>Group 10</u>	Baal	A	Puerto Rico	+.60	+.80	+.85	+.75

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/2/85

	<u>Moody's</u>	<u>S&P</u>		<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
<u>Group 1</u>	Aaa	AA	Georgia	- .10	- .10	- .10	- .10
	Aaa	AAA	North Carolina	- .10	- .10	- .10	- .10
	Aaa	NR	Oklahoma*	- .10	- .10	- .10	- .10
	Aaa	AAA	South Carolina	- .10	- .10	- .10	- .10
	Aaa	AAA	Utah	- .10	- .10	- .10	- .10
	Aaa	AAA	Virginia	- .10	- .10	- .10	- .10
<u>Group 2</u> <u>(BASE GROUP)</u>	Aa	AA	Connecticut	7.25	8.40	9.10	9.35
	Aaa	AAA	Missouri*	7.25	8.40	9.10	9.35
	Aa1	AA	Montana*	7.25	8.40	9.10	9.35
	Aaa	AAA	Maryland	7.25	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.25	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.25	8.40	9.10	9.35
	Aaa	AAA	Texas	7.25	8.40	9.10	9.35
<u>Group 3</u>	Aa	AA	Alabama	+ .10	+ .10	+ .20	+ .10
	Aa	AA	California	+ .10	+ .10	+ .20	+ .10
	Aa	AA	Delaware	+ .10	+ .10	+ .20	+ .10
	Aa	AA	Florida	+ .10	+ .10	+ .20	+ .10
	Aa	AA	Kentucky	+ .10	+ .10	+ .20	+ .10
	Aa	AA-	Mississippi*	+ .10	+ .10	+ .20	+ .10
	Aa1	AA	New Mexico*	+ .10	+ .10	+ .20	+ .10
<u>Group 4</u>	Aa	AA	Louisiana	+ .15	+ .15	+ .30	+ .20
	Aa1	AAA	Maine	+ .15	+ .15	+ .30	+ .20
	Aa	AA	Minnesota	+ .15	+ .15	+ .30	+ .20
	Aa	AA	Nevada	+ .15	+ .15	+ .30	+ .20
	Aa	AA-	Rhode Island	+ .15	+ .15	+ .30	+ .20
	Aa	AA	Ohio	+ .15	+ .15	+ .30	+ .20
	Aa	AA	Wisconsin	+ .15	+ .15	+ .30	+ .20
<u>Group 5</u>	A	A+	New York	7.50	8.40	9.40	9.60
<u>Group 6</u>	Aa	AA-	Alaska	+ .20	+ .20	+ .40	+ .30
	Aa	AA	Hawaii	+ .20	+ .20	+ .40	+ .30
	Aaa	AA+	Illinois	+ .20	+ .20	+ .40	+ .30
	A1	AA	Massachusetts	+ .20	+ .20	+ .40	+ .30
	A1	AA-	New Hampshire*	+ .20	+ .20	+ .40	+ .30
	Aa	AA	North Dakota*	+ .20	+ .20	+ .40	+ .30
	A	A+	Pennsylvania	+ .20	+ .20	+ .40	+ .30
	Aa	NR	Vermont	+ .20	+ .20	+ .40	+ .30
	A1	AA+	West Virginia	+ .20	+ .20	+ .40	+ .30
<u>Group 7</u>	A1	AA	Oregon	+ .25	+ .35	+ .55	+ .50
<u>Group 8</u>	A	AA-	Washington	+ .30	+ .45	+ .65	+ .65
<u>Group 9</u>	Baal	A	Puerto Rico	+ .75	+ .90	+ .90	+ .90
<u>Group 10</u>	A	A+	Michigan	+ .75	+ 1.00	+ 1.00	+ 1.00

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/4/84

	<u>Moody's</u>	<u>S&P</u>		<u>5 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
<u>Group 1</u>	Aaa	AA	Georgia	-.10	-.10	-.10	-.05
	Aaa	AAA	Missouri*	-.10	-.10	-.10	-.05
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.05
	Aaa	NR	Oklahoma*	-.10	-.10	-.10	-.05
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.05
	Aaa	AAA	Texas	-.10	-.10	-.10	-.05
	Aaa	AAA	Utah	-.10	-.10	-.10	-.05
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.05
<u>Group 2</u> <u>(BASE GROUP)</u>	Aa1	AA	Montana*	7.40	8.40	9.10	9.35
	Aaa	AAA	Maryland	7.40	8.40	9.10	9.35
	Aa	AA	North Dakota*	7.40	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.40	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.40	8.40	9.10	9.35
<u>Group 3</u>	A	A+	New York	7.50	8.50	9.20	9.40
<u>Group 4</u>	Aa	AA	Alabama	+.10	+.10	+.10	+.15
	Aa	AA	California	+.10	+.10	+.10	+.15
	Aa	AA-	Connecticut	+.10	+.10	+.10	+.15
	Aa	AA	Kentucky	+.10	+.10	+.10	+.15
	Aa	AA	Louisiana	+.10	+.10	+.10	+.15
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.15
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.15
<u>Group 5</u>	Aa	AA-	Alaska	+.15	+.15	+.15	+.25
	Aa	AA	Delaware	+.15	+.15	+.15	+.25
	Aa	AA	Florida	+.15	+.15	+.15	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.15	+.25
	Aa1	AAA	Maine	+.15	+.15	+.15	+.25
	Aa	AA	Minnesota	+.15	+.15	+.15	+.25
	Aa	AA	Ohio	+.15	+.15	+.15	+.25
	Aa	AA+	Wisconsin	+.15	+.15	+.15	+.25
<u>Group 6</u>	Aa	AA	Hawaii	+.20	+.25	+.25	+.35
	Aa	AA	Nevada	+.20	+.25	+.25	+.35
	Aa	AA-	Rhode Island	+.20	+.25	+.25	+.35
	Aa	NR	Vermont	+.20	+.25	+.25	+.35
	A1	AA+	West Virginia	+.20	+.25	+.25	+.35
<u>Group 7</u>	A1	AA-	Massachusetts	+.30	+.45	+.40	+.50
	A1	AA-	New Hampshire*	+.30	+.45	+.40	+.50
<u>Group 8</u>	A1	AA	Oregon	+.45	+.60	+.70	+.55
	A	A+	Pennsylvania	+.30	+.50	+.50	+.55
<u>Group 9</u>	A	AA-	Washington	+.50	+.75	+.80	+.80
<u>Group 10</u>	Baal	A+	Michigan	+.75	+1.00	+1.00	+1.10
<u>Group 11</u>	Baal	A	Puerto Rico	+1.25	+1.40	+1.30	+1.15

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

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Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/5/83

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
<u>Group 1</u>	Aaa	AA	Georgia	-.10	-.10	-.15	-.15
	Aa	AA	Idaho*	-.10	-.10	-.15	-.15
	Aaa	AAA	Missouri*	-.10	-.10	-.15	-.15
	Aa1	AA	Montana*	-.10	-.10	-.15	-.15
	Aaa	AAA	North Carolina	-.10	-.10	-.15	-.15
	Aa	AA	North Dakota*	-.10	-.10	-.15	-.15
	Aaa	NR	Oklahoma*	-.10	-.10	-.15	-.15
	Aaa	AAA	South Carolina	-.10	-.10	-.15	-.15
	Aaa	AA+	Tennessee*	-.10	-.10	-.15	-.15
	Aaa	AAA	Texas*	-.10	-.10	-.15	-.15
	Aaa	AAA	Utah*	-.10	-.10	-.15	-.15
	Aaa	AAA	Virginia*	-.10	-.10	-.15	-.15
<u>Group 2</u> (BASE GROUP)	Aaa	AAA	Maryland	6.30%	7.50%	8.50%	8.75%
	Aaa	AAA	New Jersey	6.30	7.50	8.50	8.75
<u>Group 3</u>	Aa	AA	Alabama*	+.10	+.10	+.10	+.10
	Aa	AA	Kentucky	+.10	+.10	+.10	+.10
	Aa	AA	Louisiana*	+.10	+.10	+.10	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.10
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.10
<u>Group 4</u>	Aa	AA-	Alaska	+.20	+.20	+.20	+.20
	Aa	AA+	California	+.20	+.20	+.20	+.20
	Aa	AA	Florida	+.20	+.20	+.20	+.20
	Aaa	AAA	Illinois	+.20	+.20	+.20	+.20
	Aa1	AAA	Maine	+.20	+.20	+.20	+.20
	Aa	AA	Minnesota*	+.20	+.20	+.20	+.20
	Aa	AA	Nevada	+.20	+.20	+.20	+.20
	Aa	AA+	Wisconsin	+.20	+.20	+.20	+.20
<u>Group 5</u>	Aa	AA-	Connecticut	+.25	+.30	+.35	+.35
	Aa	AA	Delaware	+.25	+.30	+.35	+.35
	Aa	AA	Hawaii	+.25	+.30	+.35	+.35
	Aa	AA	Ohio	+.25	+.30	+.35	+.35
	Aa	AA-	Rhode Island	+.25	+.30	+.35	+.35
	Aa	NR	Vermont	+.25	+.30	+.35	+.35
	A1	AA+	West Virginia	+.25	+.30	+.35	+.35
<u>Group 6</u>	A1	NR	New Hampshire*	+.40	+.40	+.50	+.65
	A1	AA	Oregon	+.50	+.50	+.50	+.65
<u>Group 7</u>	A	A+	Pennsylvania	+.40	+.40	+.50	+.75
<u>Group 8</u>	A1	AA-	Massachusetts	+.50	+.50	+.60	+.85
	A	AA-	Washington	+.50	+.50	+.60	+.85
<u>Group 9</u>	A	A+	New York	+1.95	+1.40	+1.00	+1.00
<u>Group 10</u>	Baal	A+	Michigan	+1.00	+1.10	+1.00	+1.25
<u>Group 11</u>	Baal	A	Puerto Rico	+2.70	+3.25	+2.50	+2.50

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
Sr. Fixed Income Analyst
Fixed Income Research Department

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/6/82

	Moody's	S&P	Merrill Lynch Trading Equivalent		5 Years	10 Years	15 Years	20 Years
<u>Group 1</u>	Aa	Aa	NR	Idaho*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Missouri*	-.10	-.15	-.20	-.20
	Aa1	AA	Low-Range Triple A	Montana*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	North Carolina*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	North Dakota*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	Oklahoma*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Texas*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	Utah*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Virginia*	-.10	-.15	-.20	-.20
<u>Group 2</u>	Aa	AA	NR	Alabama*	-.05	-.05	-.10	-.10
	Aaa	AA	NR	Georgia	-.05	-.05	-.10	-.10
	Aa	AA	NR	Kentucky*	-.05	-.05	-.10	-.10
	Aa	AA	NR	New Mexico*	-.05	-.05	-.10	-.10
	Aaa	AAA	High-Range Double A	South Carolina*	-.05	-.05	-.10	-.10
	Aaa	AA+	NR	Tennessee*	-.05	-.05	-.10	-.10
<u>Group 3</u> (BASE GROUP)	Aa	AA	Mid-Range Double A	Louisiana*	10.00%	11.10%	11.90%	12.30%
	Aaa	AAA	High-Range Double A	Maryland	10.00	11.10	11.90	12.30
	Aaa	AA+	Mid-Range Double A	Minnesota*	10.00	11.10	11.90	12.30
	Aa	AA-	Mid-Range Double A	Mississippi*	10.00	11.10	11.90	12.30
	Aaa	NR	High-Range Double A	New Hampshire*	10.00	11.10	11.90	12.30
	Aaa	AAA	NR	New Jersey	10.00	11.10	11.90	12.30
	Aaa	AA+	High-Range Double A	Wisconsin	10.00	11.10	11.90	12.30
<u>Group 4</u>	Aaa	AAA	Mid-Range Double A	Illinois	+.10	+.10	+.10	+.10
<u>Group 5</u>	Aa	AA-	Mid-Range Double A	Alaska	+.10	+.10	+.15	+.15
	Aa	AA+	Low-Range Double A	California	+.10	+.10	+.15	+.15
<u>Group 6</u>	Aa	AAA	High-Range Double A	Maine	+.10	+.15	+.20	+.20
	Aa	AA	Mid-Range "Aa/AA"	Nevada	+.10	+.15	+.20	+.20
	Aa	AA+	NR	Ohio	+.15	+.15	+.20	+.20
	Aa	AA	NR	Rhode Island	+.10	+.15	+.20	+.20
	Aa	Nh	Low-Range Double A	Vermont	+.10	+.15	+.20	+.20
<u>Group 7</u>	A1	AA+	Low-Range Double A	West Virginia	+.15	+.15	+.20	+.30
<u>Group 8</u>	Aa	AA-	High-Range "A1/A+"	Connecticut	+.20	+.20	+.30	+.40
	Aa	AA	Low-Range Triple A	Florida	+.10	+.15	+.25	+.40
<u>Group 9</u>	A	AA-	Mid-Range "A1/A+"	New York	+1.50	+1.15	+.60	+.45
	Aa	AA	High-Range Double A	Oregon	+.20	+.30	+.40	+.45
<u>Group 10</u>	A1	AA	High-Range Single A	Delaware	+.40	+.60	+.60	+.70
	Aa	AA	Mid-Range "A1/A+"	Hawaii	+.40	+.60	+.60	+.70
<u>Group 11</u>	A	A+	Low-Range "A1/A+"	Pennsylvania	+.60	+.65	+.65	+.85
	A1	AA	High-Range "A1/A+"	Washington	+.60	+.65	+.65	+.85
<u>Group 12</u>	A1	AA-	Low-Range "A1/A+"	Massachusetts	+.75	+.75	+.75	+1.00
	A	A+	Mid-Range "Baa1/BBB+"	Michigan	+.75	+.75	+.75	+1.00
<u>Group 13</u>	Baa1	A	Mid-Range "Baa1/BBB+"	Fuerto Rico	+2.00	+3.15	+2.60	+2.20

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
 Sr. Fixed Income Analyst
 Fixed Income Research Department

Alex J. Marcinkiewicz
 Asst. Vice President
 Municipal Bond Department

TABLE 1.21 (DRAFT FOR ALASKA PUBLIC DEBT 1986)

Debt of Alaska Municipalities
6-30-85
(Dollars)

<u>Boroughs</u>	<u>G.O. Debt</u>	<u>Revenue Debt</u>	<u>Total Debt</u>	<u>School G.O. Debt</u>	<u>% of School Debt Paid by State</u>	<u>Net G.O. Debt</u>	<u>Total Net Debt</u>
ANCHORAGE, MUNICIPALITY OF	358,799,900	347,080,000	705,879,900	139,965,000	94 %	227,232,800	574,312,800
BRISTOL BAY	3,535,000	-	3,535,000	3,535,000	90	353,500	353,500
FAIRBANKS NORTH STAR	80,700,000	-	80,700,000	79,900,000	92	7,192,000	7,192,000
Fairbanks City	9,010,000	61,170,000	70,180,000	-	-	9,010,000	70,180,000
North Pole	1,218,550	-	1,218,550	-	-	1,218,550	1,218,550
TOTAL	90,928,500	61,170,000	152,098,500	79,900,000	92	17,420,550	78,591,050
HAINES	555,000	-	555,000	500,000	100	-	-
Haines City	745,000	-	745,000	-	-	745,000	745,000
TOTAL	1,300,000	-	1,300,000	500,000	100	800,000	800,000
JUNEAU, CITY & BOROUGH	47,651,000	27,480,000	75,131,000	30,209,018	91	20,160,794	47,640,794
KENAI PENINSULA	119,324,005	-	119,324,005	100,120,000	90	29,216,005	29,216,005
Homer City	2,113,000	1,025,000	3,138,000	-	-	2,113,000	3,138,000
Kenai City	5,835,000	235,000	6,070,000	-	-	5,835,000	6,070,000
Seldovia City	378,000	43,000	421,000	-	-	378,000	421,000
Seward City	10,000	7,672,000	7,682,000	-	-	10,000	7,682,000
Soldotna City	2,800,000	-	2,800,000	-	-	2,800,000	2,800,000
TOTAL	130,460,005	8,975,000	139,435,005	100,120,000	90	40,352,005	49,327,005
KETCHIKAN GATEWAY	21,090,000	410,000	21,500,000	16,445,000	92	5,960,600	6,370,600
Ketchikan City	10,840,000	23,280,000	34,120,000	-	-	10,840,000	34,120,000
TOTAL	31,930,000	23,690,000	55,620,000	16,445,000	92	16,800,600	40,490,600
KODIAK ISLAND	25,815,000	-	25,815,000	25,515,000	91	2,596,350	2,596,350
Kodiak City	2,455,000	3,298,000	5,753,000	-	-	2,455,000	5,753,000
TOTAL	28,270,000	3,298,000	31,568,000	25,515,000	91	5,051,350	8,349,350
MATANUSKA-SUSTINA	110,160,000	-	110,160,000	95,120,000	90	24,552,000	24,552,000
Palmer City	2,048,000	290,000	2,338,000	-	-	2,048,000	2,338,000
TOTAL	112,208,000	290,000	112,498,000	95,120,000	90	26,600,000	26,890,000
NORTH SLOPE	1,155,680,000	-	1,155,680,000	207,220,000	97	954,676,600	954,676,600
SITKA, CITY & BOROUGH	12,400,000	53,675,000	66,075,000	2,052,258	100	10,347,742	64,022,742
 TOTAL BOROUGHS	 1,973,162,405	 525,658,000	 2,498,820,405	 700,581,276	 93 %	 1,319,795,941	 1,845,453,941

TABLE 1.21 (continued)

<u>Cities</u>	<u>G.O. Debt</u>	<u>Revenue Debt</u>	<u>Total Debt</u>	<u>School G.O. Debt</u>	<u>% of School Debt Paid by State</u>	<u>Net G.O. Debt</u>	<u>Total Net Debt</u>
Bethel	556,505	535,000	1,091,505	-	- %	556,505	1,091,508
Cordova	-	1,456,000	1,456,000	-	-	-	1,456,000
Craig	35,646	87,000	128,646	-	-	35,646	120,646
Dillingham	-	286,000	286,000	-	-	-	286,000
Galena	900,000	-	900,000	-	-	900,000	900,000
Hoonah	-	-	-	-	-	-	-
Hydaburg	-	-	-	-	-	-	-
Kake	-	86,000	86,000	-	-	-	86,000
King Cove	-	-	-	-	-	-	-
Klawock	-	-	-	-	-	-	-
Kotzebue	-	-	-	-	-	-	-
Nenana	397,356	2,320,000	2,717,356	190,000	100	207,356	2,527,356
Nome	2,161,250	-	2,161,250	-	-	2,161,250	2,161,250
Pelican	-	-	-	-	-	-	-
Petersburg	6,195,000	4,367,835	10,562,835	4,826,500	96	1,561,560	5,929,395
St. Mary's	-	-	-	-	-	-	-
Sand Point	-	-	-	-	-	-	-
Skagway	820,000	-	820,000	-	-	820,000	820,000
Tanana	-	-	-	-	-	-	-
Unalaska	3,299,032	429,216	3,728,248	925,000	90	2,466,532	2,895,748
Valdez	75,833,000	7,650,000	83,483,000	22,585,000	94	54,603,100	62,253,100
Whittier	-	-	-	-	-	-	-
Wrangell	10,750,000	812,600	11,562,600	9,385,777	82	3,053,663	3,866,263
Yakutat	235,193	490,476	725,669	-	-	235,193	725,669
TOTAL CITIES	101,182,982	18,520,127	119,703,109	37,912,277	91	66,600,805	85,120,932
TOTAL MUNICIPALITIES	2,074,345,387	544,178,127	2,618,523,514	738,493,553	93 %	1,386,396,746	1,930,574,873

Sources: Alaska Department of Education and Alaska Taxable 1985, Alaska Department of Community and Regional Affairs.

TABLE 1.22

Alaska Municipal Debt Ratios (DRAFT FOR ALASKA PUBLIC DEBT 1986)
6-30-85

<u>Boroughs</u>	<u>Full Value</u>	<u>Population</u>	<u>GO Debt Per Capita</u>	<u>Ratio of GO Debt to Full Value</u>	<u>Net GO Debt Per Capita^{1/}</u>	<u>Ratio of Net GO Debt to Full Value^{1/}</u>
ANCHORAGE, MUNICIPALITY OF	\$15,755,411,000	248,263	\$1,445	2.28%	\$915	1.44%
BRISTOL BAY	101,798,800	1,271	2,781	3.47	278	.35
FAIRBANKS NORTH STAR	2,564,966,300	46,340				
Fairbanks City	1,458,574,300	27,099	332	.62	332	.62
North Pole	187,457,100	1,640	742	.65	742	.65
TOTAL	4,210,997,700	75,079	1,211	2.16	232	.41
HAINES	49,029,200	768				
Haines City	44,916,300	1,079	690	1.66	690	1.66
TOTAL	93,945,500	1,847	703	1.38	433	.85
JUNEAU, CITY & BOROUGH	1,613,388,900	29,370	1,622	2.95	686	1.25
KENAI PENINSULA	2,417,376,100	22,321				
Homer City	215,845,000	3,817	553	.98	553	.98
Kenai City	282,950,000	6,434	906	2.06	906	2.06
Seldovia City	16,451,300	678	557	2.30	557	2.30
Seward City	142,170,600	2,072	5	.01	5	.01
Soldotna City	215,425,400	3,597	778	1.30	778	1.30
TOTAL	3,290,219,200	38,919	3,352	3.97	1,037	1.23
KETCHIKAN GATEWAY	284,545,100	5,900				
Ketchikan City	391,440,000	8,414	1,288	3.81	1,288	3.81
TOTAL	675,985,100	14,314	2,230	4.72	1,174	2.49
KODIAK ISLAND	180,536,600	7,146				
Kodiak City	391,834,100	6,602	371	.63	371	.63
TOTAL	572,370,700	13,748	2,056	4.94	367	.88
MATANUSKA-SUSITNA	2,225,993,800	38,077				
Palmer City	141,412,400	3,016	679	1.45	679	1.45
TOTAL	2,367,406,200	41,093	2,730	4.74	647	1.12
NORTH SLOPE		12,342	93,638		77,352	
AS 29.53.045(b) Tax Limit	12,876,786,900			8.97		7.41
AS 29.53.045(c) Tax Limit	2,397,118,779			48.21		39.83
SITKA, CITY & BOROUGH	396,227,900	8,221	1,508	3.13	1,259	2.61
TOTAL BOROUGHs	41,954,537,900 ^{2/}	484,467	4,073	4.70	2,724	3.15

TABLE 1.22 (continued)

<u>Cities</u>	<u>Full Value</u>	<u>Population</u>	<u>GO Debt Per Capita</u>	<u>Ratio of GO Debt to Full Value</u>	<u>Net GO Debt Per Capita^{1/}</u>	<u>Ratio of Net GO Debt to Full Value^{1/}</u>
Bethel	\$182,296,900	3,681	\$151	.31%	\$151	.31%
Cordova	120,673,000	2,520				
Craig	34,707,400	1,167	31	.10	31	.10
Delta Junction	30,870,500	1,207				
Dillingham	94,669,900	2,100				
Eagle	9,104,500	194				
Galena	19,149,500	942	955	4.70	955	4.70
Hoonah	27,845,200	906				
Hydaburg	12,688,900	463				
Kake	11,608,000	635				
King Cove	23,230,800	547				
Klawock	5,563,000	600				
Kotzebue	93,245,100	2,981				
Nenana	12,881,500	542	733	3.08	383	2.10
Nome	116,712,900	3,876	558	1.85	558	1.85
Pelican	10,155,400	213				
Petersburg	161,219,300	3,137	1,975	3.84	498	.97
St. Mary's	4,239,400	563				
Sand Point	71,086,800	900				
Skagway	58,447,100	790	1,038	1.40	1,038	1.40
Tanana	11,195,400	425				
Unalaska	105,309,400	1,922	1,716	3.13	1,283	2.34
Unalakleet	19,714,500	787				
Valdez		3,687	20,581		14,810	
AS 29.53.045(b) Tax Limit	1,740,431,900			4.36		3.14
AS 29.53.045(c) Tax Limit	716,105,732			10.59		7.63
Whittier	19,419,200	338				
Wrangell	111,757,000	2,376	4,524	9.62	1,285	2.73
Yakutat	17,679,400	462	509	1.33	509	1.33
TOTAL CITIES	3,125,901,900 ^{2/}	37,959	2,666	3.24	1,755	2.13
TOTAL MUNICIPALITIES	45,080,439,800	522,426	3,971	4.61	2,654	3.08
TOTAL STATEWIDE	48,915,237,900	566,657				

Source: Alaska Taxable 1985, Alaska Department of Community & Regional Affairs

^{1/} Net of school debt.

^{2/} Includes the higher full value under tax limits.

PROPOSED DRAFT LANGUAGE
FOR MUNICIPAL SCHOOL DEBT SECTION OF
ALASKA PUBLIC DEBT 1986

As of June 30, 1985, \$738 million of municipal school debt was outstanding. Under a program enacted in 1970 (Alaska Statutes 14.11.100) the State will reimburse the municipalities for debt service on certain portions of that debt. On June 30, 1985, the aggregate total percentage of municipal school debt to be reimbursed by the State was 93%. The State share of municipal school debt was thus \$687 million.

Because the statute which provides for reimbursement of a portion (100, 90 or 80 percent) of debt service on municipal school debt specifies a two year lag between payment by the municipality and reimbursement by the State for debt incurred prior to January 1, 1982, some principal and interest paid during the fiscal years ending June 30, 1984 and June 30, 1985 has not yet been reimbursed. The State share of municipal school debt outstanding on June 30, 1985 plus the State share of municipal school debt principal payments made by the municipalities during prior years but not yet reimbursed by the State amounted to a total of \$754 million. If added to the total of State and State supported debt, the amount of the State's principal outstanding on that debt would have been \$1,686 million.

On October 1, 1985 voters in six municipalities approved the issuance of an additional \$303 million of general obligation school debt. Most of that debt will have been issued by June 30, 1986. Voters in the City of Sitka approved the issuance of \$22.6 million of general obligation school debt in a special election on January 27, 1986. Voters in the Kodiak Island Borough will decide on the issuance of almost \$10 million of general obligation school debt in a special election on March 25, 1986. If issued, current statute provides for State reimbursement of up to eighty percent of the debt service on that debt during the year in which the payments are made.

38

178,000

SEVEN PERCENT CAP

Borough	FULL VALUE	G. D. DEBT	% OF FULL VALUE	PERCENT OF G. D. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	\$15,755,411,000.00	\$358,799,900.00	\$1,102,878,770.00	32.53%	2.28%
Bristol Bay	\$101,798,800.00	\$3,535,000.00	\$7,125,916.00	49.61%	3.47%
Fairbanks	\$4,210,997,700.00	\$90,928,500.00	\$294,769,859.00	30.85%	2.16%
Maine	\$93,945,500.00	\$1,300,000.00	\$6,576,185.00	19.77%	1.39%
Juneau	\$1,613,388,900.00	\$47,651,000.00	\$112,937,223.00	42.19%	2.95%
Kenai Peninsula	\$3,290,219,200.00	\$137,929,000.00	\$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	\$675,985,100.00	\$31,930,000.00	\$47,318,957.00	67.48%	4.72%
Kodiak	\$572,370,700.00	\$28,270,000.00	\$40,065,949.00	70.56%	4.94%
Mat-Su	\$2,367,406,200.00	\$112,208,000.00	\$165,718,434.00	67.71%	4.74%
North Slope	\$12,876,786,900.00	\$1,155,680,000.00	\$901,375,083.00	128.21%	8.97%
Sitka	\$396,227,900.00	\$12,400,000.00	\$27,735,953.00	44.71%	3.13%
Total Boroughs	\$41,954,537,900.00	\$1,980,631,400.00	\$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	\$182,296,900.00	\$556,500.00	\$12,760,783.00	4.36%	0.31%
Brooks	\$120,673,000.00	\$0.00	\$8,447,110.00	0.00%	0.00%
Crater	\$34,707,400.00	\$0.00	\$2,429,518.00	0.00%	0.00%
Delta Junction	\$30,870,500	\$0	\$2,160,935.00	0.00%	0.00%
Ellingsham	\$94,669,900.00	\$0.00	\$6,626,893.00	0.00%	0.00%
Esch	\$9,104,500.00	\$0.00	\$637,315.00	0.00%	0.00%
Galena	\$19,149,500.00	\$900,000.00	\$1,340,465.00	67.14%	4.70%
Hoonah	\$27,845,200.00	\$0.00	\$1,949,164.00	0.00%	0.00%
Hydaburg	\$12,688,900.00	\$0.00	\$888,223.00	0.00%	0.00%
Ika	\$11,605,000.00	\$0.00	\$812,560.00	0.00%	0.00%
King Cove	\$23,230,800.00	\$0.00	\$1,626,156.00	0.00%	0.00%
Klawock	\$5,563,000.00	\$0.00	\$389,410.00	0.00%	0.00%
Kotzebue	\$93,245,100.00	\$0.00	\$6,527,157.00	0.00%	0.00%
Nenana	\$12,881,500.00	\$396,300.00	\$901,705.00	43.95%	3.06%
Nome	\$116,712,900.00	\$2,161,200.00	\$8,169,903.00	26.45%	1.85%
Pelican	\$10,155,400.00	\$0.00	\$710,878.00	0.00%	0.00%
Petersburg	\$161,219,300.00	\$6,195,000.00	\$11,285,351.00	54.89%	3.84%
Sand Point	\$71,066,800.00	\$0.00	\$4,976,076.00	0.00%	0.00%
Skagway	\$58,447,100.00	\$820,000.00	\$4,091,297.00	20.04%	1.40%
St. Mary's	\$4,239,400.00	\$0.00	\$296,758.00	0.00%	0.00%
Tanana	\$11,195,400.00	\$0.00	\$783,678.00	0.00%	0.00%
Unalakleet	\$19,714,500	\$0	\$1,380,015.00	0.00%	0.00%
Unalaska	\$105,309,400.00	\$3,299,000.00	\$7,371,658.00	44.75%	3.13%
Valdez	\$1,740,431,900.00	\$75,833,000.00	\$121,830,233.00	62.24%	4.36%
Whittier	\$19,419,200.00	\$0.00	\$1,359,344.00	0.00%	0.00%
Wrangell	\$111,757,000.00	\$10,750,000.00	\$7,822,990.00	137.42%	9.62%
Yakutat	\$17,679,400.00	\$235,200.00	\$1,237,558.00	19.01%	1.33%
TOTAL CITIES	\$3,125,901,900.00	\$101,146,200.00	\$218,813,133.00	46.22%	3.24%
STATE	\$48,915,237,900.00	\$816,100,000.00	\$3,424,066,653.00	23.83%	1.67%
Total Boroughs	\$41,954,537,900.00	\$1,980,631,400.00	\$2,936,817,653.00	67.44%	4.72%

A M E N D M E N T

Offered in the HOUSE

By Sund

TO: CSHB 521 (Loans)

~~Page 2, line 8:~~

~~Delete "seven" and insert "five"~~

Page 3, line ~~8~~ 11;

Delete "." and insert ";"

Page 3, after line ~~8~~¹¹ insert the following new paragraph to read:

"~~(8)~~⁷ school construction debt for which reimbursement by the state is authorized under AS 14.11.100."

138
84

222

DOR

Introduced: 1/27/86
Referred: House Special Committee on State Loans
Community & Regional Affairs and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 521
IN THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of
municipal general obligation bonds; and
providing for an effective date."

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

* Section 1. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election,
the governing body shall have published a notice of the
total existing bond indebtedness at least once a week for
three consecutive weeks. The first notice must (SHALL) be
published at least 20 days before the date of the
election. A notice must (SHALL) include

(1) the current total general obligation bonded
indebtedness, including authorized but unsold bonds, of the
municipality and the current total general obligation
bonded indebtedness, including authorized but unsold bonds,
of any other municipalities which may be payable from taxes
on taxable property in the municipality;

(2) the cost of the debt service on the current

indebtedness;

(3) the total assessed value of taxable property
in the municipality;

in the municipality

(4) the full value of taxable property, as
determined by the Department of Community and Regional
Affairs. ~~under AS 14.17.140.~~

* Sec. 2. AS 29.47 is amended by adding a new section to
read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No
general obligation bond authorization shall be finally
adopted by a municipality unless the net debt of the
municipality at the time of adoption of the bond
authorization does not exceed 7 percent of average assessed
valuation.

insert (b)
From
HB 521
Pg 2, line 1-4

(b) Notwithstanding the provisions in (a) of this
section, a bond authorization may be finally adopted if the
bond authorization authorizes obligations solely for one of
the following:

- (1) to meet an expenditure which is the result
of a natural disaster;
- (2) to meet an expenditure which is necessary to
protect the public health;
- (3) for a purpose which is self-liquidating; or
- (4) to refund existing debt.

(d) For purposes of this section the following terms
shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes, or other obligations.

(3) "bond authorization" means the action completed after the bond election by the governing body of the municipality which authorizes a specific amount of general obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating debt" is debt for which the cash receipts from fees, rents, or other charges (other than taxes) ~~[in a fiscal year]~~ pledged to pay the debt ~~[are]~~ ^{have been} sufficient ^{in each fiscal year since issuance of the debt} to meet operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and ~~[debt]~~ redemption charges ^{on the debt} payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued and authorized but not issued:

(A) bond anticipation notes;

(B) revenue anticipation notes issued

pursuant to Art. IX, Section 10, Alaska Constitution;

(C) self-liquidating debt; and

(D) debt for which there are funds on hand or sinking funds pledged to the payment thereof including the proceeds of any bonds or notes held for that purpose.

* Sec. 3. AS 29.10.200 is amended by adding a new subsection to read, and renumbering existing subsections accordingly:

(42) AS 29.47.195 (limitation on municipal debt)

* Sec. 4. This Act takes effect immediately in accordance with AS 01.10.070(c).

(4) the full value of taxable property as determined by the Department of Community and Regional Affairs under AS 14.17.140.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No general obligation bond authorization shall be finally adopted by a municipality unless the net debt of the municipality at the time of adoption of the bond authorization does not exceed seven percent of average assessed valuation.

(b) Notwithstanding the provisions in (a) of this section, a bond authorization may be finally adopted if the bond authorization authorizes obligations solely for one of the following:

(1) to meet an expenditure which is the result of a natural disaster;

(2) to meet an expenditure which is necessary to protect the public health;

(3) for a purpose which is self-liquidating; or

(4) to refund existing debt.

(c) For purposes of this section the following terms shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes or other obligations.

(3) "bond authorization" means the action completed after the bond election of the governing body of the municipality which authorizes a specified amount of general

obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating Debt" is debt for which the cash receipts from fees, rents or other charges (other than taxes) in a fiscal year pledged to pay the debt are sufficient to meet

operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and debt redemption charges payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued, and authorized but not issued:

(a) as bond anticipation notes in anticipation of bonds;

(b) as revenue anticipation notes issued pursuant to Art. IX, Section 10, Alaska Constitution;

c. as self-liquidating debt; and

d. for which there are funds on hand or sinking funds applicable to the payment thereof only including the proceeds of any bonds or notes held for that purpose and any accounts receivable or amounts which may be payable from the United States, the state or any public instrumentality thereof, which funds are applicable only to the payment of any part of the debt not otherwise deductible.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

*
* DELIVER TO: JFOM *
*
* ORIGINAL *
* SENT: 02/17/86 TIME: 11:28 *
* FROM: ANNIE NEUBAUER *
* SUBJECT: POM/FAIRBANKS *
* PRINT DATE: 02/17/86 TIME: 11:29 *
*

2

TO: REP. SUND, ATTN: SHARI KOCHMAN

FROM: STEVE BAINBRIDGE, CITY ENGINEER,
CITY OF NENANA, NENANA 99760

PHONE: 832-5441

RE: HB521 MUNICIPAL GENERAL OBLIGATION BONDS

I HAVE THE FOLLOWING CONCERNS: REGARDING "SELF-SUPPORTING DEBT", IT IS NOT CLEAR AS TO WHO WOULD MAKE THIS DETERMINATION AND THE PARAMETERS THAT WOULD BE UTILIZED. FOR INSTANCE WOULD G. O. BONDS REPAYED FROM DESIGNATED SALES TAX BE CONSIDERED SELF SUPPORTING?

I HAVE OTHER CONCERNS, BUT POM LIMIT IS 50 WORDS.

Original sponsor: Rules/governor

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON STATE LOANS

2 CS FOR HOUSE BILL NO. 519 (Loans)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to public finance; and providing for
7 an effective date."

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

9 * Section 1. AS 14.40.040 is amended to read:

10 Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is
11 created and established a corporation to be called the University of
12 Alaska. It may in that name

- 13 (1) sue and be sued;
14 (2) receive and hold real and personal property;
15 (3) contract and be contracted with;
16 (4) adopt, use and alter a corporate seal;
17 (5) borrow money, issue debt, or enter into long-term

18 obligations for the purchase of facilities, goods, or services, which
19 obligations secure, in whole or in part, debt issued by another party,
20 as approved by the state bond committee under AS 37.15.770;

21 (6) do and have done all matters necessary for the purpose
22 of any function set out [FORTH] in this chapter.

23 * Sec. 2. AS 14.40 is amended by adding a new section to read:

24 Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter
25 into lease-financing agreements only with the Alaska State Housing
26 Authority acting as the Alaska State Building Authority. A lease-
27 financing agreement must provide that lease payments are subject to
28 annual appropriation. If the board intends to enter into an agreement
29 under this subsection, the board shall provide notice to the

1 legislature and to the state bond committee. The notice must include
2 the anticipated annual lease payment, the anticipated principal amount
3 of the debt to be issued by the Alaska State Housing Authority acting
4 as the Alaska State Building Authority, and the anticipated total
5 construction or acquisition cost of the project. The board may not
6 enter into an agreement under this section unless the public building
7 to be provided has been approved by law. An appropriation for the
8 project does not constitute approval by law for purposes of this
9 section.

10 * Sec. 3. AS 18.55.100(a)(15) is amended to read:

11 (15) acting as the Alaska State Building Authority arrange
12 or contract for the financing or [, DESIGN, CONSTRUCTION AND] acqui-
13 sition of public buildings designed by, constructed by, or whose acqui-
14 sition has been approved by the Department of Transportation and
15 Public Facilities for lease to the state in accordance with
16 AS 18.55.010 - 18.55.290 and AS 37.15.770.

17 * Sec. 4. AS 18.55.140 is amended to read:

18 Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS.
19 The authority may issue bonds and notes from time to time in its
20 discretion for any of its corporate purposes and may issue refunding
21 bonds for the purpose of paying or retiring bonds previously issued by
22 it. The authority may not issue bonds for public buildings until the
23 state bond committee has approved the proposal for the issuance of
24 debt under AS 37.15.770.

25 * Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

26 (b) Bonds issued by the authority for public buildings must be
27 issued in the name of the Alaska State Building Authority and are
28 subject to AS 18.55.010 - 18.55.290.

29 * Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

1 (4) "bond" means any bond, note, interim certificate,
2 debenture, or other obligation issued by the authority or the author-
3 ity acting as the Alaska State Building Authority under AS 18.55.010 -
4 18.55.290;

5 * Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

6 (c) The supreme court may enter into lease-financing agreements
7 only with the Alaska State Housing Authority acting as the Alaska
8 State Building Authority. A lease-financing agreement must provide
9 that lease payments are subject to annual appropriation. If the
10 supreme court intends to enter into an agreement under this subsec-
11 tion, the supreme court shall provide notice to the legislature and to
12 the state bond committee. The notice must include the anticipated
13 annual lease payment, the anticipated principal amount of the debt to
14 be issued by the Alaska State Housing Authority acting as the Alaska
15 State Building Authority, and the anticipated total construction or
16 acquisition cost of the project. The supreme court may not enter into
17 an agreement under this subsection unless the public building to be
18 provided has been approved by law. An appropriation for the project
19 does not constitute approval by law for purposes of this section.

20 * Sec. 8. AS 24.23 is amended by adding new sections to read:

21 ARTICLE 2. LEASE AGREEMENTS.

22 Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency
23 may lease necessary office space, and contract for the lease of space,
24 for the use of the Alaska legislature and its employees.

25 Sec. 24.23.110. The Legislative Affairs Agency may enter into
26 lease-financing agreements only with the Alaska State Housing Author-
27 ity acting as the Alaska State Building Authority. A lease-financing
28 agreement must provide that lease payments are subject to annual
29 appropriation. If the agency intends to enter into an agreement under


1 this subsection, the agency shall provide notice to the legislature
2 and to the state bond committee. The notice must include the
3 anticipated annual lease payment, the anticipated principal amount of
4 the debt to be issued by the Alaska State Housing Authority acting as
5 the Alaska State Building Authority, and the anticipated total
6 construction or acquisition cost of the project. The agency may not
7 enter into an agreement under this section unless the public building
8 to be provided has been approved by law. An appropriation for the
9 project does not constitute approval by law for purposes of this
10 section.

11 * Sec. 9. AS 37.05.280 is amended to read:

12 Sec. 37.05.280. LEASES. The department shall lease necessary
13 space, and contract for the lease of space, for the use of the state
14 or an agency of the state, wherever it is necessary and feasible,
15 subject to compliance with the requirements of AS 37.05.220 - 37.05.280
16 A [NO] lease or contract for a lease may not provide for a period of
17 occupancy greater than 40 years. An agency of the state requiring
18 office, warehouse, or other space shall lease the space through the
19 department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966,
20 WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF
21 \$12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED
22 FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE
23 LEGISLATURE BY CONCURRENT RESOLUTION.]

24 * Sec. 10. AS 37.05 is amended by adding a new section to read:

25 Sec. 37.05.285. LEASE FINANCING. The department may enter into
26 lease-financing agreements only with the Alaska State Housing Author-
27 ity acting as the Alaska State Building Authority. A lease-financing
28 agreement must provide that lease payments are subject to annual
29 appropriation. If the department intends to enter into an agreement



1 under this subsection, the department shall provide notice to the
2 legislature and to the state bond committee. The notice must include
3 the anticipated annual lease payment, the anticipated principal amount
4 of the debt to be issued by the Alaska State Housing Authority acting
5 as the Alaska State Building Authority, and the anticipated total
6 construction or acquisition cost of the project. The department may
7 not enter into an agreement under this subsection unless the public
8 building to be provided has been approved by law. An appropriation
9 for the project does not constitute approval by law for purposes of
10 this section.

11 * Sec. 11. AS 37.15.040 is amended to read:

12 Sec. 37.15.040. SALE OF BONDS. Before selling an issue or
13 series of bonds, the state bond committee shall give notice inviting
14 sealed bids in the [SUCH] manner [AS] it may prescribe. If satisfac-
15 tory bids are received, the bonds offered for sale shall be awarded to
16 the highest responsible bidder or bidders. If the state bond
17 committee determines that the bids received are not satisfactory as to
18 price or responsibility of the bidders, it may reject all bids
19 received.

20 * Sec. 12. AS 37.15.110 is amended to read:

21 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.
22 There is created within the Department of Revenue a committee known as
23 the "state bond committee," the members of which are the commissioner
24 of commerce and economic development, the commissioner of administra-
25 tion, and the commissioner of revenue. If a member of the committee
26 is absent or otherwise unable to act, the member's designee [IN THE
27 DEPARTMENT] shall act as a member of the committee in the member's
28 place.

29 * Sec. 13. AS 37.15.130 is amended to read:

1 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commis-
2 sioner of commerce and economic development is the chairman of the
3 state bond committee and the commissioner of revenue is the secretary.
4 A majority of the members of the committee constitute a quorum. The
5 committee shall keep a full, complete, and permanent record of its
6 proceedings. All records and correspondence of the committee shall
7 be kept in the office of the commissioner of revenue. For the purpose
8 of this chapter and AS 44.62.310, public notice of 24 hours or more is
9 adequate notice of a meeting of the committee at which the issuance of
10 bonds is authorized.

11 * Sec. 14. AS 37.15.140 is amended to read:

12 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond
13 committee shall adopt the resolution and prepare the documents neces-
14 sary for the issuance, sale, and delivery of state general obligation
15 bonds.

16 * Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

17 (b) The state bond committee shall prepare an annual report to
18 be submitted to the governor and legislature before March 31 of each
19 year. The report must show

20 (1) all outstanding debt of debt-issuing entities of the
21 state;

22 (2) the anticipated effect on the finances and credit of
23 the state, including the effect on long-term debt capacity and credit-
24 worthiness, resulting from that debt;

25 (3) which long-term debt is state supported and which is
26 supported only by revenue attributable to the project being financed
27 by the debt;

28 (4) all long-term capital lease obligations of the state;

29 (5) the volume of short-term debt issued and retired during

1 the year by debt-issuing entities of the state;

2 (6) specific identification of each issue for which the
3 state has pledged some form of indirect support for the debt, includ-
4 ing any moral obligation of the state to support the debt;

5 (7) future bonding and debt capacity implications of legis-
6 lation enacted in the previous legislative session; and

7 (8) the recommended debt issuance capacity of the state for
8 the next two years following the year of the report.

9 (c) The state bond committee may develop written policies con-
10 cerning debt of the state.

11 * Sec. 16. AS 37.15.150 is amended to read:

12 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
13 VICES. The state bond committee may appoint an executive director who
14 may, with approval of the committee, select and employ additional
15 staff as necessary. Employees of the committee are in the partially
16 exempt service under AS 39.25.120. If the [STATE BOND] committee
17 considers it necessary and advisable, it may procure architectural or
18 engineering, fiscal agent or municipal investment, legal, and other
19 expert or specialized services at reasonable and customary fees to
20 assist it in accomplishing the most advantageous sale of the bonds.
21 The fees may be paid from the proceeds of the sale or advanced from
22 the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR]
23 or otherwise. *What is this?*

24 * Sec. 17. AS 37.15.450(a) is amended to read:

25 (a) The bonds shall be sold in the manner, price or prices,
26 [SUCH] amounts or series, and at the [SUCH] time or times [AS] de-
27 termined by the committee at either public or private sale. [BEFORE
28 SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING
29 SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS

1 ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE
2 HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS
3 RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
4 BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series
5 of them, shall be sold at such a price so that the effective interest
6 rate over the life of the bonds does not exceed 11 percent per year or
7 that rate of interest which is 125 percent of the rate of the Bond
8 Buyer Index of 20 Municipal Bond Average Yields for the week previous
9 to the date of sale of the bonds, whichever is higher. Interest shall
10 be payable annually or semiannually.

11 * Sec. 18. AS 37.15.460 is amended to read:

12 Sec. 37.15.460. BOND RESOLUTION. The committee is authorized
13 and directed to adopt the bond resolution and prepare all other docu-
14 ments and proceedings necessary for the issuance, sale and delivery of
15 the bonds or any part or series of them. The bond resolution shall
16 fix the principal amount, denomination, date, maturities, place or
17 places of payment, rights of redemption, if any, terms, form, condi-
18 tions and covenants of the bonds or each series of them. The commit-
19 tee shall also determine and provide for the date and manner of sale
20 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
21 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
22 REQUIRED BY AS 37.15.450].

23 * Sec. 19. AS 37.15.650(a) is amended to read:

24 (a) The toll facilities bonds are sold in the manner, price or
25 prices, amounts or series, and at the time as determined by the com-
26 mittee, at either public or private sale. [BEFORE SELLING A SERIES OF
27 BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF
28 SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED
29 TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A

1 BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
2 BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.) Bonds, or a
3 series of bonds, may not be sold if the effective interest rate over
4 the life of the bonds exceeds 11 percent per year or that rate of
5 interest that is 125 percent of the rate of the Bond Buyer Index of 20
6 Municipal Bond Average Yields for the week previous to the date of
7 sale of the bonds, whichever is higher. Interest is payable annually
8 or semiannually.

9 * Sec. 20. AS 37.15.660 is amended to read:

10 Sec. 37.15.660. BOND RESOLUTION. The committee is authorized
11 and directed to adopt the bond resolution and prepare all other docu-
12 ments and proceedings necessary for the issuance, sale, and delivery
13 of the bonds or any part or series of them. The bond resolution shall
14 fix the principal amount, denomination, date, maturities, place or
15 places of payment, rights of redemption, if any, terms, form, condi-
16 tions, and covenants of the bonds or each series of them. The commit-
17 tee shall also determine and provide for the date and manner of sale
18 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
19 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
20 REQUIRED BY AS 37.15.650].

21 * Sec. 21. AS 37.15 is amended by adding new sections to read:

22 ARTICLE 5. STATE-SUPPORTED DEBT.

23 Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond commit-
24 tee shall review proposals for the issuance of debt by or on behalf of

25 (1) the Alaska State Housing Authority acting as the Alaska
26 State Building Authority for the purpose of providing public build-
27 ings; and

28 (2) the University of Alaska.

29 (b) The committee may review the general programs and financing

1 plans of the agency that proposes to issue the debt as well as the
2 specific aspects of the proposed debt issue, including

- 3 (1) amounts;
4 (2) times;
5 (3) maturities;
6 (4) debt structure and security features;
7 (5) credit enhancements;
8 (6) use of proceeds;
9 (7) official documents;
10 (8) planned rating agency presentations; and
11 (9) selection, retention, or compensation of financial
12 advisors, bond counsel, trustees, underwriters, and other profession-
13 als.

14 (c) The state bond committee shall consider approval of the
15 amount and time of sale of the debt. The committee shall approve the
16 issuance of the debt if, in its judgment, issuance of the debt is in
17 the best interests of the state. The committee may limit approval of
18 the issuance of debt upon compliance with terms established by the
19 committee.

20 (d) At the time of sale of the debt, the state bond committee
21 shall review the bids or pricing of the debt, including discounts,
22 underwriting spreads, and interest rates. If the committee determines
23 that the bids or prices are not satisfactory or that the bidders are
24 not responsible, the agency may not sell the debt.

25 Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the
26 state bond committee, in its judgment, determines that the amount or
27 retirement of debt issued by municipalities and subject to reimburse-
28 ment by the state under AS 14.11.700 is not in the best interest of
29 the state, the committee may

1 (1) establish an amount or amounts, for any or all years
2 before the maturity of all of that municipal debt, that may not be
3 exceeded by the Department of Education in approving requests under
4 AS 14.11.103; or

5 (2) establish, under AS 14.11.100(j)(3), a term required
6 for the maturities of municipal debt authorized by local voters after
7 March 31, 1986.

8 * Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to
9 read:

10 (19) employees of the state bond committee.

11 * Sec. 23. This Act takes effect immediately in accordance with AS 01.-
12 10.070(c).

James
3/4/86 ✓
#2

Original sponsor: Rules/governor

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON STATE LOANS

2 CS FOR HOUSE BILL NO. 519 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to public finance; and providing for
7 an effective date."

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

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10 Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is
11 created and established a corporation to be called the University of
12 Alaska. It may in that name

13 (1) sue and be sued;

14 (2) receive and hold real and personal property;

15 (3) contract and be contracted with;

16 (4) adopt, use and alter a corporate seal;

17 (5) borrow money, issue debt, or enter into long-term
18 obligations for the purchase of facilities, goods, or services, which
19 obligations secure, in whole or in part, debt issued by another party,
20 as approved by the state bond committee under AS 37.15.770 and ap-
21 proved by law; an appropriation does not constitute approval by law
22 for purposes of this paragraph;

23 (6) do and have done all matters necessary for the purpose
24 of any function set out [FORTH] in this chapter.

25 * Sec. 2. AS 14.40 is amended by adding a new section to read:

26 Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter
27 into lease-financing agreements only with the Alaska State Housing
28 Authority acting as the Alaska State Building Authority. A lease-
29 financing agreement must provide that lease payments are subject to

1 annual appropriation. If the board intends to enter into an agreement
2 under this subsection, the board shall provide notice to the legisla-
3 ture and to the state bond committee. The notice must include the
4 anticipated annual lease payment, the anticipated principal amount of
5 the debt to be issued by the Alaska State Housing Authority acting as
6 the Alaska State Building Authority, and the anticipated total con-
7 struction or acquisition cost of the project. The board may not enter
8 into an agreement under this section unless the public building to be
9 provided has been approved by law. An appropriation for the project
10 does not constitute approval by law for purposes of this section.

11 * Sec. 3. AS 18.55.100(a)(15) is amended to read:

12 (15) acting as the Alaska State Building Authority arrange
13 or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisi-
14 tion of public buildings designed by, constructed by, or whose acqui-
15 sition has been approved by the Department of Transportation and
16 Public Facilities for lease to the state in accordance with AS 18.55.-
17 010 - 18.55.290 and AS 37.15.770.

18 * Sec. 4. AS 18.55.140 is amended to read:

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20 The authority may issue bonds and notes from time to time in its
21 discretion for any of its corporate purposes and may issue refunding
22 bonds for the purpose of paying or retiring bonds previously issued by
23 it. The authority may not issue bonds for public buildings until the
24 state bond committee has approved the proposal for the issuance of
25 debt under AS 37.15.770 and the building has been approved by law. An
26 appropriation for the building does not constitute approval by law for
27 purposes of this section.

28 * Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

29 (b) Bonds issued by the authority for public buildings must be

1 issued in the name of the Alaska State Building Authority and are
2 subject to AS 18.55.010 - 18.55.290.

3 * Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

4 (4) "bond" means any bond, note, interim certificate,
5 debenture, or other obligation issued by the authority or the author-
6 ity acting as the Alaska State Building Authority under AS 18.55.010 -
7 18.55.290;

8 * Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

9 (c) The supreme court may enter into lease-financing agreements
10 only with the Alaska State Housing Authority acting as the Alaska
11 State Building Authority. A lease-financing agreement must provide
12 that lease payments are subject to annual appropriation. If the
13 supreme court intends to enter into an agreement under this subsec-
14 tion, the supreme court shall provide notice to the legislature and to
15 the state bond committee. The notice must include the anticipated
16 annual lease payment, the anticipated principal amount of the debt to
17 be issued by the Alaska State Housing Authority acting as the Alaska
18 State Building Authority, and the anticipated total construction or
19 acquisition cost of the project. The supreme court may not enter into
20 an agreement under this subsection unless the public building to be
21 provided has been approved by law. An appropriation for the project
22 does not constitute approval by law for purposes of this section.

23 * Sec. 8. AS 24.23 is amended by adding new sections to read:

24 ARTICLE 2. LEASE AGREEMENTS.

25 Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency
26 may lease necessary office space, and contract for the lease of space,
27 for the use of the Alaska legislature and its employees.

28 Sec. 24.23.110. The Legislative Affairs Agency may enter into
29 lease-financing agreements only with the Alaska State Housing

1 Authority acting as the Alaska State Building Authority. A lease-
2 financing agreement must provide that lease payments are subject to
3 annual appropriation. If the agency intends to enter into an agree-
4 ment under this subsection, the agency shall provide notice to the
5 legislature and to the state bond committee. The notice must include
6 the anticipated annual lease payment, the anticipated principal amount
7 of the debt to be issued by the Alaska State Housing Authority acting
8 as the Alaska State Building Authority, and the anticipated total
9 construction or acquisition cost of the project. The agency may not
10 enter into an agreement under this section unless the public building
11 to be provided has been approved by law. An appropriation for the
12 project does not constitute approval by law for purposes of this
13 section.

14 * Sec. 9. AS 37.05.280 is amended to read:

15 Sec. 37.05.280. LEASES. The department shall lease necessary
16 space, and contract for the lease of space, for the use of the state
17 or an agency of the state, wherever it is necessary and feasible,
18 subject to compliance with the requirements of AS 37.05.220 - 37.05.-
19 280. A [NO] lease or contract for a lease may not provide for a
20 period of occupancy greater than 40 years. A lease agreement must
21 provide that lease payments are subject to annual appropriation. An
22 agency of the state requiring office, warehouse, or other space shall
23 lease the space through the department. [NO CONTRACT OR LEASE EX-
24 ECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS
25 BY THE STATE IN EXCESS OF \$12,000 ANNUALLY IS VALID UNLESS THE USE OF
26 THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EX-
27 PRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

28 * Sec. 10. AS 37.05 is amended by adding a new section to read:

29 Sec. 37.05.285. LEASE FINANCING. The department may enter into

1 lease-financing agreements only with the Alaska State Housing Author-
2 ity acting as the Alaska State Building Authority. A lease-financing
3 agreement must provide that lease payments are subject to annual
4 appropriation. If the department intends to enter into an agreement
5 under this subsection, the department shall provide notice to the
6 legislature and to the state bond committee. The notice must include
7 the anticipated annual lease payment, the anticipated principal amount
8 of the debt to be issued by the Alaska State Housing Authority acting
9 as the Alaska State Building Authority, and the anticipated total
10 construction or acquisition cost of the project. The department may
11 not enter into an agreement under this subsection unless the public
12 building to be provided has been approved by law. An appropriation
13 for the project does not constitute approval by law for purposes of
14 this section.

15 * Sec. 11. AS 37.15.040 is amended to read:

16 Sec. 37.15.040. SALE OF BONDS. Before selling an issue or
17 series of bonds, the state bond committee shall give notice inviting
18 sealed bids in the [SUCH] manner [AS] it may prescribe. If satisfac-
19 tory bids are received, the bonds offered for sale shall be awarded to
20 the highest responsible bidder or bidders. If the state bond commit-
21 tee determines that the bids received are not satisfactory as to price
22 or responsibility of the bidders, it may reject all bids received.

23 * Sec. 12. AS 37.15.110 is amended to read:

24 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.
25 There is created within the Department of Revenue a committee known as
26 the "state bond committee," the members of which are the commissioner
27 of commerce and economic development, the commissioner of administra-
28 tion, and the commissioner of revenue. If a member of the committee
29 is absent or otherwise unable to act, the member's designee [IN THE

1 DEPARTMENT] shall act as a member of the committee in the member's
2 place.

3 * Sec. 13. AS 37.15.130 is amended to read:

4 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commis-
5 sioner of commerce and economic development is the chairman of the
6 state bond committee and the commissioner of revenue is the secretary.
7 A majority of the members of the committee constitute a quorum. The
8 committee shall keep a full, complete, and permanent record of its
9 proceedings. All records and correspondence of the committee shall
10 be kept in the office of the commissioner of revenue. For the purpose
11 of this chapter and AS 44.62.310, public notice of 24 hours or more is
12 adequate notice of a meeting of the committee at which the issuance of
13 bonds is authorized.

14 * Sec. 14. AS 37.15.140 is amended to read:

15 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond
16 committee shall adopt the resolution and prepare the documents neces-
17 sary for the issuance, sale, and delivery of state general obligation
18 bonds.

19 * Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

20 (b) The state bond committee shall prepare an annual report to
21 be submitted to the governor and legislature before March 31 of each
22 year. The report must show

23 (1) all outstanding debt of debt-issuing entities of the
24 state;

25 (2) the anticipated effect on the finances and credit of
26 the state, including the effect on long-term debt capacity and credit-
27 worthiness, resulting from that debt;

28 (3) which long-term debt is state supported and which is
29 supported only by revenue attributable to the project being financed

1 by the debt;

2 (4) all long-term capital lease obligations of the state;

3 (5) the volume of short-term debt issued and retired during
4 the year by debt-issuing entities of the state;

5 (6) specific identification of each issue for which the
6 state has pledged some form of indirect support for the debt, includ-
7 ing any moral obligation of the state to support the debt;

8 (7) future bonding and debt capacity implications of legis-
9 lation enacted in the previous legislative session; and

10 (8) the recommended debt issuance capacity of the state for
11 the next two years following the year of the report.

12 (c) The state bond committee may develop written policies con-
13 cerning debt of the state.

14 * Sec. 16. AS 37.15.150 is amended to read:

15 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
16 VICES. The state bond committee may appoint an executive director who
17 may, with approval of the committee, select and employ additional
18 staff as necessary. Employees of the committee are in the partially
19 exempt service under AS 39.25.120. If the [STATE BOND] committee
20 considers it necessary and advisable, it may procure architectural or
21 engineering, fiscal agent or municipal investment, legal, and other
22 expert or specialized services at reasonable and customary fees to
23 assist it in accomplishing the most advantageous sale of the bonds.
24 The fees may be paid from the proceeds of the sale or advanced from
25 the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR]
26 or otherwise.

27 * Sec. 17. AS 37.15.450(a) is amended to read:

28 (a) The bonds shall be sold in the manner, price or prices,
29 [SUCH] amounts or series, and at the [SUCH] time or times [AS]

1 determined by the committee at either public or private sale. [BEFORE
2 SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING
3 SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS
4 ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE
5 HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS
6 RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
7 BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series
8 of them, shall be sold at such a price so that the effective interest
9 rate over the life of the bonds does not exceed 11 percent per year or
10 that rate of interest which is 125 percent of the rate of the Bond
11 Buyer Index of 20 Municipal Bond Average Yields for the week previous
12 to the date of sale of the bonds, whichever is higher. Interest shall
13 be payable annually or semiannually.

14 * Sec. 18. AS 37.15.460 is amended to read:

15 Sec. 37.15.460. BOND RESOLUTION. The committee is authorized
16 and directed to adopt the bond resolution and prepare all other docu-
17 ments and proceedings necessary for the issuance, sale and delivery of
18 the bonds or any part or series of them. The bond resolution shall
19 fix the principal amount, denomination, date, maturities, place or
20 places of payment, rights of redemption, if any, terms, form, condi-
21 tions and covenants of the bonds or each series of them. The commit-
22 tee shall also determine and provide for the date and manner of sale
23 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
24 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
25 REQUIRED BY AS 37.15.450].

26 * Sec. 19. AS 37.15.650(a) is amended to read:

27 (a) The toll facilities bonds are sold in the manner, price or
28 prices, amounts or series, and at the time as determined by the com-
29 mittee, at either public or private sale. [BEFORE SELLING A SERIES OF

1 BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF
2 SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED
3 TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A
4 BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
5 BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a
6 series of bonds, may not be sold if the effective interest rate over
7 the life of the bonds exceeds 11 percent per year or that rate of
8 interest that is 125 percent of the rate of the Bond Buyer Index of 20
9 Municipal Bond Average Yields for the week previous to the date of
10 sale of the bonds, whichever is higher. Interest is payable annually
11 or semiannually.

12 * Sec. 20. AS 37.15.660 is amended to read:

13 Sec. 37.15.660. BOND RESOLUTION. The committee is authorized
14 and directed to adopt the bond resolution and prepare all other docu-
15 ments and proceedings necessary for the issuance, sale, and delivery
16 of the bonds or any part or series of them. The bond resolution shall
17 fix the principal amount, denomination, date, maturities, place or
18 places of payment, rights of redemption, if any, terms, form, condi-
19 tions, and covenants of the bonds or each series of them. The commit-
20 tee shall also determine and provide for the date and manner of sale
21 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
22 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
23 REQUIRED BY AS 37.15.650].

24 * Sec. 21. AS 37.15 is amended by adding new sections to read:

25 ARTICLE 5. STATE-SUPPORTED DEBT.

26 Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond commit-
27 tee shall review proposals for the issuance of debt by or on behalf of
28 (1) the Alaska State Housing Authority acting as the Alaska
29 State Building Authority for the purpose of providing public

1 buildings; and

2 (2) the University of Alaska.

3 (b) The committee may review the general programs and financing
4 plans of the agency that proposes to issue the debt as well as the
5 specific aspects of the proposed debt issue, including

6 (1) amounts;

7 (2) times;

8 (3) maturities;

9 (4) debt structure and security features;

10 (5) credit enhancements;

11 (6) use of proceeds;

12 (7) official documents;

13 (8) planned rating agency presentations; and

14 (9) selection, retention, or compensation of financial
15 advisors, bond counsel, trustees, underwriters, and other profession-
16 als.

17 (c) The state bond committee shall consider approval of the
18 amount and time of sale of the debt. The committee shall approve the
19 issuance of the debt if, in its judgment, issuance of the debt is in
20 the best interests of the state. The committee may limit approval of
21 the issuance of debt upon compliance with terms established by the
22 committee.

23 (d) At the time of sale of the debt, the state bond committee
24 shall review the bids or pricing of the debt, including discounts,
25 underwriting spreads, and interest rates. If the committee determines
26 that the bids or prices are not satisfactory or that the bidders are
27 not responsible, the agency may not sell the debt.

28 Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the
29 state bond committee, in its judgment, determines that the amount or

1 retirement of debt issued by municipalities and subject to reimburse-
2 ment by the state under AS 14.11.100 is not in the best interest of
3 the state, the committee may

4 (1) establish an amount or amounts, for any or all years
5 before the maturity of all of that municipal debt, that may not be
6 exceeded by the Department of Education in approving requests under
7 AS 14.11.103; or

8 (2) establish, under AS 14.11.100(j)(3), a term required
9 for the maturities of municipal debt authorized by local voters after
10 March 31, 1986.

11 * Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to
12 read:

13 (19) employees of the state bond committee.

14 * Sec. 23. This Act takes effect immediately in accordance with AS 01.-
15 10.070(c).

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

February 20, 1986

The Honorable John Sund
Chairman
House Loans Committee
P.O. Box V
Juneau, AK 99811

Dear Chairman Sund:

Lease purchase financing was contemplated by the delegates to the constitutional convention when they incorporated Section 11 in Article IX. Statutory authority to do this type of financing was given to the Alaska State Housing Authority in 1966 where Chapter 60, SLA 1966, was enacted. A copy of that Act is enclosed for your ready reference.

Also enclosed are memoranda of the Attorney General, dated October 14, 1983, Wohlforth & Flint, dated January 17, 1984, and Birch, Horton, Bittner, Pestinger and Anderson, dated April 4, 1984. These memoranda deal with different questions arising out of lease purchase or, as it is frequently termed, lease revenue financing. As is pointed out in footnote 3 of the Birch, Horton et al., memorandum, between 1966 and 1974 ASHA financed 11 projects under the grant of authority contained in Chapter 60, SLA 1966.

In the context of this substantial history of activity in the area of lease revenue financing, I should like to reiterate that the purpose of HB 519 is 1) to establish a single landlord agency for the leasing by the state of buildings financed by lease revenue bonds and, 2) to provide the authority in the State Bond Committee to manage debt so acquired in a logical manner.

The bill merely seeks to order a potentially chaotic situation with regard to this type of financing. It does not mandate lease revenue financing any more than Section 11, Article IX, mandates such financing. Indeed, nothing in either the constitution or in statute compels the usage of such financing or, for that matter, compels the usage of any type of term financing. All public works projects could be financed through construction appropriations. All could be financed through general obligation bonds. Many, but not all, could be financed through revenue bonds. The method of financing should be chosen to accord with the best interests of the State after careful analysis of the short- and long-term implications of the financing.

As pointed out by Governor Sheffield in his transmittal letter, rating agencies have begun to take into account all state supported debt

The Honorable John Sund
February 20, 1986
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when measuring the creditworthiness of a state or a particular financing. It is the informed belief of the members of the State Bond Committee that to fail to enact HB 519 as applicable to all branches of government is to fail to bring order and control to the management of the state's debt.

Some concern has been expressed that the State Bond Committee would, under the terms of HB 519, be vested with the ability to thwart the will of the Legislature by refusing to issue debt or allow the issuance of debt on a whim. The State Bond Committee has been in existence since 1960 and has managed the issuance of general obligation and revenue debt sold since that time. This debt has financed a substantial number of public works for the judicial branch and the executive branch. The management of that debt in a sound manner has resulted in the state's present rating of AA by Standard & Poors and a comparable rating from Moody's, the foremost rating agencies in the United States. I know of no instance when the State Bond Committee has made a judgment as to the value of the project itself. The judgments made by the Committee have been those solely relating to the debt, and the project itself has only been of interest for the role it plays in structuring the debt.

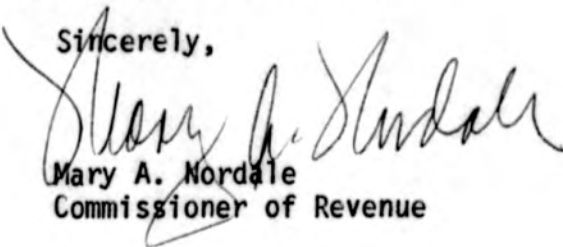
One difficulty could be presented and that would be when the dollar value of several projects, all ready for financing, exceeded the calculated capacity for new debt. Obviously, if all projects arose within one branch of government, that branch would have to establish financing priorities. If the projects arose in more than one branch, negotiations or consultations between or among those branches, conducted by the heads of those branches, would be required to establish financing priorities. The State Bond Committee would render to the negotiators what assistance it could, but since it has no authority to make selections of projects, it could not establish the priorities.

I call your attention to Section 12 of HB 519 which would require the State Bond Committee to report to the Legislature before March 31 of each year, not only as to existing debt, but also future debt and debt capacity. This is a new requirement and is sought as an additional element in the ordering and management of state debt. Such a report would enable the Legislature to make the discrete judgments it must make in authorizing or approving the projects presented during the budget process by each agency of government requiring the construction of public works projects.

The Honorable John Sund
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Such centralization of management and reporting will greatly assist the state in maintaining creditworthiness in the nation's financial markets and, more importantly, fulfill on an orderly basis the needs of the public for sound and balanced development of public facilities.

Sincerely,



Mary A. Nordale
Commissioner of Revenue

MAN:m11
86-49

Enclosures

cc: Members of House Loans Committee



LAWS OF ALASKA

1966

Source:

SB 198 am by Conference Committee

Chapter No.

60

AN ACT

To provide public buildings for the use of the state and its political subdivisions.

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

* Section 1. AS 18.55.010 is amended to read:

Sec. 18.55.010. PURPOSE OF SECS. 10 - 290 OF THIS CHAPTER. The purpose of secs. 10 - 290 of this chapter is to remedy the acute housing shortage that exists in certain localities of the state by undertaking slum clearance, low-cost housing projects, housing for persons and their families engaged in national defense activities in the state, and housing projects and housing for veterans of World War II and other citizens of the state and to remedy the short supply of necessary public buildings by providing for the financing, construction and acquisition of public buildings for lease to the state and its political subdivisions.

* Sec. 2. AS 18.55.100(a)(15) is amended to read:

(15) arrange or contract for the financing, design, construction and acquisition of public buildings;

(c) the purchase of the state for its inadequate, unsafe, or other calamity, or its certain sublease or lease assignment to the premises which is or is not authorized by (a) or (b) of this section. (1) the premises which is or is not authorized by (a) or (b) of this section. (2) a political subdivision of the state or a political subdivision of another state or political subdivision of the United States.

for lease to the state or a political subdivision of the state in accordance with secs. 10 - 290 of this chapter.

* Sec. 3. AS 18.55 is amended by adding a new section to read:

Sec. 18.55.105. LEASE OF AUTHORITY'S PUBLIC BUILDINGS TO POLITICAL SUBDIVISIONS. (a) A public building owned by the authority may not be leased to a political subdivision of the state except upon execution of a prior agreement of lease of the premises between the state and the authority. An agreement of lease shall grant an option to the state to apply rental payments made under the lease towards purchase of the premises and receive conveyance of title upon satisfaction of the purchase price. The purchase price shall be a sum equal to all costs of the authority in financing, designing, constructing and acquiring the premises leased and shall include the cost of amortizing indebtedness incurred for those purposes. Total rental payments required under the lease shall equal the purchase price of the premises leased. Upon execution of an agreement of lease between the state and the authority, the state may sublease or assign its interest in the lease to a political subdivision which satisfies the requirements of (b) of this section. A sublease or lease assignment shall include the same option of purchase and right to conveyance of title upon satisfaction of the purchase price as is afforded the state in its agreement of lease with the authority. In case of a sublease to a political subdivision, the state shall covenant with the sublessee that it will not exercise its option to purchase the premises subleased during the term of the sublease.

... a political subdivision of the
secs. 10 - 290 of this chapter.
ed by adding a new section to
OF AUTHORITY'S PUBLIC UTILITIES
(a) A public...

(b) A political subdivision may qualify for a sublease or assignment of the state's interest in a lease with the authority as authorized by (a) of this section only if

(1) the premises which are the subject of the sublease or lease assignment are sought as a replacement for a local facility which is condemned, destroyed by fire or other calamity, or is certified by a state official to be inadequate, unsafe, or otherwise unsatisfactory under the laws of the state for its intended use;

(2) the purchase price of the premises does not exceed \$2,500,000;

(3) the amount of total indebtedness outstanding on all premises subleased or assigned by the state under this section does not exceed \$7,500,000;

(4) the political subdivision agrees to assign to the state, as security for payments required under the proposed sublease or lease assignment, receipts of state taxes shared with the political subdivision, to the extent of the amount of any default in payments required under the proposed sublease or lease assignment;

(5) the Department of Commerce investigates and certifies to the governor the feasibility of a proposed sublease or lease assignment, including but not limited to certification of the fiscal capacity of the political subdivision to meet payments required under the proposed sublease or lease assignment;

(6) the proposed sublease or lease assignment is ratified by referendum vote of a majority of the qualified voters voting in a regular or special local election

provided that the voters are apprised specifically on the ballot of

(A) the term of years of the proposed sublease or lease assignment;

(B) the amount of required payments;

(C) the security required under (4) of this subsection;

(D) the option to purchase and right of conveyance; and

(E) other terms and conditions of the proposed sublease or lease assignment, as determined by the governing body of the political subdivision;

(7) the proposed sublease or lease assignment is ratified by the legislature by concurrent resolution.

(c) If a political subdivision party to a sublease or lease assignment authorized by this section fails to make timely payment of sums due to be paid under the sublease or lease assignment, the state, upon not less than 90 days' notice to the governing body of the political subdivision, may assess, levy and collect taxes within the political subdivision in an amount equal to the payments due and limited to those taxes which the political subdivision is authorized to assess, levy and collect under other provisions of law. Assessment, levy, collection and enforcement of collection shall be at the time and in the manner authorized the political subdivision under other provisions of law.

* Sec. 4. AS 18.55.286(2) is amended to read:

(2) "public buildings" means a publicly owned structure leased to the state or a political subdivision or

ers are apprised specifically on the

ne term of years of the proposed

assignment;

the state for governmental, public or educational

-5-

Approved by Governor April 7, 1966
Actual effective date: July 6, 1966

MEMORANDUM

State of Alaska

TO: Hon. Daniel A. Casey, Commissioner
Department of Transportation &
Public Facilities
AND
Hon. Lisa Rudd, Commissioner
Department of Administration

DATE: October 14, 1983
FILE NO: 366-101-84
TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch
Attorney General

SUBJECT: Construction financing of a public facility by lease agreement

By: *W.F.C.*
William F. Cummings
Assistant Attorney General
Transportation Section-Juneau
James L. Baldwin
James L. Baldwin
Assistant Attorney General
Governmental Affairs-Juneau

The Department of Administration (DOA) and Department of Transportation and Public Facilities (DOT/PF) have requested our advice whether there is sufficient authority granted by law to permit a state agency to finance the construction of a public facility on state land under a lease agreement with a developer and owner of the facility other than the state. Briefly, the lease agreement consists of a conveyance of a leasehold interest in state land to a developer who constructs a facility on the land which is leased back to the state. Upon expiration of the lease agreement, the facility either reverts to the state or the state has an option to purchase it.

Using this financing technique, DOA proposes to centralize state offices in Anchorage and DOT/PF proposes to construct a legislative hall in Juneau. Under both proposals, facilities owned by others would be located on state land. ^{1/} The answers to your questions involve consideration of the issues set out below.

1. Does financing a public facility through a lease agreement violate provisions of the Alaska Constitution governing the creation of state debt?

We believe that the financing of construction by lease is valid only if terms and conditions are imposed which provide sufficient evidence that future legislatures are not bound to ap-

^{1/} We believe that other public facilities are being studied for financing by lease agreement including facilities for the Alaska Vocational Technical Training Center in Seward and a maximum security prison.

Hon. Daniel A. Casey,
Commissioner of Transportation
Hon. Lisa S. Rudd,
Commissioner of Administration

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appropriate money for the rental. ^{2/} Article IX, section 8 of the Alaska Constitution prohibits the creation of public debt except for capital improvements and then only after authorization by the legislature and a vote of the people. The lease transactions proposed are a means to finance the construction of public facilities without directly appropriating from the general fund for the cost of construction or authorizing the creation of debt by selling general obligation bonds. This makes it imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 372 (Colo. 1983).

2. Does existing law prevent a state agency from entering into a lease agreement for the construction of a public facility?

The lease of state office space is governed by AS 37.05.220 -- 37.05.280. These statutes require a competitive bidding process with award of the contract by DOA to the lowest responsible bidder for the lease. However, the statutes provide one further requirement for office space leases which is lacking in other state contracts for the purchase of goods or services. AS 37.05.280 provides in relevant part that "no contract or lease executed after January 1, 1966, which provides for a payment or payments by the state in excess of \$12,000 annually is valid unless the use of the space to be provided for by such contract or lease has been expressly approved by the legislature by concurrent resolution." This provision requires legislative approval of virtually all leases which the state executes to procure office and other space. However, we believe that this part of the

^{2/} The advice given in this memorandum is consistent with the majority of state courts which have considered the question. E.g., Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); State ex rel. Thomson v. Gisel, 72 N.W.2d 577 (Wisc. 1958); but see Opinion of the Justices, 79 A.2d 753 (Me. 1951).

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Commissioner of Transportation
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statute is invalid for two reasons.

Article II of the Alaska Constitution requires that the legislature exercise the law-making power by the passage of a bill not by the adoption of a concurrent resolution. State v. A.L.I.V.E. Voluntary, 606 P.2d 769 (Alaska 1980). Furthermore, the requirement for legislative approval of a lease is a violation of the doctrine of the separation of powers. Governmental power is allocated among the three branches of government by the Alaska Constitution. Some powers are logically allocated to the executive and others to the legislature. The power to execute the law on behalf of the state is one which falls to the executive. Alaska Const. art. III, § 16. It is the role of the legislature to enact laws which establish the conditions under which the executive may enter into leases. Alaska Const. art. II, § 1. However, it is not appropriate for the legislature to reserve a veto power over the enforcement decisions made by the executive. The legislature may amend or repeal the leasing authority for DOA. However, the legislature may not usurp the executive function to lease facilities without destroying the system of checks and balances inherent in our tripartite system of government. 3/ Bradner v. Hammond, 553 P.2d 1 (Alaska 1976).

DOT/PF has limited authority to dispose of land acquired for public works other than highways. 4/ DOT/PF may "vacate land or part of it, or rights in land acquired for public work purposes" by executing and filing a deed in the appropriate recording district upon vacating. AS 35.20.070. "Title reverts to the persons, heirs, successors, or assigns in whom it was vested at the time of the taking." Id. All other disposals of land acquired for public works are conducted by the Department of Natural Resources (DNR).

Before DNR may lease state land, the public must be informed of the nature and terms of the conveyance. Alaska Const. art. VIII, § 10; AS 38.05.035(a)(14), 38.05.345. DNR, acting in

3/ The cited portion of AS 37.05.280 was held invalid on the basis of separation of powers and improper exercise of the law making power by the superior court in Marine View Tenants' Association v. ASHA, No. 1JU-80-1037 CIV (Nov. 1, 1981). That case was not appealed. However, this decision has limited precedential value until a final decision is rendered by the Alaska Supreme Court.

4/ AS 19.05.070 grants broader discretion to dispose of land acquired for highway purposes.

Hon. Daniel A. Casey,
Commissioner of Transportation
Hon. Lisa S. Rudd,
Commissioner of Administration

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concert with DOA, must prescribe a disposal procedure for state land which provides the safeguards required by law and permits the construction of a facility which the state will lease from the developer. That procedure may include the grant of a lease under AS 38.05.315 to the state agency responsible for the facility. The lease granted by DNR will allow the lessee agency to sublease the land for development of a leased public facility under specified terms which will include prior DNR review and selection of the sublessee according to AS 37.05.230. The sublease of the land will continue in effect long enough to secure financing for the facility. The payment of rent under the lease to the state agency for the facility would be contingent on the enactment of annual appropriations. If the lease is terminated by the failure to appropriate, the lessor would be the successor to the state agency's right to possess the building until reversion or exercise of the option to purchase.

3. Does existing law prevent a state agency from obtaining financing from a municipality to design and construct a state-occupied facility on state-owned property and then enter into an agreement with the municipality for pay-back without competitive bidding?

DOT/PF is proposing to finance the construction of the legislative hall by lease agreement. The City and Borough of Juneau (city) would sell tax exempt municipal revenue bonds, secured by the lease payments to be paid by the state. The state would then supervise the design and construction of the facilities and be the contracting authority.

As a general proposition, DOT/PF has the authority to make contracts with municipalities for public works. AS 35.05.-040(7). The purpose of this form of contract is further defined by AS 35.15.080(c), which provides in relevant part, "[a] municipality may request joint assumption of responsibilities with the department relating to the planning, design, and construction of a public works project." The term "public works" is very broad and includes public buildings. A public building is one which is "owned or controlled and held by the state for government or public use." AS 35.25.020(5) and (6).

We believe that DOT/PF may contract with the city for the planning, design and construction of the legislative hall. We reach this conclusion because under the provisions of the lease agreement, the state will have control over the building which it will hold for government or public use. Additionally, the state will have significant ownership interests in the facility because it holds fee title to the land upon which the build-

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ing will be constructed and at the expiration of the lease agreement, will own the building free of the interest of the city. However, a contract may not alter the city's responsibility for repaying the long term debt established to finance the cost of construction of the facility.

Our memorandum of May 9, 1983 indicated that AS 37.05.-230 generally required competitive bidding to award a lease agreement which provides for the construction of a public facility. However, competitive bidding is not required in all instances of public contracting. McKinnon v. Alpetco, 633 P.2d 281 (Alaska 1981). The lease transaction under consideration may present an instance where it is in the best interests of the state to negotiate directly with a municipality rather than offer the contract to the lowest bidder. See AS 37.05.230(2). A decision to negotiate directly requires a detailed finding of fact in writing by DOA. In the finding of fact, the commissioner must justify the conclusion that negotiation is in the best interests of the state. A municipality enjoys a preferred status when dealing with the state. Intergovernmental contracts are not governed by the same considerations applicable to the state when it is participating in the open market place. It is probable that a facility can be financed cheaper with municipal revenue bonds than by private means. It may be futile to obtain any advantage from the competitive bid process. If DOA sets out ultimate facts in the finding which supports the conclusion that negotiation furthers the public's interest, then competitive bidding is not required. Libby v. City of Dillingham, 612 P.2d 33, 45 (Alaska 1980)(Rabinowitz, J. concurring). However, the award without competitive bidding would be subject to judicial review to determine whether the decision was arbitrary, capricious or an abuse of discretion. McKinnon, 633 P.2d at 287; Hertz Drive-Ur-Self Systems, Inc. v. Tucson Airport Authority, 299 P.2d 1071 (Ariz. 1956); Volume Services Division of Interstate United Corp. v. Canteen Corp., 369 So. 2d 391 (Fla. App. 1979).

4. Does the appropriation to finance the site acquisition and planning for a legislative hall contain defects which prevent DOT/PF from proceeding with the project?

Section 95, ch. 106, SLA 1983 appropriates \$4,500,000 to DOT/PF plus other money received for land acquisition and facilities planning in Juneau. The land acquisition, planning, and preliminary design efforts for the legislative hall will be paid from this appropriation.

This section makes an appropriation from two sources: \$4,500,000 from the general fund and an unspecified amount from

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an unspecified source. 5/ This appropriation is for land acquisition and facility planning in Juneau.

The appropriation contains a unambiguous statement of purpose that DOT/PF is appropriated at least \$4,500,000 for land acquisition and facilities planning in Juneau. There is no specification of the public facility upon which the appropriation may be expended. The use of the \$4,500,000 appropriated for site acquisition, planning, and preliminary design for the legislative hall is within the purpose set out in the appropriation. However, the appropriation of money which may be received from other sources presents a serious legal issue. Because no amount is stated for the appropriation, sufficient authorization may not exist to expend the money beyond the \$4,500,000. 6/ Nonetheless, the unspecified source of the appropriation is presumably severable from the general fund part of the appropriation which is stated with specificity in the amount of \$4,500,000. AS 01.10.-030. Consequently, until you begin receiving amounts from "other sources," whatever they may be, the expenditure of general fund money authorized by the appropriation is not a problem.

CONCLUSION

We believe there is sufficient authority under existing law to finance the construction of a public facility by lease. However, because this financing technique is not specifically authorized by law, we cannot with absolute certainty advise you that a court would agree with our opinion. You should make allowance for this risk when you plan further development of each project to be financed by the lease purchase method.

WFC:ebc:prm/JLB:pjg

cc: Hon. Harold J. Reynolds, Jr.
Commissioner
Department of Education

5/ We presume "the other money received" was intended to include money to be provided under a lease agreement with the city as discussed in section 3, supra.

6/ Each appropriation must state an amount. AS 24.30.030. It is not necessary for the appropriation Act to set out the amount in dollars and cents if the appropriation contains provisions which make the amount capable of mathematical calculation. *Orbison v. Welsh*, 179 N.E.2d 727 (Ind. 1962).

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ALASKA DEPARTMENT OF REVENUE

January 17, 1984

JAN 30 1984

OFFICE OF THE COMMISSIONER

MEMORANDUM

Constitutional Debt Limitation/State
and Municipal Leaseback Transactions

This memorandum reviews cases relating to state and municipal leaseback transactions, focusing on the viability of such transactions under constitutional debt limitations. For purposes of clarity, it may help to begin by defining some of the terms used in this paragraph.

Our concept of "leaseback transaction" generally includes the following basic elements:

(1) one party is a state or local government which cannot or will not directly finance a capital project (with "capital project" here generally limited to those capital projects which do not generate user income other than in the form of rent from the state or local government users);

(2) a second party to the transaction is the financing entity, which may be either a public or private corporation;

(3) the financing mechanism generally involves the issuance of bonds; and

(4) the relationship between the state or local government and the corporation is established by a lease agreement under which the state or local government agrees to lease from the corporation the capital project financed with the corporation's bonds; there may also be a preceding lease or sale of land from the state or local government to the corporation for use as the site of the capital project.

By "consitutional debt limitations" we refer to those provisions in the various state constitutions which inhibit the ability of a state or local government to incur debt. These limitations generally fall into one of two categories: (1) those which prohibit debt absent voter approval except for certain

enumerated purposes; and (2) those which limit permissible debt to a particular amount, usually expressed as a percentage of revenues. Alaska's debt limitation falls into the former category, and, because of their relevance to proposed leaseback transactions in Alaska, we present here in full the four pertinent sections from the Constitution of the State of Alaska, Article IX:

SECTION 8. STATE DEBT. No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question. The State may, as provided by law ratification, contract debt for the purpose of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding at the time this constitution becomes effective.

SECTION 9. LOCAL DEBTS. No debt shall be contracted by any political subdivision of the State, unless authorized for capital improvement by its governing body and ratified by a majority vote of those qualified to vote and voting on the question.

SECTION 10. INTERIM BORROWING. The State and its political subdivisions may borrow money to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year, but all debt so contracted shall be paid before the end of the next fiscal year.

SECTION 11. EXCEPTIONS. The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

We note also the presence of Article IX, Section 16, of the Alaska Constitution, which establishes a ceiling on permissible annual appropriations by the State. While this section is not per se a limitation on debt (the section expressly exempts from its provisions appropriations of bond proceeds), it may have some effect on the feasibility of a proposed leaseback transaction to the extent that it limits the state's ability to make appropriations.

Finally, among our list of defined terms is "lease participation certificate." By this, we refer to the financing instrument used in a lease participation transaction. A "lease participation transaction" has the same basic elements described for a "leaseback transaction" with one exception: instead of or in addition to issuing bonds to finance the capital project, the corporation, as lessor of the project, issues lease participation certificates which entitle their holders to a share of the lease revenues generated by the project.

With these preliminary matters established, we proceed now to an overview of the research we have completed with regard to leaseback transactions and constitutional debt limitations.

OVERVIEW

In preparing this memorandum, we have reviewed some 47 cases decided in 26 states. The earliest case was decided in 1939, the most recent in 1982. There are earlier cases which we declined to include in this survey, primarily because of the existence of more recent cases in their jurisdictions. For ease of reference, we will refer to those cases which have invalidated leaseback transactions as invalidating cases and to those cases which have upheld leaseback transactions as validating cases.

While legal research can seldom, if ever, be satisfactorily reduced to figures and statistics, some of the numbers revealed by our research may be of interest. Of the 47 cases we reviewed, 21 were invalidating cases and 26 validating. Among the 26 states in which these 47 cases were decided, 16 states can be considered validating states in the sense that the most recent decisions in those states are validating decisions. The remaining 10 states have only invalidating decisions, but only two of those states -- Ohio and New Mexico -- have considered the question more than once. Of the 16 validating states, 10 have considered the question more than once. Six of the validating states had early invalidating decisions followed later by validating decisions. In no state has an invalidating decision followed a validating decision.

On the following pages of this memorandum, we will generally follow a chronological order in presenting the cases reviewed; however, three states -- New Jersey, Wisconsin, and Missouri -- have had such extensive judicial review of leaseback transactions that their cases are most instructive if viewed apart from the others. Therefore, the following pages will begin with cases decided in New Jersey, Wisconsin, and Missouri and will then proceed with a chronological review of the cases from the other states.

NEW JERSEY

New Jersey's supreme court has decided four leaseback transaction cases. Its first decision, McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953), became the most cited of the leaseback transaction cases of all the states. McCutcheon has been cited approvingly or for support in the invalidating cases of Arizona, Iowa, Massachusetts, Ohio, Oregon, Washington, West Virginia, and Wisconsin. It has also been cited and then ignored, distinguished, or dismissed by many of the validating cases.

In 1968, the New Jersey court expressed some clear misgivings about its McCutcheon decision, though it did not expressly overrule the decision at that time. In 1973, the court fortified the impression created in the 1968 case that it no longer endorsed McCutcheon. Again, however, the court did not expressly overrule the decision at that time. A New Jersey Appellate Court summed up the status of McCutcheon in 1981 with the following comment: "it is apparent that as precedent the case is dead; it simply has not as yet been interred." Enourato v. New Jersey Building Authority, 440 A.2d 42, 48 (N.J. Appel. 1981). Final interment arrived in 1982 when Enourato was appealed to the New Jersey Supreme Court, which expressly overruled McCutcheon.

The effect of McCutcheon on other state courts which have reached invalidating decisions should be noted. We listed above eight states whose courts have reached such invalidating decisions. Three of these states -- Arizona, West Virginia, and Wisconsin -- have since had validating cases decided in their supreme courts. The remaining five states have not had any other post-McCutcheon cases. It will be interesting to note the effect, if any, which the overruling of McCutcheon has on those states as future cases come before their courts.

McCutcheon involved a statutorily created public corporation known as the State Building Authority. The sole business of the Authority was to provide for the construction and acquisition of buildings through the issuance of its bonds. The source of income to the Authority from which the bonds were to be

repaid was the leasing of the buildings to the state and its various departments and agencies. Under the Authority's enabling statutes, the lease contracts would be "valid and binding upon the department, agency, or instrumentality of the State, notwithstanding that no appropriation was made or provided to cover the cost or estimated cost of the contract." 97 A.2d at 665.

Neither the statutory nor the lease provisions set forth by the court in its opinion indicate whether or under what circumstances title to the property would be transferred to the State; however, the statute did authorize the Authority to convey property it acquired. In any event, the most significant concern to the court, as reflected in the following passage from the opinion, was whether the lease contracts were actually purchase contracts:

While in form a way of providing the State with leasehold interests in building facilities for public use, in reality the design of the act is to enable the State by contracts of purchase to acquire for state use buildings possessed and constructed by the Authority by means of bond issues sustained by the State's promise to supply in the guise of rentals sufficient money to liquidate the bonds, available only through the medium of annual appropriations. And this in disregard of the constitutional debt limitation and the restraints laid by the organic law upon the appropriations process. There is no pretense of conformance with the debt limitation provision; there was no submission of the project to the electorate The legislation proceeds upon the hypothesis that the fulfillment of the project will not burden the State with a debt or liability within the constitutional sense. But in this the accent is on the external appearance rather than the substance. The label is unimportant; it is the essence that controls. It is an obvious truism that constitutional limitations may not be set at naught by indirection.

97 A.2d at 668. It was this piercing of the lease contract to unveil an underlying purchase agreement which primarily led the court to conclude that the transaction was governed by, and invalid under, the State's constitutional debt limitations.

Another important factor to the court was the nature of the Authority. Regarding this factor, the court stated:

There is for the reasons stated, a radical difference in the relationship between the State and the Authority and the State and a private corporate lessor....The Authority is not an independent autonomous public corporation. It may lease its building facilities only to the State, its departments, agencies, and instrumentalities....And, quite apart from the other considerations heretofore adverted to, the State's taxing power is the sole source of its revenue.

97.A.2d at 671. The court's apparent perception of the Authority as, in essence, the alter ego of the State involved in a transaction which the court viewed as, in essence, a purchase agreement created the situation necessary for the court to reach its conclusion. From the court's perspective, it was reviewing, in essence, a capital construction contract entered into by the State without the required voter approval. The result was inevitable.

As noted above, the statute made the lease payments valid and binding against the state agencies entering into the lease contracts even if the legislature failed to make appropriations for such payments. While the meaning of the statute is not clear, one might have expected the court to use the statute to conclude that any lease entered into under it would be prohibited debt by virtue of its apparent attempt to avoid the appropriation process. Instead, the court virtually ignored the statute. In fact, the following passage, which should most likely be considered as dicta, reflects the opposite situation -- one in which there is no obligation to make payments except to the extent that appropriations so provide:

The constitutional debt-limitation provision is not limited in quality and scope to debts enforceable by action. It has in view the temptation or inducement and incentive to make appropriations for "debts" beyond the prescribed amount, unless approved by the people in the manner ordained. Moral and ethical compulsions are not to be allowed to override the constitutional safeguard against improvidence and the integrity of the State's economy.

97 A.2d at 671

By the court's own account, McCutcheon stood as a rigid enforcement of the state's debt limitation provisions. Any leaseback transaction plan which reflected any indicia of a purchase -- whether by transfer of title at termination of the lease, or by the holding of title by a public corporation, or by lease payments fashioned to pay for debt service on the bonds -- would likely have failed before that court, at least to the extent that one party to the plan was a public corporation whose only customer was the State.

Fifteen years after McCutcheon, the New Jersey Supreme Court again considered a leaseback transaction case, this time with a markedly different result. The second of the New Jersey cases was Clayton v. Kervick, 244 A.2d 281 (N.J. 1968). The opinion was written by Justice Jacobs, the only remaining member of the McCutcheon court and a dissenter in that case (along with Justice, later to become Mr. Justice, Brennan).

The statute in Clayton established the New Jersey Educational Facilities Authority. The Authority was empowered to borrow money and issue bonds to construct projects to be leased to public and private colleges. The projects were anticipated to be revenue producing projects (such as dormitories), and the revenues they produced were primarily the source from which lease payments were to be derived. To this extent the transaction in Clayton was not a "leaseback transaction" as we have defined the term for purposes of this memorandum, and, indeed, it was the revenue-producing character of the projects upon which the court ultimately distinguished the Clayton situation from the McCutcheon situation.

Nevertheless, before distinguishing McCutcheon, the court referred approvingly for nearly two full pages in its opinion to the dissent in McCutcheon and to cases from other states which had rejected the majority opinion in McCutcheon. As to the McCutcheon dissent and the cases from the other states, the court stated:

these decisions, along with the dissent in McCutcheon, appear to us to be clearly the more persuasive....

244 A.2d at 281. Although the court was able to find a way to distinguish, rather than expressly overrule, McCutcheon its disenchantment with the earlier case was apparent.

Thus, while Clayton, is not, strictly speaking, a leaseback transaction case under our definition, its use by the court as the vehicle to undercut McCutcheon, to warmly embrace

the McCutcheon dissent, and to cite approvingly the leaseback transaction cases from other states rejecting the McCutcheon thesis makes the case important for our purposes. Fifteen years after writing his dissent in McCutcheon, Justice Jacobs was finally able to incorporate into a majority opinion his thoughts about the McCutcheon case. Taking full advantage of the opportunity, he recorded the following pertinent comments, among others:

In their separate opinion, the dissenting justices [in McCutcheon] referred to the fact that the generally accepted accounting practice throughout the country does not encompass future rents as debts or liabilities and that corporate balance sheets would be examined in vain for references to lease rentals payable in future years....

The majority in McCutcheon apparently viewed the rental plan as a purchase rather than a lease and as evasion rather than avoidance of the debt limitation....But, as the dissent pointed out, leases between affiliated governmental bodies are common and unquestioned in our society and there was no plausible basis for dishonoring the carefully formulated leasing arrangement between the independent Building Authority and the non-autonomous agencies of the State.

244 A.2d at 283.

Although the Clayton court chose to distinguish rather than overrule McCutcheon, and though much of what the Clayton opinion had to say about McCutcheon was, therefore, simply dicta, it should have been reasonably clear that Clayton marked the deathknell for the earlier case. Still, five years later, a New Jersey Superior Court apparently had not yet clearly received the message.

Bulman v. McCrane, 302 A.2d 163 (N.J. Super. 1973), involved the following issue as explained by the court:

Put concisely, the problem presented is whether a lease-purchase arrangement whereby a state agency contracts with a builder to erect a facility on state-owned land and lease the same to the State for a term of

years at stipulated annual rentals, with an option to purchase at intervals during the term, title to revert to the State at the expiration thereof, violates the debt limitation clause of the State Constitution.

302 A.2d at 164. After reviewing McCutcheon and Clayton, the Superior Court concluded that neither provided guidance for a situation involving a lease to the State of a non-income producing facility by a private corporation. While it avoided using either case as authority for its decision, the court nevertheless reached the McCutcheonesque conclusion that, while the arrangement was cast in the form of a lease, it was, in essence, a purchase agreement. As such, the court determined that the arrangement created prohibited debt. The reason for the court's perception of the arrangement as a purchase agreement basically rested upon the fact that the lease provided for reversion of the building (which was built on state-owned land) to the State at the expiration of the lease.

Nine months later, the New Jersey Supreme Court reversed. Bulman v. McCrane, 312 A.2d 857 (N.J. 1973). The court stated:

The fact that the State may be advantaged by ultimately acquiring title to a potentially useful building as the residue of a transaction otherwise faithful to the theory of a lease...represents no good reason for judicial assiduity in laying hold of that circumstance to destroy the transaction as an unconstitutional debt. The sole obligation of the State here is for future installments of rent. They will presumably be paid out of current revenues as annually appropriated for the purpose. Under settled principles, there is no present debt in the constitutional sense.

312 A.2d at 863-864 (footnote omitted).

The most recent of the New Jersey leaseback transaction cases is Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982). The statute in this case, very much like that in McCutcheon, created a state building authority the sole function of which was to construct buildings for lease to the State. Rental payments, made subject to annual appropriations, were the sole source of repayment of the bonds issued by the Authority to finance the construction of the buildings. The bonds, of course,

expressly stated on their face that they were the obligations of the Authority and not the State. In a relatively brief review of the question, the court rejected the claim that the Authority's bonds would create a state debt. The court noted:

The Authority's creditors have notice that their only remedy lies against the Authority.

Nor does the liability of the State on its lease agreements with the Authority create any debt of the State. Both the statute and the lease make clear that all rent payments from the State are subject to legislative appropriations....

Since the Building Authority Act does not authorize the creation of any debts by the State, the debt limitations clause...does not apply to the Authority's debts or any obligations of the State on its lease agreements with the Authority. We have already disapproved the contrary result reached by a sharply divided Court in McCutcheon...and now expressly overrule that case.

448 A.2d at 456.

These New Jersey cases, from McCutcheon to Enourato, demonstrate an evolution in judicial thinking with regard to leaseback financing. Several of the early cases took the view expressed in McCutcheon of rigid adherence to debt limitation provisions. Under that view, the enforceability of an obligation claimed to exist against a state was not determinative. Any arrangement which appeared to be or could plausibly be said to be a purchase agreement was equated with debt. If there were any moral obligation to make payments or even if the court surmised that, because of practical considerations, the legislature would most likely make the appropriation for the payments regardless of the existence of any moral or legal compulsion, that, too, could be equated with debt. We believe the modern trend and certainly the majority position is more closely attuned to the Enourato view. As long as the obligation of the state under the lease agreement is clearly subject to annual appropriation by the legislature, as long as the bonds issued to finance the project clearly identify the foregoing and clearly indicate that they are not the obligations of the state, as long as state property is not encumbered (a factor extensively discussed in the Wisconsin cases reviewed below), and as long as the enabling statutes

authorizing the transaction reflect all of the foregoing, the likelihood is that the transaction will be upheld.

WISCONSIN

Like New Jersey, Wisconsin's supreme court has reviewed four cases concerning leaseback transactions. Unlike New Jersey, however, all of Wisconsin's cases were decided in a two-year period (1953 -- 1954), and, in its four decisions, the Wisconsin court has not experienced the dramatic change in attitude reflected in New Jersey's cases.

The first Wisconsin case was State v. Giessel, 65 N.W.2d 529 (Wisc. 1954) (herein "Giessel I"). The plan in Giessel I called for the incorporation of a non-profit corporation by the State Building Commission. The Commission would lease state land to the corporation. The corporation would construct a building on the land and lease both land and building back to the Commission for the use of state agencies. As security for its loans, the corporation would have the ability to mortgage its lease of the land and of any buildings on the land. One project of the corporation was to construct an addition to an existing state office building. To secure financing for the project, the corporation intended to mortgage the lease to the corporation of the land and existing building.

The court found no fault with the financing plan except with regard to the mortgaging of an interest in state property. As to such mortgaging, the court declared the plan unconstitutional and void, stating:

Logically there would seem to be just as much coercion on the part of the state to pay an indebtedness, for the payment of which existing state property, or an interest therein, had been pledged as security but the state had not otherwise agreed to pay the debt, as

the state had made itself directly liable for the payment thereof.

65 N.W.2d at 540.

Three months later, the court decided State ex rel. Rogers v. Milligan, 66 N.W.2d 326 (Wisc. 1954) (herein "Milligan I"). This case involved virtually the same facts as in Giessel I and was decided in accordance with that case.

Early in 1955, the court had before it State ex rel. Rogers v. Milligan, 69 N.W.2d 485 (Wisc. 1955) (herein Milligan II). Once again, the facts were virtually identical to Giessel I and Milligan I except that here the building company as lessor of the land (which was owned by the city and leased to the building company) and building, instead of mortgaging its leasehold interest in the land, would be able to re-enter and take possession of the land and building if the city failed to pay its rent. The court saw no distinction in this feature of the lease and ruled the plan unconstitutional, noting, however, that if the building company were also the owner of the land "this objection to the lease would be eliminated." 69 N.W.2d at 487.

Finally, toward the end of 1955, the Wisconsin court considered State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955) (herein "Giessel II"). Decided only two years after McCutcheon, Giessel II became the second most prominent case on leaseback transactions (after McCutcheon). In a lengthy analysis of the leaseback transaction before it, the court considered McCutcheon and rejected the conclusions of that case, stating:

That case is distinguishable from the present situation in that it rests on legal premises which this court has not adopted....This court....has heretofore held that no debt is created unless the state itself is under a legally enforceable obligation.

72 N.W.2d at 589. The Wisconsin court indicated various distinguishing factors between the two cases and between the constitutions of the two states. Whether it was a result of those distinguishing factors or, more likely, a result of a plain disagreement between the two courts, the Wisconsin court reached conclusions opposite to those of the New Jersey court with respect to two significant legal issues: first, as noted above, the Wisconsin court found no constitutional debt in the absence of a legally enforceable obligation; and second, the Wisconsin court, though it did not find an installment purchase contract to exist in the plan before it, indicated that even if such contract did exist it would not necessarily create state debt (this second conclusion being no more than a corollary to the first in that a purchase contract, to the same extent as a lease, creates no debt in the absence of a legally enforceable obligation).

The plan before the court in Giessel II was a typical leaseback transaction involving a private, nonprofit corporation as the financing entity. The corporation was empowered to either purchase or lease land from the state for the purpose of constructing buildings on the land and either leasing or subleasing,

depending upon the interest initially conveyed to the corporation, the land and building to the state. There were three causes of action presented to the court in Giessel II.

The first cause of action related to a lease and sublease. Rent on the sublease was calculated to enable the corporation to retire the indebtedness to be created in the construction of the building. The sublease provided that "it is mutually agreed by the parties hereto that the corporation, its successors or assigns, hereby waive, relinquish and release any and all rights of re-entry, or to re-take possession of the herein demised premises, and hereby agree not to exercise any such rights, in the event of nonpayment of rent or of other defaults hereunder by the University, its successors or assigns." 72 N.W.2d at 580. The second cause of action involved the same type of arrangement with the same re-entry waiver.

The third cause of action related to a sale of land by the state to the corporation. The corporation was to build an office building on the land and lease it to the state building commission. The loan by the corporation to finance the construction was to be secured by a mortgage on the land. The lease provided that if the legislature failed to appropriate money for rental or for any other breach of the lease, the corporation would be entitled to "enter on, and expel, the commission from said premises forthwith, and without notice, and the corporation may from time to time apply all monies held by the corporation as security for faithful performance by the commission of its covenants and undertakings hereunder, to the payment of all damages sustained by the corporation by reason of any such default, which damages shall include, without limiting the generality of the foregoing thereby, the cost of decorating, altering and improving the premises and brokers' commission incurred in reletting the same, and also the difference between the net income actually received by the corporation from said demised premises upon reletting and the rent limited herein." 72 N.W.2d at 581. The lease further provided that it was made subject to a mortgage made by the corporation to its lender. Under the mortgage, rents to be paid by the commission were pledged to the lender.

With regard to these causes of action it should further be noted that (1) the state consented to a pledge or assignment of the state's obligation to pay rent by the corporation to its lender; (2) the state purchased equity in the building projects described in the first two causes of action in amounts greater than fifty percent of the cost of the projects; and (3) the state was authorized to use income derived from existing state buildings to pay the rent on the building described in the first cause of action.

The court first considered whether the state's consent to the assignment of its rental payments to the corporation's lender created debt. The court ruled that it did not and referred to the principle enunciated in Giessel I that the payment of future rent is not a presently existing debt. 72 N.W.2d at 584. The court noted that the assignment of the rents simply changed the party entitled to receive the rents if paid and did not obligate the state to pay the corporation's obligations.

The court next considered whether the state's investment in the projects led to prohibited debt. The court rejected the contention, stating that the investment did not obligate the state to pay all or any portion of the sums borrowed by the corporation to construct the buildings "even though good judgment may dictate that it do so voluntarily". 72 N.W.2d at 586.

The court next encountered the old McCutcheon argument that the leases and subleases were, in effect, contracts of purchase which created impermissible state debt. As noted above, the court chose not to follow McCutcheon and adhered to its general principle that where there is no obligation against the state to make payments, whether under a lease or under a purchase contract, there can be no debt.

Finally, the court considered whether the state's agreement to use income from existing state buildings to pay the rent on the building leased from the corporation created a state debt. The court noted that the nature of the fund from which the rental payments were to come had no bearing on the nonenforceable and contingent nature of the state's obligation and, therefore, did not affect the court's determination that no debt had been created.

To the degree that McCutcheon was rigid, Giessel II can be said to be flexible in considering its constitution's debt limitation provisions. Giessel II represents the position that as long as the state's obligation is nonenforceable and contingent and as long as there can be no loss of state-owned property there is no state debt.

MISSOURI

The first of the Missouri cases is Board of Public Buildings v. Crowe, 363 S.W.2d 598 (Mo. 1962). The financing entity in that case was a public corporation which had authority, once it constructed a building in a city, to require any state agency which occupied rental quarters in such city to rent space from the corporation's building and to contribute from funds

appropriated for such agency's support a proportion of the rentals of the building. It was argued in the case that the payment of rentals from funds appropriated to the state agencies and taken from revenue raised by taxation would create a "liability" of the state. The court noted that no rents could be paid by any agency unless the legislature appropriated money to that agency. Once such an appropriation was made, the money lost its character as general state revenue. The court rejected the contention and sustained the transaction.

Crowe was followed in 1971 by New Liberty Medical and Hospital Corporation v. E. F. Hutton and Company, 474 S.W.2d 1 (Mo. 1971). In this case the Missouri court did find constitutionally prohibited indebtedness arising from the provisions of the lease agreement used in the leaseback transaction. Under the agreement, the hospital district (which was subject to the state's constitutional debt limitations) was obligated unconditionally to pay rentals "without abatement, deduction, set-off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstances whatsoever." 474 S.W.2d at 6. The court noted that

This is more than the usual obligation of lessee to pay rent for premises furnished. It is an unconditional undertaking to pay a sum total which will equal the principal and interest on the debentures plus taxes, costs and certain other items over a 30-year period, even if for some reason the premises become unavailable for use of lessee. This is assuming indebtedness which must be paid in all events.

474 S.W.2d at 6. Not surprisingly, the court invalidated this leaseback transaction. A similar lease agreement was used in the third Missouri case, Scroggs v. Kansas City, 499 S.W.2d 500 (Mo. 1973), and it, too, was invalidated by the court.

The last of the Missouri cases was St. Charles City-County Library District v. St. Charles Library Building Corporation, 627 S.W.2d 64 (Mo. 1981). Like the lease agreement in the Colorado Gude decision, discussed later in this memorandum, the district here was able to avail itself of annual options to renew. Because of this feature, the court distinguished Scroggs and held that there were no long-term repayment obligations created on the part of the district and, hence, no violation of the constitutional debt limitations of Missouri.

OTHER STATES

Having reviewed the cases of three of the most active courts in the leaseback transaction area, we proceed in this part to review the remaining cases from the other states. As noted earlier, this review will proceed in chronological order.

The earliest case in our survey is State v. Griffith, 22 N.E.2d 200 (Ohio 1939). The leaseback transaction in this case involved a public corporation which constructed additions to state mental hospitals and subleased the buildings back to the state Department of Public Welfare. Under their contract, the department pledged "all and every part of its available source of income" to pay the rent on and to maintain the buildings. There were a number of elements to the transaction to which the court took exception in invalidating the arrangement.

While the court accepted the concept that pure revenue bonds (that is, those payable solely from the revenues generated from the project financed with the bonds) were acceptable under constitutional debt limitations, the court could not accept a general obligation bond of a public corporation. This was particularly so in a situation, as in this case, where the public corporation was joined in its obligation by the Department of Public Welfare

The court noted that

the obligation of the Department of Public Welfare of the state of Ohio under its contract with the authority to pay as rental for the state property turned over to the authority the sum of \$421,500 per annum for twenty-five years, plus other expenses of the authority is an absolute and outright obligation of the department, an arm of the state, on account of such bonds. In addition the department obligates itself to liquidate the indebtedness to the authority by pledging "all and every part of its available sources of income" and "to fix the amount or amounts to be charged and collected for the support of patients and inmates of the hospitals under [its] control...so as to be sufficient in the aggregate to provide available funds to pay the maintenance costs of said buildings...and to pay the Public Institutional Building Authority the sums" promised....

22 N.E.2d at 205. The court additionally disapproved of the pledging of income derived from existing buildings in addition to the income to be derived from the buildings financed with the bonds. The court reasoned that "to the extent that the income from the use of these buildings is diverted to the payment of rental to the authority for the purpose of servicing these bonds, the general revenues from taxation to support these institutions must necessarily be increased to the same extent. The income from the institutions ought to be increased, by reason of the new structures, but there will also be greater expense in administration and upkeep." 22 N.E.2d at 205.

Plainly, the most serious problem in the Griffith situation was the outright pledge by a department of the state to pay a sum certain annually under contract with the corporation. Because of the number of concerns expressed by the court, it is difficult to surmise how a provision making all payments subject to annual appropriation by the legislature might have changed the court's conclusion, but such provision could only have helped the situation.

In 1941, New Mexico's supreme court rendered the first of its two leaseback transaction cases, State Office Building Commission v. Trujillo, 120 P.2d 434 (N.M. 1941). Trujillo presented a lengthy and considered analysis of leaseback transactions in the light of constitutional debt limitations and became another oft-cited and significant case in the area.

As much as any other case in the field, Trujillo clearly pointed out the dual considerations inherent in any leaseback transaction involving a public corporation. The court carefully considered the relationship of the public corporation in Trujillo to the state and then considered the nature of the obligation entered into by the state itself.

The statute creating the corporation in Trujillo designated it "a public body corporate as an agency of the State." The court immediately seized upon this language and noted that "it is through such agency that the State is to act, and being an agency, its acts are the acts of the State." 120 P.2d at 440. The conclusion that the bonds of the corporation are then debts of the State itself could hardly be avoided from that point. It may not be likely that the same difficulty would be encountered in Alaska considering the Alaska Constitution's express reference to obligations of public corporations as exceptions to this state's debt limitation provisions. (Constitution of the State of Alaska, Article IX, Section 11); however, it is certainly advisable in any event to give the courts a clearer indication that a separate and independent legal entity is intended to be

created as has generally been done in the statutes creating Alaska's present public corporations.

From the perspective of the obligation created by the other state agencies in entering into the lease contracts, it was urged upon the court that the rental payments should not be considered debt for the reason that they amounted to current administrative expenses. This, of course, was the argument accepted by the Wisconsin court in *Giessel II*; however, the facts in this case did not permit such a conclusion. There was no provision in the agreement or in the statute making the payment of rent by the state agencies contingent upon appropriation for the purpose; in fact, once the agencies entered into the lease agreement, both the statute and the agreement prevented them from terminating the lease except under narrowly specified circumstances. As the court noted:

Subject only to the one condition set out in said section, the state would be obligated to continue payment of rentals until the indebtedness of the Commission was satisfied. This would mean, so long as the agencies did not recede from the lease agreements under the one specified condition, that future legislatures would be bound to provide appropriations for payment of rentals.

120 P.2d at 448 (emphasis in original). The lesson from this aspect of the case is the now familiar refrain: the obligation of the state agency to pay rent must be contingent upon the legislature's decision to appropriate for that purpose. Such a provision might not have saved the case before a court such as that in McCutcheon, but it could have made a difference in many of the cases.

The next leaseback transaction case was Opinion of the Justices, 79 A.2d 753 (Maine 1951). In this lone entry into the leaseback transaction arena by the Supreme Court of Maine, the state senate presented to the Justices a proposed leaseback transaction the only significant feature of which was a statutory provision which appeared to make it mandatory upon the state and the public corporation to enter into a lease agreement upon completion of construction of the building by the corporation. The lease agreement was to provide rents sufficient to retire the corporation's bonds. There is no provision indicating that rental payments by the state were subject to appropriations.

The court foreshadowed the McCutcheon analysis by finding the "so-called" lease to be a contract of purchase.

The so-called rental is not true rent, to wit, payment for the use of property. The total amount of so-called rental is the purchase price the State is to pay for the property....Being a contract of purchase, obligating the State to pay the purchase price, unless the entire amount thereof is to be paid pursuant to appropriation presently made from funds or revenues currently available therefor, such contract of purchase would in the constitutional sense be a liability created by the Legislature on behalf of the State.

79 A.2d at 756 (emphasis in original).

In 1955, two leaseback cases from two states emerged. In McArthur v. Smallwood, 281 S.W.2d 428 (Ark. 1955), the rental payments from the state to the public corporation were to come first from legislative appropriations and, if such appropriations were not forthcoming, then from a special levy to be assessed by various county treasurers. Noting particularly that there was no obligation on the legislature to make the appropriations, the court upheld the transaction. The special levy was upheld on the basis of the "special fund doctrine", which was also a significant consideration in the Trujillo case. The "special fund doctrine" provides, in essence, that the repayment of bonds from a special tax or levy does not violate state debt limitations because the general taxing power of the state is not involved. Any reliance upon such a doctrine in Alaska, of course, would require serious consideration of the dedicated fund prohibition in the Alaska Constitution (Article IX, Section 7).

The other 1955 case was State v. Yelle, 289 P.2d 355 (Wash. 1955). Yelle relied extensively on McCutcheon, employed the same analysis, determined that the lease was actually a purchase, and invalidated the arrangement. The opinion does not clearly indicate whether there was any compunction on the legislature to make the appropriations to pay for the rents, nor is it clear that the rental payments were contingent upon such appropriations. In any event, such considerations probably do not make much difference with regard to the McCutcheon progeny. We have discovered no Washington case subsequent to the crumble or demise of McCutcheon.

Illinois' court considered a municipal leaseback transaction in People v. Public Building Commission of Chicago, 142 N.E.2d 67 (Ill. 1957). Of particular importance to that case was a provision in the statute which required municipalities entering into leases with the public corporation to "enact an ordinance or

resolution providing for the levy or a direct annual tax sufficient to pay the annual rental under the lease when it becomes due and payable." 142 N.E.2d at 72. The Illinois court noted that its definition of "indebtedness" was "not as liberal as that indulged in by a majority of jurisdictions." 142 N.E.2d at 75. Nevertheless, even in the more liberal jurisdictions, a provision such as that embodied in the statute quoted above would have been likely to lead to a finding of debt. The Illinois court had no trouble reaching such conclusion.

In 1958, the Indiana Supreme Court was presented with a leaseback transaction involving a public corporation. In Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958), the lease agreement between the public corporation and its state agency lessees contained a provision, much like that in Trujillo, which permitted the lessees to terminate their agreement only under specified conditions. Nevertheless, the court upheld the agreement.

In Book, the court was presented with a series of assertions reflecting a McCutcheon-like analysis of the situation. The court repudiated each assertion as it was presented. Thus, the court, looking to the statute creating the public corporation and to previous Indiana cases, denied that the public corporation was "in reality" the State of Indiana. It followed that since the corporation was a corporate body separate from the state, the holders of its bonds would have to rely upon the corporation's revenues derived from rental income and would not have any recourse against the state. For these reasons, the court concluded that the bonds of the corporation were not debt of the state. In response to the assertion that the lease agreements were "in reality" contracts to pay the corporation's bonds, the court stated the general rule that

a municipal corporation may lawfully contract for necessary services over a period of years and agree to pay therefor in periodic installments as the services are furnished. In such cases the aggregate of the amounts to be paid as the services are rendered under such contracts are not considered as an indebtedness of the corporation, and such contracts are not rendered invalid by the fact that the aggregate of the installments exceeds the debt limitation.

149 N.E.2d at 294 - 295. In any event, the fact that the state agencies might obtain title to the buildings they rented at the expiration of their lease would not be sufficient to convert the

lease into a purchase agreement. The court further stated, reminiscent of Giessel II, that the Indiana debt limitation provisions applied only to legally enforceable obligations. Since the court found no language binding any future legislature to make appropriations for the rent under the lease agreement and since the rentals could be paid only by appropriations made by the legislature, the court concluded that the lease agreement created no constitutionally prohibited debt.

Giessel II and Book are located on the more liberal end of the leaseback transaction spectrum, with Book perhaps a bit more liberal because of the court's willingness to overlook the lease provision apparently limiting the state agencies' ability to terminate the lease.

It is worthwhile at this point to temporarily abandon our chronological order to briefly review a later Indiana case -- Teperich v. North Judson-San Pierre High School Building Corporation, 275, N.E.2d 814 (Ind. 1971). We note the case only for its reaffirmation of the Book principle that rent payments "cannot be considered debt until the payments become due." 275 N.E.2d at 817.

In 1960, the Massachusetts court issued its solitary opinion relating to leaseback transactions. Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960), involved, as the financing entity, a nonprofit corporation created by statute. The sole purpose of the corporation was to construct a building to be leased, and ultimately transferred, to the state. Citing McCutcheon, Trujillo, and Yelle, among others, the court embarked upon its analysis by "looking through form to substance". 165 N.E.2d at 892. The court first considered the nature of the corporation and then considered the nature of the lease agreement.

Although the court agreed that the corporation was an entity separate from the state, it nevertheless concluded that the corporation was "nothing more than a mere intermediary to carry out only one purpose." The following factors were pertinent to the court's analysis: (1) the corporation's sole purpose was to construct and lease to the state a building to be used only by the state; (2) the corporation was given powers of eminent domain; (3) the building, at the expiration of the lease, would become the absolute property of the state and the corporation would fade from existence; and (4) the corporation had virtually no power to deal with its property except as provided in the lease agreement. Reflecting upon these factors, the court then considered the statutory provision that the bonds of the corporation would not constitute a debt of the state or a pledge

of its faith and credit. The court's opinion as to this was as follows:

This disclaimer is ineffective if, contrary to the disclaimer, such be the natural and reasonable effect of the statute.

165 N.E.2d at 889.

With regard to the lease agreement, the court noted:

Viewing realities, we consider that the so-called "rentals" are not really rentals at all, but in practical effect are installment payments on account of a purchase by the Commonwealth of an office building, with full title to be acquired at an indefinite future date.

165 N.E.2d at 890. One of the important characteristics of the lease agreement leading the court to this conclusion was the requirement in the agreement that the state continue to make rental payments even if the building was not completed on time or was damaged or destroyed.

This 1960 case, which to the best of our knowledge has not been followed by any other Massachusetts leaseback transaction case, employed the McCutcheon-like analysis of piercing through form to arrive at the court's impression of substance. In this regard, the presence of a provision making the state's rental payments contingent upon legislative appropriations may not have changed the result, particularly if the Massachusetts court adopted the McCutcheon view that a mere moral imperative or even a practical likelihood for making the appropriations would suffice to create debt. However, the absence of such a provision allowed the court to reach its conclusion without the necessity of taking that position, and the presence of the affirmative duty of the state to make the rental payments even in the absence of a completed or inhabitable building for the state to occupy doubtless provided a strong incentive to the court to find a prohibited debt.

Another 1960 case, which was also the only decision on the subject we have found for its jurisdiction, was Application of the Oklahoma Capitol Improvement Authority, 355 P.2d 1028 (Ok. 1960). While Ayer emulated McCutcheon and Yelle, the Oklahoma court closely followed the pattern of Giessel II and Book.

There were two significant features of the statute under review in the Oklahoma case. First, a provision of the statute required the state treasurer to purchase the public corporation's bonds issued to provide financing for the building to be leased to the state. Second, the public corporation was authorized to require state agencies and departments to occupy space in the building and pay rent. A third feature also merits consideration, that feature being the intended rental of a portion of the building to federal government agencies.

Despite the first two of the foregoing features of the statute, the court reasoned that housing for state agencies was essential to state government. If the state did not own the housing, a proper method of providing it was through leases.

The court then noted:

We see no real distinction between a state department entering into a lease agreement and paying rent to a private party and having the same transaction with the Authority. In either event the state department receives a service in the form of housing which the state itself does not own. In addition the state will obtain two office buildings paid for in part from rentals from federal agencies.

355 P.2d at 1032. Given the second of the statutory provisions described above, we must allow that other courts might have seen a difference.

Two lower court California cases were decided in 1962 and 1963. In McClain v. County of Alameda, 25 Ca.R. 660 (Dist. Ct. of App., First Dist., Calif. 1962), and City of La Habra v. Pellerin, 30 Ca. R. 752 (Dist. Ct. of App., Fourth Dist., Calif. 1963), the California courts upheld leaseback transactions on two bases:

(1) the leases did not create an immediate indebtedness for the aggregate amount of the installment rent due; and

(2) under previous California cases, an obligation imposed by law on a city (such as, in these cases, to provide facilities for city functions) is not an indebtedness or liability within the meaning of the California debt limitation provisions. At least with respect to the first of the foregoing bases, the California courts, without citing Giessel II or Book, reflected a judicial attitude similar to that expressed in those other cases.

The following year, 1964, brought forth Montana's only entry in the leaseback transaction area, State v. City of Missoula, 395 P.2d 249 (Mont. 1964). The transaction there was somewhat unique to the extent that the financing entity involved was an individual -- Theodore Jacobs. In a succinct opinion, the Montana court expressed its belief that

A debt payable in the future is obviously no less a debt than if payable presently; and a debt payable upon a contingency, as upon the happening of some event, such as the rendering of service or the delivery of property, etc., is some kind of debt, and therefore within the prohibition.

395 P.2d at 251 (quoting from State ex rel. Helena Water Works v. City of Helena, 63 P. 99 (Mont. 1900)). Thus, with virtually no discussion of the elements of the lease from Jacobs to the city, the court reached the opinion that the lease would constitute prohibited debt. It is worth noting another difference in outlook, if not legal analysis, between this case and the California and Oklahoma cases described above: that is, in both California and Oklahoma the need for governmental facilities was viewed as rising to the level of a legal duty, while the Montana court expressed the following opinion as to the need of Missoula for the building in question:

No one, we believe, would seriously contend that the acquisition of a building valued at approximately \$46,000 would be a reasonable and necessary expense requisite to maintain the corporate existence of the City of Missoula.

395 P.2d at 251.

It took the Arizona court five years -- from 1965 through 1969 -- to ultimately conclude its leaseback transaction case. The case began as City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 408 P.2d 818 (Ariz. 1965). Quoting extensively from McCutcheon, Trujillo, and Yelle, the court adopted the principles and reasoning of those cases and invalidated the leaseback transaction because (1) it was, in reality, a purchase agreement; and (2) the source of payment of rents by the city under the lease was to come from the general revenues of the city and not from a special fund derived other than from general taxes.

The next year, the court was asked to clarify its opinion as to whether the debt limitation would be violated if the lease agreement expressly provided that rental payments would come only from excise and ad valorem taxes and not from the city's general taxes and general fund. City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 412 P.2d 43 (Ariz. 1966). Under such circumstances, the court indicated it would find no debt limitation violation.

After fully complying with the clarifications presented in the court's 1966 supplementary opinion, the City of Phoenix found itself once more challenged over the lease agreement. The City sought a peremptory writ of prohibition from the Supreme Court to prevent the City's challengers from proceeding with their case in the superior court. The Supreme Court issued the writ, thus finally concluding the case. City of Phoenix v. Superior Court, 455 P.2d 257 (Ariz. 1969).

In Hall v. Baltimore, 250 A.2d 233 (Md. 1969), the Maryland Supreme Court upheld a leaseback transaction relying on the prevalent common law rule that rent to fall due beyond the current period is not a present debt. The court specifically noted that there was no pledge of municipal assets as the leases involved were subordinate to the city's interest in the property. The court cited with approval Giessel II to the same effect.

Another 1969 case, McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969) presented a leaseback transaction which should probably be the model for future endeavors in the area. The court provided the following summary of the plan which reflects a careful and thoughtful preparation for the avoidance of debt limitation problems:

The leases must contain a provision that rents shall be payable solely from appropriations to be made by the legislature and any revenues derived from the operation of the leased premises. In the event of nonpayment of rents by the State, the building or facility may be leased to others for suitable purposes. A lease may be made for a term of one year from the time a building is completed and ready for occupancy, with an option to the lessee to extend the term for one year from the expiration of the original term and for one year from the expiration of each extended term until the original term of the lease has been extended for a total number of years to be agreed upon at a rental which, if

paid for the original term and for each of the full number of years for which the term of the lease may be extended, will amortize the total cost of the erection of the building and appurtenances.

164 N.W.2d at 609. Referring to the common law concept that future rents do not create present indebtedness, the court upheld the arrangement. To the suggestion that the state would have a moral obligation to discharge the bonds, the court responded:

While the legislature in making appropriations may not be confined to legal obligations, but may recognize moral or equitable obligations...there would exist under the proposed leases no binding legal obligation to authorize expenditures for rentIn the event of nonpayment of rent or failure of the legislature to appropriate funds the Building Authority is empowered to lease the building or facility to others for suitable purposes to meet accruing payments.

164 N.W.2d at 609 -- 610. And the court finally concluded:

Since the stipulation of the State to pay rents to the Building Authority will be subject to available appropriations and current revenues, the inhibition of the debt limitation provisions of the Constitution will not apply.

164 N.W.2d at 611.

We temporarily abandon our chronological order once more to note here the subsequent South Dakota case, Millar v. Barnett, 221 N.W.2d 8 (S. Dak. 1974). Citing McFarland, the court again upheld a leaseback transaction similar to the transaction under review in the preceding case.

In 1970, three cases from three states were decided. New Mexico produced its second leaseback transaction case (following the 1941 Trujillo decision) in McKinley v. Alamoqordo Municipal School District Authority, 465 P.2d 79 (N.W. 1970). The leaseback arrangement in Alamoqordo stands in stark contrast to that crafted in the McFarland case. The financing entity in this arrangement was to be a nonprofit corporation whose membership was identical to the membership of the municipal agency which would be the corporation's lessee. As part of the lease

agreement the municipal corporation was to agree to budget and appropriate sufficient funds to pay the rent under the lease and, moreover, the municipal corporation agreed to the placement of a lien on all of its income from all sources, except ad valorem taxes, to cover the rental payments. There was at least one mitigating factor; that is, the lease was for only one year with successive one year extensions and was terminable at the request of either party. This mitigating factor was insufficient to prevent the court from invalidating the agreement.

In the Trujillo tradition, the court recognized the corporation as "nothing more nor less" than the municipal agency. Thus, the bonds of the corporation would necessarily be debts of the municipal agency. Although the court averred that the pledge of the municipal agency's income and the lien on funds to be received by the municipal agency were not critical factors in its decision (465 P.2d at 81), the court nevertheless referred to these factors in its concluding paragraphs:

Here the only source of money to pay rent to accrue is state tax proceeds and amounts received from federal sources. As a matter of fact, these moneys are specifically pledged by the terms of the lease. It is quite apparent that the funds to be used are those realized from "general taxation" held unconstitutional in Trujillo.

465 P.2d at 84.

While McFarland reflects careful consideration in the preparation of a leaseback transaction to avoid the constitutional concerns expressed by the various courts, Alamogordo seems to represent a studied indifference to those concerns. The result is that New Mexico has two invalidating cases and none validating. It would be enlightening to see how the New Mexico court would handle a case involving a leaseback transaction which reflects some concern for judicial precedent.

The Nevada case of State v. Hancock, 468 P.2d 333 (Nev. 1970), approaches, but does not achieve, such an effort. The leaseback transaction in that case, invalidated by the Nevada court, provided on the one hand that rentals from the state would derive from biennial appropriations from the legislature; on the other hand, the drafters of the plan curiously chose to also provide that the legislature could choose to pledge itself to make future appropriations as necessary to pay the rents.

The Nevada court followed the McCutcheon, Trujillo, Yelle, and Ayer approach of looking to "the essence" of the plan to reveal the true nature of the public corporation as the alter ego of the state and, thus, concluded that the corporation's debt was the state's debt. The argument was presented to the court that biennial legislative appropriations for the rent would not present a debt problem, with regard to the lease, because the constitutional concern does not extend to expenses payable out of current revenues. The court conceded that the argument carried "some persuasive force" but, in reviewing the transaction as a whole, was convinced that

successive biennial appropriations for rent until the bonds issued by the Authority are fully retired must be considered in the same light as a legislative pledge to make future appropriations for the same purpose. It is inconceivable that the legislature would default in either instance since the good faith of Nevada would not allow it.

468 P.2d at 338.

The third 1970 case was from West Virginia; it was followed in 1971 by a second West Virginia case. The 1970 case invalidated a leaseback transaction, while the 1971 case upheld such a transaction.

The 1970 case is State ex rel. Hall v. Taylor, 178 S.E.2d 48 (W. Va. 1970). Although the legislation authorizing the transaction in Taylor indicated that the rents to be paid by the state would come from annual appropriations, the court found an obligation, as a practical matter, for the state to make the appropriations. In the court's words:

It is an exercise in fiction, semantics, sophistry or circumlocution, devoid of substance, to assert that the statute in question does not create a state debt. It is a debt which, in the contemplation of the statute, must necessarily be paid in annual installments over a period of years and by successive legislatures from fiscal year to fiscal year. The state is legally obligated to furnish office space and to pay other expenses incidental to the continued existence and functioning of the various state agencies and departments which rented office space in the building in question. The legislature is le-

gally obligated to make appropriations from time to time to defray the costs of such essential governmental operations.

It is no answer to the invalidity of this statute and of the action of the Building Commission in issuing these bonds to say that some future legislature is not required to make an appropriation to one of these agencies or departments in order that the agency or department might make its payment of rent. The failure to make such an appropriation could result in the holders of the bonds taking over the buildings involved, and it is incomprehensible that any legislature would permit any such thing to happen. However, the test is not whether a future legislature is required to make such appropriations. The test is the authority to do so. Clearly the only source of income by which the bonds may be liquidated is the rent to be paid by the occupants of the buildings. Therefore, the reason for the invalidity of the statute lies in the authority of the legislature to make such future appropriations. It is not necessary for this Court to wait until some future legislature refuses to make an appropriation to make a determination of the legality of this procedure.

178 S.E.2d at 57 and 58 -- 59 (emphasis in original). The reasoning employed by this court is singular among all the leaseback transaction cases.

In the following year, the West Virginia court reviewed another leaseback transaction which cured the problem apparently perceived by the court in the Taylor case. In State ex rel. State Building Commission v. Moore, 184 S.E.2d 94 (W. VA. 1971), the rental payments from the state were to be made from a special fund into which flowed proceeds from the state's sale of alcohol. Since the state's general revenues would not be considered for payment of the rents, the court was not offended by the plan. Curiously, however, a provision in the lease agreement which required the state agency occupants of the building to provide for the maintenance and operation of the building from their general revenue funds appropriated by the legislature survived the court's review notwithstanding Taylor. Without any explanation, the court simply ruled that payments under the provision by

the state agencies would conform with the provisions of the Act under review.

Ohio decided its second leaseback transaction case in 1972. The court's opinion in State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972), began with the court's recitation that

At the outset, it should be emphasized that this court examines this transaction, not for what it purports to be, but for what, in essence, it is. In short, the court looks through the form to the substance of the proposed transaction.

285 N.E.2d at 365. The court's conclusion should come as no surprise. True to the McCutcheon, et al., tradition, the court pierced the lease agreement veil to find the hidden purchase agreement. The court concluded that

the entire contract price is a present indebtedness of the city. The city has presently obligated itself to make future payments, and the Company has a present right to compel each succeeding administration to make those payments. The city's obligation under the contract is a continuing one, and no succeeding city council can refuse to appropriate available funds (generated by its taxing power) for payment.

285 N.E.2d at 367 (footnote omitted).

Of particular interest in the opinion is a footnote in which the court states;

If such an unconditional obligation of payment [by the city] did not exist, but instead, the city were free to periodically choose whether to continue to appropriate monies for the purpose of acquiring eventual complete ownership of the property in question, an entirely different question might have been presented.

285 N.E.2d at 367, n.6.

Another 1972 case, Bachtell v. City of Waterloo, 200 N.W.2d 548 (Iowa 1972), also followed the "piercing" approach to

conclude that a leasing arrangement was merely a subterfuge for an attempted purchase. The court listed many of the cases both pro and con which had preceded it in the leaseback area. The court considered that those which had upheld such transactions were distinguishable from this case, though the court scarcely attempted to explain either the distinguishing features of the other cases or even the particular objectionable features of the plan under review.

In Opinion to the Governor, 308 A.2d 802 (R.I. 1973), the Rhode Island court responded to questions proposed by the governor of that state regarding a contemplated leaseback transaction. The governor asked whether lease payments under the transaction would involve debt of the state. Viewing the position that such payments would not constitute debt as the majority view and as the "sounder and more reasonable" position, the court answered the governor's question in the negative.

The Oregon Supreme Court, in Martin v. Oregon Building Authority, 554 P.2d 126 (Ore. 1976), reviewed a leaseback transaction which, among other things, provided that the state's obligation to make rental payments was unconditional as long as the premises were available for rental and which also provided that the state's full faith and credit supported such obligation. As the court noted regarding the use of a public corporation in such a scheme to attempt to avoid the constitutional debt limitation:

It is a scheme which would fool only a lawyer.

554 P.2d at 131. Although the provisions of the leaseback transaction noted above were relatively outlandish, the court's opinion creates the impression that even a more moderate plan would have reached the same result as long as it involved a public corporation whose only purpose for existence was to issue bonds to provide financing for state projects and whose only source of revenues was rental payments from the state. In this regard, Martin should probably be added to the list of McCutcheon-Trujillo-Ayer-Yelle type cases.

In an unusually flexible approach to debt limitations and leaseback transactions, the court in In re Request for Advisory Opinion Enrolled Senate Bill 558 (Being 1976 PA 240), 254 N.W.2d 554 (Mich. 1977), indicated that a leaseback transaction would be upheld even though it acknowledged that, under the plan, future legislatures would be bound to appropriate the necessary public funds to meet the state's rental obligation. The court took the following pragmatic approach to the question:

However, in that its power to invoke sovereign immunity can particularly or even totally obstruct enforcement, the state differs essentially from non-governmental contractors....Although in granting limited jurisdiction over all contract claims against the state to the Court of Claims...the State of Michigan has waived its sovereign immunity, even that waiver is subject to legislative revocation.

254 N.W.2d at 547. This case probably should not be considered likely precedent for most other states.

In Laramie Citizens for Good Government v. City of Laramie, 617 P.2d 474 (Wyo. 1980), the leaseback transaction was not unusual except to the extent that it involved the purchase of a ranch by a public corporation with the intent that the corporation would lease the ranch to the city so that the city would have the benefit of water rights on the ranch. The public corporation was created solely for that purpose. Nine of the eleven members of the corporation's board of directors were elected city officials. The corporation had no financial base except for the rents it would receive from its lease of the ranch to the city. All of this led the court to the conclusion that the corporation was the alter ego of the city and that the corporation's debt was prohibited.

The court also considered the nature of the lease agreement and concluded that it was a mere subterfuge for a purchase of the ranch. In its opinion, the court listed the following factors which reflect a lease rather than a purchase:

provision for cancellation of the lease by the lessee at its option at yearly intervals, or the converse provision that the term is for one year with yearly renewal options; provision for payment of a fixed and substantial amount at the end of the term, or the converse that there is no provision for transfer of title at the end of the term without payment at that time of a fixed and substantial amount in addition to rental payments; provision that the lessor pay the cost of upkeep, repair, taxes, etc., the amount of the rental payments being equal to the debt service amount.

617 P.2d at 479.

Eberhart v. Mayor & City Council of Baltimore, 433 A.2d 1118 (Md. 1981), was Maryland's second leaseback transaction case and was by far the most ornate of the plans we have reviewed. The subject of the plan was a parcel of land with improvements owned by the City. The City rented the land and building on a rent free at will basis to a culinary arts institute. The City desired to extract its capital out of the property while still enabling the institute to rent the property at no cost. Under the plan, the City would sell the building to a limited partnership and lease the land to the partnership for thirty-five years. The partnership would lease the land and building back to the City under a thirty year lease. The partnership, in order to obtain financing, would seek the issuance of industrial development bonds by the Industrial Development Authority of the Mayor and City Council of Baltimore, a public corporation. The authority would issue its bonds, and the proceeds of the sale of the bonds would be loaned to the partnership to finance the partnership's purchase of the building from the City. As security for the bonds, the partnership would grant a mortgage on the building and its leasehold interest in the land, which would be assigned to the trustee for the bonds. The mortgage would be subordinate to the City's interests as tenant under the ground and building lease and as fee simple owner of the land.

The partnership would also assign to the trustee the right to receive rent payments from the City.

This plan was challenged on the same grounds enunciated in the McCutcheon line of cases; that is, that the authority was simply the alter ego of the City so that the authority's bonds constituted debt of the City and that the use of the general funds of the City to pay rent under the lease amounted to an obligation on the part of the City to repay the authority's bonds. Although the court noted and the City conceded that the obligation to pay rental under the lease was a full faith and credit obligation of the City, the court rejected the challenge and upheld the arrangement.

With regard to the contention that the authority was the alter ego of the City, the court listed an interesting collection of statutory provisions rebutting the position.

The provisions of Art. 41, secs. 266A--I indicate that an industrial development authority is not simply the alter ego or instrumentality of the county or municipality which creates it. An authority is a body politic and corporate and "a political subdivision of the State." Section 266A-3 mandates that none

of the five members of the board of directors that govern an authority and exercise its powers by resolution may be officials or employees of the incorporating county or municipality. A director, although appointed by the incorporating county or municipality, may be removed only for misfeasance, neglect of duty, or other good cause. Sec. 266A-3(b)-(7). Section 266A-3(a) provides that the incorporating county or municipality may exercise its own powers under secs. 266A--I even though it has chosen to incorporate an authority with similar powers. These various statutory provisions suggest that an authority is a distinct entity from its incorporating county or municipality.

433 A.2d at 1127.

With regard to the notion that the City's rental payments will be used to pay the authority's bonds and therefore constitute debt, the court noted that the determinative factor was the payment of bona fide rent by the City. The court stated:

Uncontradicted evidence was presented to the circuit court that the City's estimated annual rental payments under the Ground and Building Lease would represent the fair rental value of the Property. The correlation of the City's rental payments to Culinary Associates' debt service obligation does not, therefore, destroy the essential character of the Ground and Building Lease as a lease. Because the rent reserved under the Ground and Building Lease represents the fair rental value of the Property, and there are no factors that suggest a contrary result, the Ground and Building Lease is a bona fide lease. Thus, the City's obligation to make rental payments will not create debt even though the obligation to pay rent is an enforceable, full faith and credit obligation of the City.

433 A.2d at 1125.

Another 1981 case, Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981), also upheld a leaseback transaction against

similar contentions. The transaction took the form of a lease-back to the City of land by a nonprofit corporation, which lease provided for 25 consecutive one-year renewals which were automatic unless the City elected against the renewal. The rental payments from the City under the lease would be used to repay the bonds issued by the corporation, and the security for the bonds would include a lien on the corporation's building and on the corporation's lease of the land. Upon payment of the bonds, the corporation would transfer title to the building to the City.

The court first considered the contention that the corporation was the alter ego of the City, noting that, where the alter ego doctrine applies, the court will disregard a corporate entity, or pierce the corporate veil, and consider the actions ostensibly taken by the corporation to be those of its shareholders. The court noted that "the record fails to establish the essential element that the building authority is to be used to promote injustice or protect fraud." 636 P.2d at 697. The court found no fraud upon the taxpayers of the City, though the taxpayers had earlier voted on and rejected a general obligation bond issue to finance the facility now being financed through the issuance of the corporation's bonds, because it is not the construction of a facility that requires voter approval but rather, the creation of general obligation debt. The plan before the court did not create any general obligation debt. As to any potential fraud on purchasers of the bonds, the court noted:

The record reflects that the financing plan has been carefully structured to assure that the city has no obligation on the anticipation notes or the revenue bonds and that purchasers of those instruments will be made fully aware of that fact by the terms of the notes and bonds. The purchasers also will be advised that the city's lease and attendant obligations can be terminated at the end of any year and that, should the city elect to terminate its lease, the security for the building authority's obligations is limited to the municipal office building itself and the building authority's 25-year lease on the building site.

636 P.2d at 698.

The court then considered whether the City's rental obligation for future years under the lease agreement constituted proscribed debt and concluded that it did not.

Of particular importance to our conclusion that the city's rental obligations for future years do not constitute debt in contravention of Colo. Const. Art. XI, Sec. 6 is the lease provision that those obligations are contingent upon exercise of the city's renewal options. We have held that discretionary or

contingent obligations are not constitutional debt. "To constitute a debt in the constitutional sense, one legislature, in effect, must obligate a future legislature to appropriate funds to discharge the debt created by the future legislature."

636 P.2d at 699.

Finally, the plaintiffs in the case urged the court to take the McCutcheon "total picture" approach to determine that the plan as a whole amounted, in essence, to a subterfuge and an evasion of the constitutional debt limitations. Taking such an approach, the court reached the opposite conclusion. Recognizing that the corporation was created solely for the purpose of providing financing for the project after the voter's had disapproved general obligation indebtedness for the project, the court found "no evil in seeking an alternate means of achieving a result so long as the alternate is itself consistent with the law." 636 P.2d at 699 -- 700.

As noted earlier, there is a real difference between the city's proposed plan and the plan which was rejected by the voters. That difference is the absence of any obligation of the city on the anticipation notes or revenue bonds under the new plan. We are aware of the argument that, although the city's lease is terminable in form, practicalities dictate that the likelihood of termination is remote because the city hall will be specially designed to city specifications and because of the prospect, gaining substance with each rental payment, that the city will become the owner of the building when the bonds have been retired....The ability to terminate its lease gives the city flexibility which is real, not illusory. We cannot say that the city will never avail itself of its termination rights.

636 P.2d at 700.

The final case in our review is Baliles v. Mazur, 297 S.E.2d 695 (Va. 1982), involving the financing of state capital projects through the issuance of revenue bonds by a public corporation of the state. To the question of whether the revenue bonds constituted debt of the state, the court answered they did not, noting that the enabling legislation specifically denied such assertion. To the assertion that the issuance of the revenue bonds was a transparent attempt to evade the constitutional debt limitations, the court summarily disagreed.

CONCLUSION

The foregoing review of cases demonstrates that the majority of jurisdictions which have considered the issue accept leaseback transactions as constitutionally permissible methods for financing public facilities. It is our opinion that the majority view upholding such transactions would be followed in Alaska. Moreover, we are also of the opinion that the categorization of the agreement between the state and a financing entity as either a "lease" or an "installment purchase contract" is insignificant as long as the state's obligation to make payments is contingent upon annual appropriations by the legislature for that purpose. Thus, whether the arrangement is for a lease or for an installment sale, we believe the courts in Alaska will uphold it.

We noted in the "Overview" to this memorandum that 16 of the states whose cases we have reviewed can be considered as "validating states" in the sense that the most recent cases in those states are cases which uphold leaseback transactions. Ten of the states can be considered invalidating states. This does not necessarily mean that leaseback transactions are prohibited in the other ten states.

The only significance to the categorization of the 16 states as validating states is that we can be sure that in a clear majority of the states a constitutionally valid leaseback transaction can be created. It may be equally true that constitutionally valid leaseback transactions could be created in some or all of the invalidating states, with some changes in the features of the transactions presented to the courts in those states as a result of recent cases.

The following list describes features of a leaseback transaction which may be considered significant in analyzing the transaction under constitutional debt limitations. We emphasize that these should not be considered as "musts" (with the exception of item "3" below) but are provided only as suggestions. If all other considerations allow and if the consensus is to take

the most conservative approach, the preparation of a leaseback transaction containing all of the suggestions listed below would come as close as possible to satisfying the most conservative of the invalidating state courts. It should be recognized, however, that other considerations are likely to call for different or even conflicting features. We do not mean to imply that those other considerations cannot or should not be accommodated. Again, the following list is intended only to provide suggestions for contemplation in fashioning a leaseback (or installment purchase) agreement.

1. The financing entity, whether a public corporation or a private corporation, should have some business to perform other than and in addition to the financing of the particular project to be leased to the state. One of the common themes of the invalidating cases is the "alter ego" argument. If the financing entity has some other purpose for existence it will help to refute that argument.

2. For the reason stated in "1", the financing entity should have some source of revenue other than rents to be paid by the state.

3. In any lease agreement with the state, the state's obligation to pay rent must be contingent upon annual appropriations by the legislature.

4. The amount of rent to be paid by the state should bear some resemblance to "fair rental value" for the property rather than simply being based on debt service requirements for the bonds.

5. If possible, title to the property should remain in the financing entity (if a public corporation) at the expiration of the lease; alternatively, the state should be required to pay a significant amount to exercise an option to purchase at the term of the lease.

6. The lease should be terminable by the state at any time without any further obligation.

7. The financing entity should have the ability to lease the facility to users other than or in addition to the state during the period of the lease.

8. Should the state terminate the lease, the financing entity should have control over the use or disposition of the facility.

9. No existing state property should be encumbered except for the leaseholder interest granted to the financing entity.

10. If title to the property on which the facility is to be built remains in the state, provision should be made in the lease agreement for the disposition of the facility at the termination or expiration of the lease if the state does not exercise its purchase option.

11. The statute, the bonds, and any other pertinent documents should clearly indicate that the bonds are not obligations of the state and are payable solely from the revenues derived from the project.

12. Should the legislature fail to appropriate money for rental payments or the state fail for any reason to make rental payments, it should be clear that neither the financing entity nor the bondholders have any recourse against the state, though the financing entity may endeavor to enter into other lease agreements, and, if the financing entity holds title to the land and building, it may re-enter and take possession thereof.

13. If a financing entity is to be specially created for the purpose (which we advise against; see "1" above), membership in the entity should not include officers of the state.

14. There should be no possibility of loss by the state of any of its pre-existing property.

15. There should be a provision reducing or eliminating the state's rent to the extent that the facility is not timely completed or, upon completion, becomes unusable.

16. Any long-term lease should be prepared as a one-year lease with the proper number of annual options to renew.

17. Revenues from other state facilities should not be pledged as security for the bonds. This is particularly so in Alaska given our state's dedicated fund prohibition.

18. The statute creating the financing entity, if any, should carefully describe the financing entity as having a separate and independent legal existence.

19. The financing entity, if a public corporation, should not be given powers of eminent domain.

20. The financing entity, as lessor to the state, should agree to pay the cost of upkeep, repairs, taxes, etc. with regard to the facility.

21. If the financing entity is created by statute, its directors should be removable from office only for malfeasance, neglect of duty, or other good cause.

Finally, with respect to the applicability of this memorandum to lease participation certificates, we perceive no reason why such certificates should be considered differently from revenue bonds or why lease participation transactions should be considered differently from leaseback transactions.

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April 4, 1984

State Bond Committee
Department of Revenue
State of Alaska
Pouch SB
Juneau, Alaska 99811

Attention: Mr. Milt Barker

Ladies and Gentlemen:

You have requested that we review various issues raised by the proposed lease-purchase financing by the State of Alaska ("State") of various State facilities.

Under the proposed financing structure, the Alaska State Housing Authority ("ASHA") would issue bonds or notes in order to provide funds to pay the costs of construction of the State facilities. Pursuant to a lease agreement ("Lease") between ASHA, as lessor ("Lessor"), and the State, as lessee, the Lessor would lease the State facilities and lease or sublease^{1/} the underlying land (collectively, the "Facilities") to the State. The State would be obligated to make rental payments^{2/} on a fixed basis throughout the term of the Lease in amounts sufficient to pay when due the principal and interest on the Lessor's outstanding bonds or notes. The State's rental payment obligation would be subject to annual appropriations; failure by the State legislature to appropriate sufficient funds to make rental payments would result in the termination of the Lease. Upon the expiration of the term of the Lease, the State would pay a predetermined purchase price in order to acquire title to the Facilities.

-
- ^{1/} If Lessor does not own, but rather leases from the owner thereof, the underlying land, the Lessor would sublease the land to the State.
- ^{2/} The interest component of the State's rental payments would be exempt from federal income taxation, assuming compliance with all applicable federal tax law requirements.

The question we have considered is whether this proposed financing of the Facilities would be in violation of the debt limitations set forth in the State Constitution. Analysis of this general issue requires consideration of two component issues: (1) whether debt issued by ASHA would be found to constitute prohibited State debt under the State Constitution and (2) whether the State's rental payment obligation under the Lease would be found to constitute prohibited State debt under the State Constitution.^{3/}

Article IX, § 8 ("Section 8") of the State Constitution provides in pertinent part:

No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.

Article IX, § 11 ("Section 11") of the State Constitution, however, excepts from the Section 8 debt limitations revenue bonds of a public corporation of the State, as follows:

The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation.

^{3/} We note that between 1966 and 1974 ASHA issued eleven separate series of bonds in the aggregate principal amount of \$106,150,000 to finance construction of a variety of capital projects for lease to the State. The bonds were secured by lease rentals from the State. Over \$60 million of the bonds remain outstanding. 1984 Moody's Municipal & Government Manual 244-246.

Thus, Section 8 restrictions on incurring State debt apply only to obligations against the general credit of the State. 1959 Op. Att'y Gen., No. 39.

If the debt to be issued by ASHA to finance the Facilities will fit within the Section 11 exception, the Section 8 debt limitations will not be applicable. In National Bank of Alaska v. State of Alaska, Department of Revenue, Sup. Ct. Op. No. 2480 (File No. 5482), 642 P.2d 811 (1982), the Supreme Court of Alaska ("Court") found that bonds issued by ASHA do not constitute debt of the State subject to the Section 8 debt limitations.^{4/} The Court based its conclusion on § 18.55.160 of the Alaska State Housing Authority Act ("Act"), which provides in pertinent part as follows:

The bonds of the authority are not a debt of the state or a political or municipal corporation or other subdivision of the state and each bond shall so state on its face. Neither the state nor a political or municipal corporation or other subdivision of the state other than the authority is liable on the bonds, nor are the bonds payable out of funds or properties other than those of the authority. The authority may not pledge the faith of the people of the state for a loan or obligation. Bonds of the authority are not a debt, indebtedness or the borrowing of money within the meaning of any limitation or restriction on the issuance of bonds contained in the constitution or laws of the state.

^{4/} In National Bank of Alaska, the Court held, *inter alia*, that ASHA bonds (and bonds of the Alaska Housing Finance Corporation) are not "state obligations" for purposes of the Alaska Business License Act. Bonds at issue in the case appear to have included lease revenue bonds referred to in footnote ^{3/} above.

Without expressly referencing the Section 11 exception the Court found that § 18.55.160 of the Act placed ASHA bonds outside of the scope of the Section 8 debt limitations: "the ASHA . . . bonds in the instant case are not, by the very terms of AS 18.55.160 . . . state debts backed by general treasury funds." Id. at 817.

The Court cited as controlling two of its earlier decisions on the issue of whether bonds of public corporations are subject to the Section 8 debt limitations: DeArmond v. Alaska State Development Corporation, Sup. Ct. Op. No. 116 (File No. 285), 376 P.2d 717 (1962) (enabling act provisions determined finding that bonds of Alaska State Development Corporation are not debts of the State) and Walker v. Alaska State Mortgage Association, Sup. Ct. Op. No. 353 (File No. 669), 416 P.2d 245 (1966) (enabling act provisions determined finding that bonds of Alaska State Mortgage Association are not debts of the State within the scope of Section 8).

Thus, we conclude that ASHA bonds issued in conformance with the Act in order to finance the Facilities on the terms outlined above would not constitute prohibited debt of the State.

Arguably, the provisions of Section 11 as applied to a revenue bond financing secured by rental payments made by ASHA pursuant to the Lease are dispositive of the entire issue and render irrelevant the question of whether the Lease, in itself, constitutes State debt. Nonetheless, the majority of jurisdictions which have considered this issue have upheld the validity of lease financings of public facilities under state constitutional debt limitations. The generally accepted view is that a lease arrangement between a state and an independent state agency constitutes state debt only if the state presently has an unconditional, legally enforceable obligation binding future legislatures to make future annual rental payments under the terms of a multi-year lease. See, e.g., Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981); State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972); Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958); State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955). If, however, under the terms of a multi-year lease the state has a present obligation to pay current rental payments out of current revenues and only a contingent, legally

nonenforceable obligation at the discretion of future legislatures to make future annual rental payments, no prohibited debt is created. Thus, the essence of the majority rule is that no constitutionally prohibited debt results from a state's obligation to make future annual rental payments under a multi-year lease if the obligation is conditioned upon legislative appropriations. See e.g., Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982); Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969).^{5/}

We are of the view that a lease-purchase financing of the Facilities on the terms outlined above is valid under Section 8 debt limitations. Support for our view comes from several sources.

In the Walker opinion, supra, at 253 and 254, the Court cited approvingly in footnotes two of the landmark decisions holding that lease-purchase financings do not violate state constitutional debt limitations. Although it cited the Book and Giessel opinions specifically in connection with its resolution of the issue of whether the debt of a public corporation constitutes state debt, it is reasonable to assume that the Court would similarly embrace the holdings in those decisions validating lease-purchase financings.

In the October 14, 1983 Informal Opinion of the Attorney General (File No. 366-101-84),^{6/} the Alaska

^{5/} In this connection we have also reviewed the following authorities, inter alia: Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960); State v. Yelle, 289 P.2d 355 (Wash. 1955); McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953).

^{6/} Although opinions of the Attorney General are not controlling on a court, his opinions are entitled to great weight. See Allison v. State, 583 P.2d 813, 817 (Alaska, 1978) in which the Court adopted the following statement from a California appellate court decision:

While opinions of the attorney general are not controlling as to the meaning of the statute the fact that his opinions

(Cont'd)

Attorney General opined in accordance with the majority position that a lease financing of a public facility by means of a lease agreement between the State and the developer of a public facility would not violate Section 8 if future legislatures of the State are not bound to appropriate funds for rental payments. As the Attorney General explained in interpreting Section 8:

[It is] imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 872 (Colo. 1983).

Further support for our conclusion can be found in Proceedings of the Alaska Constitutional Convention, pages

have not been challenged and that he is the officer charged by law with advising the officers charged with the enforcement of the law as to the meaning of it, entitle his opinions to great weight. (citations omitted)

2435 - 2437.7/ Although the delegates to the Convention do not appear to have addressed directly the precise issue of the constitutional validity of lease financings of public facilities by the State, the following excerpts from an exchange between Delegate V. Fischer and Delegate White regarding the committee proposal form of Section 11 8/ suggest that the delegates viewed lease-purchase financings as being within the scope of the Section 11 exception:

V. FISCHER The committee proposal in Section 10 authorizes the floating of bonds by public corporation when the only security from such indebtedness is the revenue of the enterprise or public corporation. The Committee, in putting that in, has specifically told us in the commentary^{9/} that they're condoning

7/ Warren v. Boucher, 543 P. 2d 731, 735 (Alaska 1975) (In interpreting a constitutional provision, the Court "must infer the purposes and intentions of the framers from the language of the constitution itself, with careful regard for the apparent aims which the framers had in mind.")

8/ Referred to therein as Section 10.

9/ As noted in a Memorandum to the Constitutional Convention Committee on Finance and Taxation summarizing the comments of various finance specialists on proposal forms of Sections 8 and 11:

The prohibition against incurring debt except by referendum in Section 9 [Section 8] and the exceptions in Section 11 as pertains to revenue bonds of public corporations would appear to be an open invitation to create 'authorities,' in the Pennsylvania pattern, for the financing of public improvements.

(Cont'd)

a practice which is used in every state as a means of getting around this kind of bonding restriction as we currently have in Section 8. In other words, we put the provision in Section 8, it is a cumbersome provision. We are telling the state that that of course is of too much bother. Therefore, go ahead and create a separate corporation; if you want to build highways, set up a toll road, set up a separate corporation. If you want to put up public buildings, set up a separate corporation and many states have done that, float bonds and then the state purchases those buildings from that corporation. What happens in those cases? In those cases the credit of the state is not pledged . . .

. . . .

WHITE:

Mr. President, just in closing, briefly, in answer to Mr. Fischer I think he has brought a side issue in here by mentioning Section 10. If Mr. Fischer can draft language that would eliminate the necessity for Section 10, I'm sure the Committee would go for it. The reason Section 10 is in there is because it has been found that no matter what you do, as far as the Committee can find, that way can be found to get around debt limitations, and, therefore,

See Kelley v. Earle, 190 A. 140 (Pa. 1937), in which the Supreme Court of Pennsylvania upheld the validity under state constitutional debt limitations of lease financings between the State of Pennsylvania and the General State Authority for the construction of public projects.

April 4, 1984

if in order to avoid suits in court you might just as well make the authority clear. . . . [I]f the legislature wants to take this end way around of getting at it and going to special authorities they are subject to check by the people, the people will know what's being done and they will react accordingly if they are not in favor of it. . . . Id.
(Emphasis added)

In addition to reflecting the liberal, modern approach of the framers of the State Constitution, these comments suggest that the delegates did not consider as prohibited debt an obligation of the State to make payments to acquire a public facility financed with debt of a public corporation. It appears that the delegates contemplated and condoned reading Section 11 as authorizing an outright purchase by the State of a public building from the financing public corporation, a more extreme debt limitation circumvention device than the proposed lease-purchase financing.

Other statements of delegates to the Convention demonstrate that the fundamental impetus behind the Section 8 debt restrictions was the framers' desire to restrict the State's ability to contract debt prospectively. Since the proposed lease-purchase financing of the Facilities would not entail the creation of a rental payment obligation binding future legislatures of the State, it is not likely that the Court would find that such a financing contravenes the Section 8 debt limitations.

Thus, in view of the apparent aim of the framers of the State Constitution in imposing the Section 8 debt limitations and in granting the Section 11 exception therefrom, and in light of the approach taken by the Court in this general area, we are of the opinion that the Lease would not constitute debt of the State.

After you have had an opportunity to review our views, we would be happy to discuss them, and any related concerns which you may have, with you at your convenience.

Very truly yours,

BIRCH, MORTON, BITTNER,
PESTINGER AND ANDERSON

MAYER, BROWN & PLATT

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Credit Survey Of State General Obligation Debt

1985

Credit Survey Of
State General Obligation Debt
(1985)

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INTRODUCTION

In the period which has followed the recent recession, the performance of the states on the whole has markedly improved. This is due to the fact that most states have a high reliance on sales tax revenues and income tax revenues, and that these sources of funds benefit positively from an upturn in the economy. Certain states have also seen improved revenues due to the implementation of increased tax rates. During this period certain states have imposed tougher controls on state expenditures which, when combined with higher revenues, have resulted in stronger general fund balances.

Some areas that continue as question marks in state performance are tax-payer initiatives which would put pressure on revenues, as well as the price levels of specific resources that a state may rely heavily upon for funds. As an example, the weakness in oil prices has severely strained the revenue stream of such states as Louisiana, Texas and Alaska. As an indication of just how big an impact this source can have, consider that for every \$1 drop in the price of oil, these states lose approximately \$150 million in revenues. Finally, the stream of funds to the state coffers from the Federal government remains a large question mark as it concerns the amount of aid which can be expected from this source.

When considering the rating to place on a state credit, the above factors play a very large role. In addition to these areas, the aspects which are unique to each state are examined. Included in this analysis is an examination of the historical performance of financial policy makers as to whether operations have been run conservatively or if estimations of revenues and expenditures have consistently been beyond reasonable expectations. A history of good operations tends to indicate similar performance in the future. Also examined are the economics of the states, with positive emphasis on those exhibiting well-diversified and growing characteristics, as well as on those striving to diversify. States which possess economies reliant on one or two industries, particularly if cyclical industries, are closely scrutinized for other aspects which can help to overcome this problem. Other pieces in the analytical puzzle include the willingness to raise revenue sources, debt levels, wealth levels and historical employment levels. When combined, all of the above areas give us an idea of just how the state will perform, and helps us to assign a rating on outstanding debt.

Definition of Ratios

Net G.O. Debt Per Capita - This is a measure of the state's debt burden. By dividing net G.O. debt by the state's population, we gain a better perspective of the amount of debt per person that is supported by the general taxing powers of the state.

Net G.O. Debt as a % of Personal Income - This ratio divides the net G.O. debt by the state's total personal income. It provides a tool for standardizing and measuring the burden of a state's debt, and gives an indication of the taxpayer's ability to support the debt.

Net G.O. Debt as a % of Full Market Value - By dividing the net G.O. debt of the state by the full market value of all real property in the state, a perspective can be gained on the relationship between the size of debt and wealth of the state. This percentage also allows insight into the burden and magnitude of a state's debt relative to other states.

General Fund Balance as a % of General Fund Revenues - This ratio gives an indication of a state's financial performance by relating its degree of solvency to its existing revenue capacity.

U.S. Trends and Averages

Unemployment

1984: 7.5%

Five year average: 8.3%

Per capita income (1984): \$11,675

Median Debt Ratios

Per capita: \$258

Debt as % of personal income: 2.3%

Debt as % of full market value: 1.1%

Trend of State Revenue Sources (as % of total revenues)

	<u>Sales Tax</u>	<u>Income Tax</u>	<u>License Tax</u>	<u>Other</u>	<u>Total</u>
1957	58.1	17.6	15.1	9.2	100.0
1967	58.2	22.4	11.4	8.0	100.0
1977	51.8	34.3	7.1	6.8	100.0
1982	48.4	36.7	6.3	8.6	100.0
1983	48.9	36.7	6.2	8.2	100.0

SHEARSON LEHMAN BROTHERS STATE RATINGS



Key

- L - Lower
- M - Mid
- U - Upper

	<u>SLB Rating</u>	<u>SLB Trend</u>	<u>Moody's/ S&P</u>	<u>Population (000's)</u>	<u>Per Capita Debt</u>	<u>Net GO Debt/ Personal Income</u>	<u>Net GO Debt/ Market Value</u>	<u>General Fund Balance/ General Fund Revenues</u>
Alabama	Lower AA	Stable	Aa/AA	4,110.0	\$ 267	2.9%	1.6%	4.2%
Alaska	Mid AA	Stable	Aa/AA-	510.5	2,125	13.1	2.7	54.1
California	Upper AA	Stable	Aa/AA+	25,622.0	110	0.8	0.3	1.4
Connecticut	Mid AA	Upward	Aa1/AA	3,138.0	749	5.4	3.1	3.9
Delaware	Mid AA	Stable	Aa/AA	606.0	929	7.2	4.1	12.7
Florida	Mid AA	Stable	Aa/AA	10,976.0	270	2.3	1.1	8.9
Georgia	Upper AA	Upward	Aaa/AA	5,837.0	286	2.8	0.9	2.6
Hawaii	Lower AA	Stable	Aa/AA	1,038.7	1,608	13.5	4.3	11.9
Illinois	Upper AA	Stable	Aaa/AA+	11,511.0	308	2.2	1.5	2.2
Iowa	Lower MIG-1	Stable	MIG-2/NR	2,894.0	155	1.3	0.6	0.3
Louisiana	Lower AA	Stable	A1/AA-	4,462.0	707	6.9	2.8	0.1
Maine	Upper AA	Stable	Aa1/AAA	1,150.0	256	2.9	1.1	2.2
Maryland	Lower AAA	Stable	Aaa/AAA	4,354.0	682	5.2	2.7	1.2
Massachusetts	Upper A	Stable	A1/AA	5,767.0	777	5.9	3.6	0.3
Michigan	Mid A	Stable	A/A+	9,107.0	144	1.3	0.7	5.1
Minnesota	Mid AA	Stable	Aa/AA+	4,162.0	273	2.3	0.9	1.6
Mississippi	Lower AA	Stable	Aa/AA-	2,598.0	257	3.2	2.2	0.8
Missouri	Mid AAA	Stable	Aaa/AAA	4,985.0	59	0.5	0.5	10.5
Montana	Mid AA	Stable	Aa/AA	824.0	286	2.9	1.4	12.6
Nevada	Mid AA	Stable	Aa/AA	911.0	101	0.8	0.2	15.6
New Hampshire	Mid AA	Stable	Aa/AA	977.0	365	3.1	1.2	0
New Jersey	Mid AAA	Stable	Aaa/AAA	7,515.0	421	3.0	1.5	9.1
New Mexico	Mid AA	Stable	Aa/AA	1,424.0	247	2.6	1.2	4.0
New York	Upper A	Stable	A/A+	17,735.0	613	4.7	4.1	0.2
North Carolina	Mid AAA	Stable	Aaa/AAA	6,164.2	143	1.5	0.7	4.8
North Dakota	Upper AA	Stable	Aa/AA	673.0	94	0.8	0.2	14.6
Ohio	Mid AA	Stable	Aa/AA	10,752.0	294	2.6	1.2	0.9
Oregon	Upper A	Stable	A1/A+	2,674.0	174	1.6	0.6	8.4
Pennsylvania	Mid A	Upward	A/AA-	11,901.0	387	3.4	3.4	0.6
Rhode Island	Mid AA	Downward	Aa/AA-	958.2	372	3.2	1.7	2.5
South Carolina	Lower AAA	Stable	Aaa/AAA	3,300.0	196	2.2	1.0	4.4
Tennessee	Lower AAA	Stable	Aaa/AA+	4,722.0	111	1.0	0.5	5.0
Texas	Mid AAA	Stable	Aaa/AAA	15,221.0	67	0.6	0.2	12.9
Utah	Lower AAA	Stable	Aaa/AAA	1,672.0	177	2.0	0.6	13.9
Vermont	Mid AA	Downward	Aa/NR	530.0	516	4.8	1.6	(10.7)
Virginia	Mid AAA	Stable	Aaa/AAA	5,636.0	84	0.7	0.7	6.1
Washington	Lower AA	Downward	A/AA-	4,349.0	574	4.4	1.6	5.1
West Virginia	Upper A	Stable	A1/AA-	1,953.0	396	4.3	1.6	9.9
Wisconsin	Mid AA	Stable	Aa/AA	4,766.0	324	3.4	1.3	3.4

ALABAMA

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA

In the 1984 fiscal year financial performance within the State improved significantly, with the unencumbered General Fund balance increasing to a level of \$21.6 million, from \$6.9 million. The major sources of revenues include corporation taxes, gross receipts business taxes and income taxes. The last income tax rate increase was implemented in 1982.

The economy of Alabama is extremely sensitive to business cycles, due to a heavy reliance on the durable goods manufacturing sector. This sector expanded 8.8% between '83 and '84, with the service sector expanding 4.1%. Wealth levels within the State are low, with unemployment rates having been traditionally high. Debt ratios within Alabama are average. As a buffer for State operations, the Heritage Trust Fund is currently at a level of \$120 million. Due to the highly cyclical economy and low levels of State wealth, we view the State as a Lower AA with a stable trend.

Population (1984): 4,110,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	19.9%
Wholesale and Retail Trade:	16.2%
Service Industries:	12.7%
Government:	16.4%

Unemployment (1984): 11.1%
5 year average: 11.07%

Wealth Statistics

Per capita income: \$9,242
% change 1980-1984: +13.9%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 15,300,000
1982	\$ 11,100,000
1983	\$ 6,900,000
1984	\$ 21,600,000

1984 G.F. Balance as % of G.F. revenues: 4.2%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net G.O. Debt	1098.2	\$ 267	2.9%	1.6%

ALASKA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S & P: AA-

The State, which relies on oil taxes and royalties for close to 85% of its revenues, was hurt in 1984 as oil prices remained weak. Revenues in the General Fund decreased 2.2%, with expenditures also declining, at a rate of 11.9%. The General Fund balance fell, albeit modestly, to a level of \$2.09 billion. Every \$1 decrease in the price of a barrel of oil translates into a loss of revenues of approximately \$150 million, which has placed the State under a great deal of revenue pressure. Some oil analysts are currently projecting a price for oil below \$20 a barrel within the next few years. Oil and gas production taxes, the single largest revenue source, fell 6.8% in 1984.

With an economy dependent on oil and gas, revenue projections have been sharply reduced for the 1985 fiscal year. What the State has in its favor is a huge General Fund balance and the Alaska Permanent Fund, which currently has a principal balance of over \$6 billion. The Permanent Fund serves as a constitutionally established "savings account". Fifty percent of the income generated by the Permanent Fund is transferred to the General Fund. Debt ratios are extremely high, with State unemployment also on the high side. Alaska does, however, possess very high wealth levels and a rapidly expanding population base. While the situation in terms of oil related revenues is deteriorating at a fast pace, the ability to control expenses, large fund cushions, and as yet untapped tax sources (i.e. sales and personal income taxes) provide adequate security for the State's debt, although the situation bears watching.

Population (1983): 510,550
% change 1980-1984: +22.9%

Employment Distribution

Manufacturing:	6.7%
Wholesale and Retail Trade:	17.9%
Service Industries:	17.2%
Government:	32.2%

Unemployment (1984): 10.6%
5 year average: 9.96%

Wealth Statistics

Per capita income: \$17,194
% change 1980-1984: +32.2%
Families below poverty level: 8.6%

General Fund (G.F.) Balance

1981	\$ 2,187,100,000
1982	\$ 2,334,300,000
1983	\$ 2,154,700,000
1984	\$ 2,091,285,000

1984 G.F. Balance as % of G.F. revenues: 54.1%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
G.O. + Special Oblig.	1085.1	\$ 2,125	13.1%	2.7%

CALIFORNIA

Moody's: Aa

**SLB: Upper AA
Trend: Stable**

S&P: AA+

California, one of the wealthiest states, possesses an economy marked by its diversified character. While still sensitive to a downturn in the economy, the low level of California's debt burden (\$110 net G.O. debt) provides excellent security for outstanding bonds.

The 1983-84 fiscal year was a turnaround year for the State. Major revenue sources, helped in part by the upsurge of the national economy, rebounded strongly. Sales and personal income tax grew at an annual rate of 12.9% and 20.6% respectively in 1984. The General Fund moved from a deficit of over \$608 million in 1983, to a surplus of \$328 million in '84, helped in part by expenditure controls (3.6% over 1983 levels). Future initiatives, such as the defeated Jarvis IV, could affect the revenue raising capabilities of the State. Any such initiatives will have to be examined as they are presented in order to determine their potential impact on California. Moves by the State to reduce its unfunded pension liability should be a priority in the future. The population of the State is growing at a fast pace, and the State possesses very high wealth levels. Unemployment levels approximate the national average.

Population (1984): 25,622,000
% change 1980-1984: +7.8%

Employment Distribution (1984)

Manufacturing:	19.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	23.7%
Government:	16.3%

Unemployment (1984): 7.8%
5 year average: 8.32%

Wealth Statistics

Per capita income: \$14,482
% change 1980-1984: +31.4%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	\$ 349,793,000
1982	\$ (154,204,000)
1983	\$ (608,400,000)
1984	\$ 327,600,000

1984 G.F. Balance as % of G.F. revenues: 1.4%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	2821.085	\$110.10	.8%	.3%
G.O. and Enterprise	7949.432	\$298.53	2.1%	.9%

CONNECTICUT

Moody's: Aa1

SLB: Mid AA
Trend: Upward

S & P: AA

1984 was a banner year for Connecticut, with total General Fund revenues increasing 17.1%, and an unappropriated deficit of \$47.9 million in 1983 being completely drawn down (with \$165 million placed in a Budget Reserve Fund). Sales tax revenues, which account for approximately one third of revenues, increased at a 21.4% clip, with corporate profits taxes rising 20.2%. The State finds itself in the enviable position of looking for areas in which to slash taxes, in order to stem the flow of surplus funds. To this point in fiscal '85, Connecticut has already registered a projected surplus of approximately \$50 million.

The economic base of the State is relatively narrow in scope, but it has shown movement towards diversification. Similarly, the tax base is also narrow in scope. The debt ratios are very high, and are expected to move even higher with the planned infrastructure borrowing. Overall, the wealth of the State and continuing strong financial performance help to mitigate high debt and the narrow economic base, justifying an upward trend.

Population (1984): 3,138,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	27.9%
Wholesale and Retail Trade:	21.4%
Service Industries:	21.9%
Government:	12.4%

Unemployment (1984): 4.7%
5 year average: 6.1%

Wealth Statistics

Per capita income: \$14,948
% change 1980-1984: +27.8%
Families below poverty level: 8.0%

General Fund (G.F.) Balance

1981	\$ (65,687,000)
1982	\$ (39,838,000)
1983	\$ (47,950,000)
1984	\$ 0 (\$165.2 million transferred to Budget Reserve Fund)

1984 G.F. Balance as % of G.F. revenues: 3.9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	2327.1	\$749	5.4%	3.1%

DELAWARE

Moody's: Aa

SLB: Mid AA
Trend: Stable

S & P: AA

After three years of operating at or near a deficit in the General Fund, the 1984 fiscal year ended with an operating surplus of \$48.1 million. The following revenue areas all showed strong gains: personal income taxes (+9.9%), franchise taxes (+8.6%) and corporate income taxes (+46.2%), with total revenues increasing 12%. Disbursements increased at a rate of only 2.9%. Overall, the General Fund balance improved to finish at a total of \$97.4 million.

Manufacturing, particularly in chemicals and automobiles dominates the State's economy. DuPont accounts for 38% of manufacturing employment and 9% of total State employment. Growth in the trade sector helps to offset the cyclicity of the manufacturing sector. Wealth levels in the State are high with unemployment recently falling below the national averages. Debt ratios in the State are extremely high. Revenues are reliant on income tax revenues, with no sales tax currently being levied. Well-controlled finances, a diversifying economy, consistent balances and untapped revenue sources provide adequate security for the outstanding debt, placing Delaware as a Mid AA with a stable trend.

Population (1984): 606,000
% change 1980-1984: +2.0%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.7%
Service Industries:	19.7%
Government:	16.7%

Unemployment (1984): 6.7%
5 year average: 7.7%

Wealth Statistics

Per capita income:	\$12,665
% change 1980-1984:	+25.9%
Families below poverty level:	11.8%

General Fund (G.F.) Balance

1981	\$ 50,900,000
1982	\$ 51,300,000
1983	\$ 49,400,000
1984	\$ 97,450,000

1984 G.F. Balance as % of G.F. revenues: 12.7%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	563.5	\$929.87	7.2%	4.1%

FLORIDA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In fiscal 1984, Florida revenues were slightly below projections and expenditures were also slightly below projected levels. Total operating expenses fell by approximately \$750,000,000, with taxes, licenses and fee revenues increasing by approximately \$1.5 billion. The State ended the year with an operating surplus in the General Fund of \$131 million. The General Fund balance has firmed its position since substantial declines in the 1982 fiscal year.

Florida has an economy which has moved away from a reliance on tourism and citrus agriculture to more of a diversified make-up. Manufacturing has been increasing at an average annual rate during the past 10 years of 3.6%, with Florida ranked #1 in its attractiveness as a business climate for manufacturers. Unemployment has traditionally been below the national average, with wealth levels at the national average. Debt ratios are moderate, with a majority of debt being double barreled. The quick pace of growth, a diversifying economy and the double barreled nature of debt provide good security for the bonds, and cause us to view Florida as a Mid AA with a stable trend.

Population (1984): 10,976,000
% change 1980-1984: +12.6%

Employment Distribution (1984)

Manufacturing:	11.9%
Wholesale and Retail Trade:	26.8%
Service Industries:	24.7%
Government:	16.3%

Unemployment (1984): 5.40%
5 year average: 6.98%

Wealth Statistics

Per capita income: \$11,689
% change 1980-1984: +27.1%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	\$ 651,970,000
1982	\$ 404,400,000
1983	\$ 456,500,000
1984	\$ 459,700,000

1984 G.F. Balance as % of G.F. revenues: 8.9%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	2867.3	\$270	2.3%	1.1%

GEORGIA

Moody's: Aaa

SLB: Upper AA
Trend: Upward

S&P: AA

In the 1984 fiscal year, Georgia saw strong gains in its revenue stream, and as a result, was able to replenish the monies in the Revenue Shortfall Reserve Fund (funded with 3% of revenues) and Mid-year Adjustment Reserve Fund (funded with 1% of revenues) which had been depleted during the 1982 and 1983 fiscal years. To date in 1985, revenue receipts are running ahead of State estimates by a rather substantial margin. The two largest sources of revenue for Georgia, sales and income taxes, each saw sizable increases from '83 to '84, increasing 10.7% and 12.8% respectively.

The State possesses a sound economic foundation, with agriculture becoming less important, as other sectors have taken over. The growing services sector (increasing 3.6% in '82 and 5.7% in '83) has helped to insulate Georgia from recessionary periods. The most recent recession, as evidenced by a revenue stream only somewhat affected, points to this fact. The population of the State has been increasing at a fast pace, with unemployment holding at very low levels. Per capita income, while below the national average, is on par with that of the region. Debt ratios of the State are moderate, and when combined with an improved economic make-up, improved financials and a growing population base cause us to view the State as an Upper AA with an upward trend.

Population (1984): 5,837,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	22.4%
Wholesale and Retail Trade:	24.0%
Service Industries:	17.4%
Government:	19.2%

Unemployment (1984): 6.0%
5 year average: 6.84%

Wealth Statistics

Per capita income: \$10,379
% change 1980-1984: +29.4%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	\$ 70,600,000	(\$93,000,000 Mid-year Adjustment Revenue Reserve)
1982	\$ 0	(\$50,000,000 Mid-year Adjustment Revenue Reserve)
1983	\$ 0	(\$22,000,000 Mid-year Adjustment Revenue Reserve)
1984	\$ 0	(\$105,000,000 Mid-year Adjustment Revenue Reserve)

1984 G.F. Balance as % of G.F. revenues: 2.6% (includes monies in revenue shortfall and mid-year adjustment reserve)

Debt Ratios	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1670.5	\$286	2.8%	.9%

HAWAII

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA

The budgetary gap which the State has been experiencing was substantially narrowed in the 1984 fiscal year to a level of \$20 million, from a level of \$92 million in 1983. However, as a result of this gap, the General Fund balance declined once again in '84, to a level of \$105 million. Revenues were lessened in 1984 due in part to a cessation of the gross receipts tax on airlines.

Overall, the already high debt burden of Hawaii has increased since the last survey, although this is consistent with the growth mode the State is in. The economy is reasonably diversified, with a strong reliance on tourism, federal defense and agriculture. Tourism trade in Hawaii has been consistently strong even during economic downturns, with a 1984 increase in visitors of 10.6% over 1983. Even with the strength of the dollar against the yen, the ever important Japanese tourist segment increased 15.7% over 1983 levels. The dollar has recently shown signs of weakening which should bode well for the State's Japanese tourist trade. Given the State's debt burden and limited economic diversification in conjunction with relatively low unemployment, good resident wealth and a thriving tourism industry, we place Hawaii in the range of a Lower AA credit with a stable trend.

Population (1984): 1,038,700
% change 1980-1984: +7.7%

Employment Distribution (1984)

Manufacturing:	5.5%
Wholesale and Retail Trade:	26.3%
Service Industries:	25.8%
Government:	22.6%

Unemployment (1984): 5.6%
5 year average: 5.8%

Wealth Statistics

Per capita income:	\$12,750
% change 1980-1984:	+25.9%
Families below poverty level:	9.9%

General Fund Balance

1981	\$ 231,700,000
1982	\$ 210,000,000
1983	\$ 129,500,000
1984	\$ 105,063,000

1984 G.F. Balance as % of G.F. Revenues: 11.9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net total tax supported debt	1670.7	\$1,608	13.5%	4.3%

ILLINOIS

Moody's: Aaa

SLB: Upper AA
Trend: Stable

S & P: AA+

Illinois, one of the wealthier states, also possesses an economy marked by its diversified nature. Durable goods manufacturing, however, comprises a large percentage of the economy, which will be problematical if the State goes into another recessionary period. The trend of budgetary deficits has been reversed (due in part to an improved economy and temporary tax hikes), as has the downward trend of the State's General Fund balance.

Overall, the 1983-84 fiscal year was one of great improvement for Illinois. Temporary tax increases, coupled with a strong economy, helped revenues of the State rebound sharply. Income tax revenues increased at a 33% rate, with sales tax revenues growing 10.7%. On the expenditure side, increases were kept at a level below the increases in revenues. The General Fund balance, which had decreased in the four previous years, rebounded sharply to finish at a level of \$217 million in 1984 and \$479 million in 1985. Due to an increase in 1986 projected expenditures and a decrease in projected revenues, the 1986 balance could be drawn down to \$177 million unless certain measures are taken. As evidenced by temporarily increased tax rates, the State is willing to take measures necessary to improve its operating performance. Sensitivity to a possible economic downturn, high levels of wealth, a diversified economy and an adequate fund balance cause us to view the State as an Upper AA credit with a stable trend.

Population (1984): 11,511,000
% change 1980-1984: +.7%

Employment Distribution (1984)

Manufacturing:	21.2%
Wholesale and Retail Trade:	24.6%
Service Industries:	22.6%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.72%

Wealth Statistics

Per capita income:	\$12,405
% change 1980-1984:	+18.38%
Families below poverty level:	11%

General Fund (G.F.) Balance

1981	\$ 197,000,000
1982	\$ 187,000,000
1983	\$ 110,000,000
1984	\$ 217,000,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net G.O. Debt	3551.0	\$308	2.16%	1.5%

IOWA

Moody's: MIG-2

SLB: Lower MIG-1
Trend: Stable

S & P: N.R.

With its foray into the capital marketplace, the State of Iowa has debt currently outstanding (consisting of tax and revenue anticipation notes) of \$452,000,000. The need for the notes was to offset the timing difference between revenues and scheduled disbursements, particularly in the area of school aid.

The 1984 fiscal year saw Iowa maintain its General Fund at a balance of \$8.3 million, which was transferred to the Economic Emergency Fund (money used to alleviate General Fund deficits in any future year). Revenues were hurt by a weakness in corporate income taxes. Constitutionally, the State cannot end a fiscal year with a General Fund Deficit; so that, expenditures will be slashed if new revenue sources are not located. Certain tax rates are moderate and can potentially be raised (e.g. sales tax). Wealth levels in Iowa are slightly below the national average, with unemployment well below the national average. The economy is fairly diversified with only 19.6% of employment accounted for by the manufacturing sector, and as a source of personal income only 2% is accounted for by the agricultural sector. Currently 123 of the Fortune 500 companies have manufacturing plants in Iowa. The State's low debt ratios, and the fact that constitutionally it cannot sustain a General Fund Deficit help to overshadow the slim State surplus and difficulty in timing revenues and expenditures, causing us to view Iowa as a Lower MIG-1 credit.

Population (1984): 2,894,000
% change 1980-1984: -0.7%

Employment Distribution (1984)

Manufacturing:	19.6%
Wholesale and Retail Trade:	25.5%
Service Industries:	20.5%
Government:	20.0%

Unemployment (1984): 4.8%
5 year average: 5.32%

Wealth Statistics

Per capita income:	\$11,048
% change 1980-1984:	+18.4%
Families below poverty level:	10.1%

General Fund (G.F.) Balance

1982	\$ 21,800,000
1983	\$ 8,300,000
1984	\$ 8,300,000 (Transferred to Economic Emergency Fund)
1985	\$ 0

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Total Unfunded Debt	452	\$155.32	1.3%	.6%

LOUISIANA

Moody's: A1

SLB: Lower AA
Trend: Stable

S&P: AA-

Louisiana, like the State of Texas, has a high reliance on oil and gas for revenues in the General Fund. Unlike Texas, they do not have the cushion of a substantial General Fund balance to help carry them through their current and potential future lean times. The balance declined from a 1983 level of \$180 million to an 1984 level of \$7 million. For the current year the State expects to maintain a token fund balance, although large expenditure cuts are required. Oil and gas severance taxes fell by 7.2% last year, and are projected to fall 6.1% this year. Should oil prices drop more than projected, any positive balance would not be a probable occurrence.

The 1985 fiscal year was one of heavy borrowing for Louisiana, making already poor debt ratios even worse. Debt as a percentage of personal income rose to 6.9%, while the median for all states has dropped to 2.4%. Revenues for the year should increase approximately \$500 million, due in large part to tax increases, particularly in the corporate income tax rate, gasoline tax and sales tax; but as mentioned before, expenditures need to be cut. The wealth statistics of the State are well below national averages, with unemployment well above. While high levels of debt, an economy highly reliant on an industry in a downward trend and an extremely large unfunded pension liability (\$4 billion) are very negative factors, the constitutional pledge of monies first to bond debt service enhances the quality of Louisiana debt.

Population (1984): 4,462,000
% change 1980-1984: +6.1%

Employment Distribution (1984)

Manufacturing:	11.4%
Wholesale and Retail Trade:	23.5%
Service Industries:	19.4%
Government:	20.2%

Unemployment (1984): 10.4%
5 year average: 9.52%

Wealth Statistics

Per capita income: \$10,406
% change 1980-1984: +22.8%
Families below poverty level: 18.6%

General Fund (G.F.) Balance

1981	\$ 556,000,000
1982	\$ 544,000,000
1983	\$ 180,000,000
1984	\$ 7,055,000

1984 G.F. Balance as % of G.F. revenues: .1%

Debt Ratios	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	3156.4	\$707.39	6.9%	2.8%

MAINE

Moody's: Aa1

SLB: Upper AA
Trend: Stable

S & P: AAA

Revenues of the State, after increasing only 1.8% in the 1983 fiscal year (led by a 2.1% decline in tax revenues), rose 13.8% in 1984. Adjustment to the total loss of unemployment compensation taxes and a substantial increase in corporate income tax revenues were prime contributors to the improvement. The undesignated General Fund balance, which until 1983 had been at very consistent levels, rebounded in 1984 to end at an amount of \$16.7 million. Operating results which in 1983 saw a deficit of \$15.5 million, in 1984 ended with a surplus of \$44.5 million. Estimation of receipts tend to be very accurate.

The economy of the State tends to be somewhat problematical, with a concentration in forest products, fishing and textiles. The planned expansion of national defense spending within the State is a positive factor. Wealth statistics, while below the national average, have risen at a rate above the national average. Additionally, population and resident employment have increased faster than the national average. New jobs are expected to be concentrated in the trade and service sectors. The debt ratios of Maine are at moderate levels. Conservative operations, moderate debt, and consistent performance over the past 10 years justify an Upper AA rating for the State of Maine.

Population (1984): 1,150,000
% change 1980-1984: +2.3%

Employment Distribution

Manufacturing:	25.7%
Wholesale and Retail Trade:	21.7%
Service Industries:	19.1%
Government:	20.5%

Unemployment (1984): 6.1%
5 year average: 8.04%

Wealth Statistics

Per capita income: \$9,847
% change 1980-1984: +23.7%
Families below poverty level: 13.0%

General Fund (G.F.) Balance

1981	\$ 24,900,000
1982	\$ 18,800,000
1983	\$ 2,150,000
1984	\$ 16,705,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	294.6	\$256.16	2.87%	1.13%

MARYLAND

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S&P: AAA

In the 1984 fiscal year, revenues and expenditures were extremely close to projected levels on a budgetary basis, with a favorable balance in General Fund receipts of 1% and an unfavorable balance in expenditures of .1%. Overall, revenues increased 12.5%, led by income taxes (+15.7%) and sales taxes (+14.2%), while expenditures increased only 4.7%. The General Fund, which reports according to GAAP (Generally Accepted Accounting Principles), widened its deficit to \$65 million and on a budgetary basis, ended at \$41.3 million, down from \$54.9 million. The drop is due mainly to planned use of the surplus.

The State of Maryland currently enjoys a balanced economy featuring tourism, services, agriculture and a strong government sector benefiting from its proximity to the nation's capital. Wealth levels are well above average and unemployment well below the national average. The G.F. balance on a GAAP basis is expected to be on the positive side in the 1985 fiscal year. An area for concern includes very high debt levels, with per capita debt at a level of \$682. The current S & L crisis is being responsibly handled and should not affect the States' prime rating. Deficits and high debt levels are partially offset by the traditionally responsible performance of State government (e.g. no short-term borrowing) and the typically short maturity of outstanding debt, placing the bonds as a Lower AAA with a stable trend.

Population (1984): 4,354,000
% change 1980-1984: +3.8%

Employment Distribution (1984)

Manufacturing:	12.3%
Wholesale and Retail Trade:	24.5%
Service Industries:	23.8%
Government:	23.3%

Unemployment (1984): 5.8%
5 year average: 7.2%

Wealth Statistics

- Per capita income: \$13,100
- % change 1980-1984: +26.2%
- Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	\$ 197,200,000
1982	\$ 143,300,000
1983	\$ (51,600,000) GAAP
1984	\$ (65,000,000) GAAP

1984 G.F. Balance as % of G.F. revenues: 1.2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	2922.3	\$682	5.2%	2.7%

MASSACHUSETTS

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: AA

Massachusetts ended the 1984 fiscal year with an operating deficit in the General Fund, due in part to a substantial increase in State aid to cities and towns. This was caused partially by the passage of Proposition 2 1/2, which limited local revenue raising capabilities. The General Fund balance moved from a \$64.4 million surplus in 1983 to a \$19.3 million surplus in 1984. For the 1985 fiscal year, the State expects to widen its balance to \$37.2 million, but large increases in fund transfers, aid to cities and basic State expenditures will put a strain on the balance, particularly in the event of an economic slowdown.

The State exhibits very high per capita wealth, low levels of unemployment, a stable population and an economy marked by a shift towards the service, trade and high technology industries. This shift away from the more traditional manufacturing industries has helped to insulate the State from some of the effects of a recession. Debt ratios are on the high side, with the State spending more and more on aid to local entities. Wealth levels and improving economic make-up help to provide adequate security when all aspects of State operations are taken into consideration, and cause us to view Massachusetts as an Upper A with a stable trend.

Population (1984): 5,767,000
% change 1980-1984: +.5%

Employment Distribution (1984)

Manufacturing:	23.7%
Wholesale and Retail Trade:	23.1%
Service Industries:	26.3%
Government:	13.0%

Unemployment (1984): 4.8%
5 year average: 6.3%

Wealth Statistics

Per capita income:	\$14,463
% change 1980-1984:	+42.8%
Families below poverty level:	9.6%

General Fund (G.F.) Balance

1981	\$ 21,400,000
1982	\$ 4,400,000
1983	\$ 64,400,000
1984	\$ 19,200,000

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	4481.9	\$777.19	5.9%	3.6%

MICHIGAN

Moody's: A

SLB: Mid A
Trend: Stable

S&P: A+

Tax revenues in 1984 rose sharply, up 23.5% from 1983, due in part to an improved economy and temporary income tax increases. Overall, State revenues increased 12.1%. Due mainly to lower than expected receipts from Federal agencies, actual General Fund revenues were below target. Expenditures were kept at an increase of 5.5%, compared to an increase of 5.7% the year before. The undesignated General Fund balance, at a level of \$19.7 million in 1983, ballooned to \$283.2 million in 1984. In the 1985 fiscal year, it is expected that approximately \$386.7 million will be deposited in the Budget Stabilization Fund.

The Michigan economy, traditionally concentrated in durable goods manufacturing, has been extremely sensitive to hard economic times. While diversification is being encouraged, at this point in time the vulnerability remains. The State possesses a high unemployment rate, a certain amount of migration to other States, and only average per capita wealth. State government has made a concerted effort to improve operations with budget cuts, work force reductions and tax increases. The debt ratios of the State are low, and when looking at G.O. debt, they are very low. Given the commitment to improved operations, low debt ratios and an improved economy, Michigan can support a Mid A rating, although the State economy continues to leave it vulnerable to the downswing in the business cycle.

Population (1984): 9,107,000
% change 1980-1984: -1.5%

Employment Distribution (1984)

Manufacturing:	28.6%
Wholesale and Retail Trade:	21.6%
Service Industries:	20.2%
Government:	17.4%

Unemployment (10/84): 10.1%
5 year average: 12.9%

Wealth Statistics

Per capita income: \$11,574
% change 1980-1984: +16.1%
Families below poverty level: 10.4%

General Fund (G.F.) Balance

1981	\$ 0
1982	\$ 6,200,000
1983	\$ 19,600,000
1984	\$ 283,200,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	1304.7	\$144	1.3%	.7%

MINNESOTA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA+

The 1984 fiscal year was one of marked improvement for the State, as evidenced by its General Fund balance moving from a \$5.3 million surplus to a \$344.3 million surplus. Expenditures, which had been slashed 22% in the 1983 fiscal year increased in 1984 to slightly above 1982 levels, with revenues increasing 16.2% in 1984. The revenue base increased in part because of tax increases and also because of an improved economy. The economic pause in the beginning of 1985 combined with major tax cuts has caused a reduction in forecasted revenues. A cushion against revenue shortfalls will be provided by a \$450 million Reserve Fund expected to be funded in the upcoming biennium.

Wealth levels in Minnesota are above the national average, with unemployment consistently well below the average. Agriculture, comprises 6.1% of employment; and the service sector, which is less sensitive to a downturn in the economy, has been gaining in importance. Debt ratios in the State are moderate, and short-term borrowing needs will be greatly reduced in the future. A stronger economy, a commitment to balanced financial operations and moderate debt levels indicate an improved position, although the tax cuts put through are an area of concern in light of weakening revenues. We view Minnesota as a Mid AA with a stable trend.

Population (1984): 4,162,000
% change 1980-1984: +2.1%

Employment Distribution (1984)

Manufacturing:	20.5%
Wholesale and Retail Trade:	25.2%
Service Industries:	22.9%
Government:	16.0%

Unemployment (1984): 6.3%
5 year average: 6.74%

Wealth Statistics

Per capita income: \$13,218
% change 1980-1984: +36.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	\$ (60,047,000)
1982	\$ (624,500,000)
1983	\$ 5,344,000
1984	\$ 344,300,000

1984 G.F. Balance as % of G.F. revenues: 1.6%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1135.5	\$273	2.3%	.9%

MISSISSIPPI

Moody's: Aa

SLB: Lower AA
Trend: Stable

S & P: AA-

In fiscal 1984, General Fund receipts and expenditures were about equal, with receipts increasing 9.3%, and expenditures 7.7%. Tax rate increases (sales, personal income and corporate income) were made permanent, with sharp increases in sales tax revenues (+13%) and income tax revenues (+19.1%) over fiscal 1983. The General Fund balance dropped to a level of \$10.6 million from \$15.2 million the year before. To this point in 1985, operations have shown improvement with the General Fund operating at a surplus, due in part to strict controls on expenditures. The Working Cash Balance Fund, to be funded with approximately \$31 million, is intended to ease cash flow imbalances.

The State currently has an economy based in manufacturing, although the trade sector has increased by 7% since 1980. The main components of manufacturing are textiles and lumber which have been weak in the recent past. Mississippi is the poorest state in the nation, with per capita income only 69% of the national average, unemployment well over the national average, and 23.9% of its families below the poverty level. Overall, the State has had responsible fiscal operations, moderate levels of debt, has planned for the future and displayed a willingness to raise taxes, all of which combine to place the State as a Lower AA with a stable trend.

Population (1984): 2,598,000
% change 1980-1984: +3.1%

Employment Distribution (1984)

Manufacturing:	26.6%
Wholesale and Retail Trade:	21.3%
Service Industries:	15.2%
Government:	22.3%

Unemployment (1984): 10.8%
5 year average: 10.04%

Wealth Statistics

Per capita income:	\$8,098
% change 1980-1984:	+23.5%
Families below poverty level:	23.9%

General Fund (G.F.) Balance

1981	\$ 76,975,000
1982	\$ 39,294,000
1983	\$ 15,190,000
1984	\$ 10,614,000

1984 G.F. Balance as % of G.F. revenues: .8%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	666.7	\$257	3.2%	2.2%

MISSOURI

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S & P: AAA

1984 was a year of substantial improvement over the 1983 fiscal year. After three years of an operating deficit (after operating transfers out), 1984 resulted in a surplus. General Fund revenues increased approximately 4.4%, while expenditures rose 10.5%, but operating transfers out increased only 3.9%. Preliminary results for 1985 indicate that revenues are running approximately 6% over original estimates. The major tax sources consist of general sales taxes and personal income taxes. Undesignated General Fund monies increased in 1984, ending at a level of \$242 million.

The Missouri economy exhibits a diverse nature, with durable goods manufacturing a major component (automobiles and aircraft). This left State finances vulnerable to the recent recessionary period. The economy has seen more growth in the other sectors, helping to lower the impact of economic downturns. Personal income is average, with unemployment traditionally above the national average. Given the low amount of debt which the State has outstanding and the improved economic environment, Missouri's prime credit rating is upheld.

Population (1984): 4,985,000
% change 1980-1984: +1.4%

Employment Distribution (1984)

Manufacturing:	21.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	21.2%
Government:	17.2%

Unemployment (1984): 7.4%
5 year average: 8.3%

Wealth Statistics

Per capita income:	\$10,969
% change 1980-1984:	+24.5%
Families below poverty level:	12.2%

General Fund (G.F.) Balance

1981	\$ 151,100,000
1982	\$ 123,500,000
1983	\$ 98,900,000
1984	\$ 242,000,000

1984 G.F. Balance as % of G.F. revenues: 10.5%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net G.O. Debt	295.59	\$59.50	.5%	.5%

MONTANA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The 1984 fiscal year saw General Fund revenues for the State of Montana decrease 6.1%, due in large part to a 19% drop in gas, oil and coal production taxes. Strong increases in its revenue stream were provided by personal income taxes, which rose 12.4%. Expenditures were pared, however, with general government spending being slashed 33.9%, and overall spending decreasing approximately 1%. The undesignated General Fund balance of the State has consistently shown a surplus, and has ended the 1984 fiscal year at a level of \$36 million, down from \$57 million.

The economy of Montana is concentrated in the agricultural, mining and forest product sectors, areas which have not performed well in the recent past. Due to this economic makeup, the growth of the State will not be as powerful as had been expected. Oil and coal related industries have been weak, combined with a drought that has hurt agriculture. Wealth levels of the State are below average, with per capita income only 80% of the national average. Debt ratios, which as recently as 1981 had been low, are now moderate, due to large borrowing for a variety of capital projects. The State has, however, exhibited not only a stable financial past, but a conservatism in its financial operations which provide good security for outstanding debt, and cause us to view Montana as a Mid AA with a stable trend.

Population (1984): 824,000
% change 1980-1984: +4.7%

Employment Distribution (1984)

Manufacturing:	7.8%
Wholesale and Retail Trade:	27.0%
Service Industries:	21.4%
Government:	24.2%

Unemployment (1984): 7.4%
5 year average: 7.56%

Wealth Statistics

Per capita income: \$9,994
% change 1980-1984: +15.5%
Families below poverty level: 12.3%

General Fund (G.F.) Balance

1981	\$ 58,106,000
1982	\$ 14,132,000
1983	\$ 56,895,000
1984	\$ 35,097,000

1984 G.F. Balance as % of G.F. revenues: 12.6%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	235.9	\$286	2.9%	1.4%

NEVADA

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In 1984, total revenues increased at a 6.9% rate, led by sales tax revenues which showed a gain of 10.2%. This tax was raised in 1981 from 3.5% to 5.75%. Gaming taxes declined 4%, due in part to new timing of payments and to an employee strike late in the year. Expenditures were kept at constant levels, predominantly because of a 10.7% decline in educational contributions caused by excessive payments in 1983. The end result of 1984 was the replenishment of the General Fund balance, up to a level of \$81.5 million.

The economy of Nevada, not surprisingly, is dominated by the hotel and gaming industries, which comprise 28.1% of non-agricultural employment. Although under pressure from competition such as Atlantic City and other legalized gambling alternatives (e.g. lotteries), 1984 saw an increase in visitors (4%), conventions (10.2%) and casino winnings (11.36%). Although in an uptrend, this reliance on an industry facing a difficult competitive environment is an area of concern. More optimistic components of the State of Nevada include above average wealth, low debt ratios, and a population base which has been increasing much faster than the national average. These factors, combined with consistent and strong General Fund balances provide good security, and place the State as a Mid AA with a stable trend.

Population (1984): 911,000
% change 1980-1984: +13.9%

Employment Distribution (1984)

Manufacturing:	4.7%
Wholesale and Retail Trade:	19.9%
Service Industries:	44.2%
Government:	14.3%

Unemployment (1984): 7.8%
5 year average: 8.2%

Wealth Statistics

Per capita income:	\$12,451
% change 1980-1984:	+16.1%
Families below poverty level:	8.7%

General Fund (G.F.) Balance

1981	\$ 44,100,000
1982	\$ 45,800,000
1983	\$ 48,600,000
1984	\$ 81,500,000

1984 G.F. Balance as % of G.F. revenues: 15.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	91.7	\$101	.8%	.2%

NEW HAMPSHIRE

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The 1984 fiscal year was a solid turnaround year for the State of New Hampshire. This can be evidenced by a General Fund surplus of \$1,300,000 in 1984, after the State posted a G.F. deficit of over \$40,000,000 in 1983. The State has recently been rewarded by Moody's for the substantially improved results by having its rating raised to Aa from A1.

The improved financial results can be attributed to both the revenue and expenditure sides of the State's operations. On the revenue side, the State was aided by tax rate increases on business profits (largest revenue source) and real estate transfers. Coupled with the increased revenues, the State dedicated itself to expenditure controls, keeping the increase to 10.8% above 1983 levels. Preliminary '85 results show the State 8.5% ahead of revenue projections and in line with expenditure projections. General Fund balance expectations are for a level of approximately \$40 million. Combining the State's diversified economy, low unemployment, moderate debt levels and strong population growth with both its willingness to adjust tax rates and control expenditures, New Hampshire has in a very short time turned itself around. The outlook for the future is that this trend should continue, with Shearson Lehman Brothers viewing New Hampshire as a Mid AA with a stable trend.

Population (1984): 977,000
% change 1980-1983: +6.1%

Employment Distribution (1984)

Manufacturing:	28.0%
Wholesale and Retail Trade:	23.7%
Service Industries:	20.5%
Government:	13.1%

Unemployment (1984): 4.3%
5 year average: 5.36%

Wealth Statistics

- Per capita income: \$12,021
- % change 1980-1984: +31.4%
- Families below poverty level: 8.5%

General Fund Balance

1981	\$ (30,600,000)
1982	\$ (33,200,000)
1983	\$ (40,100,000)
1984	\$ 1,300,000

1984 G.F. Balance as % of G.F. Revenues: 0

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net Total Tax Supported Debt	356.6	\$365	3.1%	1.2%

NEW JERSEY

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S & P: AAA

The State of New Jersey performed well in fiscal 1984, with revenues in the General Fund increasing at a rate of 12.6%, and expenditures at a rate of 6.6%. Sales tax revenues rose 24.8% for the year and corporate tax revenues, after an 11.9% decrease in 1983, rebounded sharply to show a 24.8% gain. The General Fund balance, which had slipped to \$98.4 million, ballooned to \$485.3 million. Due to an expected 10% increase in expenditures in 1985, and a slowing of revenues, the fund balance should remain at about the same level this year.

New Jersey has an economy marked by its diversification, and by the fact that the manufacturing sector has contracted 18.3% over the past 13 years, with the service sector expanding 61.5%. The State possesses very high personal wealth levels, low unemployment and a stable population base. Per capita debt is moderate, with specific revenue sources also pledged to payment. The overall picture of New Jersey, which includes diversity, wealth, a prime location and responsible financial operations supports a Mid AAA rating with a stable trend.

Population (1984): 7,515,000
% change 1980-1984: +2.0%

Employment Distribution

Manufacturing:	22.6%
Wholesale and Retail Trade:	23.1%
Service Industries:	22.0%
Government:	16.8%

Unemployment (1984): 6.2%
5 year average: 7.5%

Wealth Statistics

Per capita income: \$14,122
% change 1980-1984: +28.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	\$ 188,100,000
1982	\$ 78,700,00
1983	\$ 98,400,000
1984	\$ 485,300,000

1984 G.F. Balance as % of G.F. revenues: 9.1%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	3160.1	\$421	3%	1.5%

NEW MEXICO

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

In 1984, revenues of the State declined, due in large part to the fact that 1983 revenues included \$260 million from a gross receipts tax settlement and 1984 Federal revenue sharing dollars were almost completely slashed. Recurring receipts in 1984 improved in all areas, with certain rate increases and tax implementations a partial reason. Income tax revenues increased 51.2% (30% rate increase), severance tax revenues were up 14.6% and sales tax revenues increased 19.9%. Expenditures for the year rose only 4.8%. The General Fund balance stabilized, ending the year at a level of \$57 million.

The economy of New Mexico is reliant on a few specific areas, namely mining, tourism and government research. Gas and oil account for 89% of severance tax revenues, with both areas showing weakness since 1982. Severance tax bonds, the majority of New Mexico debt outstanding, are secured by a pledge of these revenues, and have had historical coverage figures of 2.32x. Debt ratios are moderate when severance tax bonds are included, but G.O. ratios are very low. The State has low wealth levels, but a population base which has been growing at double the U.S. average. Stabilized financial performance with conservative spending patterns, combined with the uncertainty surrounding the mining industry which leaves the State vulnerable to demand, places New Mexico as a Mid AA with a stable trend.

Population (1984): 1,424,000
% change 1980-1984: +9.5%

Employment Distribution (1984)

Manufacturing:	7.3%
Wholesale and Retail Trade:	23.4%
Service Industries:	21.3%
Government:	25.8%

Unemployment (1984): 7.5%
5 year average: 8.32%

Wealth Statistics

Per capita income: \$9,640
% change 1980-1984: +21.4%
Families below poverty level: 17.6%

General Fund (G.F.) Balance

1981	\$ 100,645,000
1982	\$ 118,252,000
1983	\$ 53,682,000
1984	\$ 57,413,000

1984 G.F. Balance as % of G.F. revenues: 4.0%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	351.3	\$247	2.6%	1.2%

NEW YORK

Moody's: A

SLB: Upper A
Trend: Stable

S&P: A+

In the 1984 fiscal year, New York State improved its fund balance from a level of \$0 to \$51 million. Revenues increased 7.8%, led by personal income taxes (+14.5%) and sales taxes (+12.1%). Expenditures increased 7.1% over 1983 levels. Capital construction costs, which had jumped 29.8% in 1983, declined 14.2% in 1984. State operations were close to projections, with a favorable variance in receipts of \$16 million and a favorable balance of \$6.5 million in expenditures.

The economy of the State is well-spread out among all of the sectors, with a good portion in the service and other non-manufacturing industries, insulating the State somewhat from a recessionary period. Wealth levels are well above average, with unemployment rates below the national figures and a population base which has stabilized after a period of loss. The State possesses moderate debt levels (G.O. debt per capita of \$215), although the amount of agency debt to which some commitment has been made is very large. The diversity of the economy and basic financial wealth of the State helps to offset agency responsibilities and inaction concerning the reduction of its deficit based on GAAP accounting. These factors place New York in our Upper A category with stable trend.

Population (1984): 17,735,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	17.8%
Wholesale and Retail Trade:	20.5%
Service Industries:	25.7%
Government:	17.8%

Unemployment (1984): 7.2%
5 year average: 8.1%

Wealth Statistics

Per capita income: \$12,990
% change 1980-1984: +26.3%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	\$ 200,000
1982	\$ 308,000
1983	\$ 0
1984	\$ 50,800,000

1984 G.F. Balance as % of G.F. revenues: .2%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt (excludes agency and state guaranteed debt)	10868.9	\$613	4.7%	4.1%

NORTH CAROLINA

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S & P: AAA

In the 1984 fiscal year, North Carolina accurately forecasted its revenues and expenditures, winding up with an overall favorable variance of \$254 million. Receipts were right on target, with disbursements 4.4% below expected levels. Major sources of funds rose sharply, with income tax revenues up 15.9% and sales tax revenues up 21.4%. Total revenues rose 13.7%, with total disbursements up 9.4%. General government spending was slashed 6.9% as part of the plan to balance the budget. Overall, the General Fund balance increased to a level of \$253 million.

The economy of the State is based primarily in manufacturing (textiles, furniture and electrical) and agriculture (tobacco), although gains in the service sector are expected. Currently, however, the State remains vulnerable to the ups and downs of the economy. Wealth levels are well below the national average, with unemployment near the average. Debt ratios are on the low side, and retirement of principal is fairly rapid. Given the State's long record of stable financial operations, low debt and an exhibited willingness to control expenditures, a Mid AAA rating is warranted.

Population (1984): 6,164,200
% change 1980-1984: +4.5%

Employment Distribution (1984)

Manufacturing:	31.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	15.8%
Government:	16.0%

Unemployment (1984): 7.2%
5 year average: 8.6%

Wealth Statistics

Per capita income:	\$9,787
% change 1980-1984:	+13.2%
Families below poverty level:	N.A.

General Fund (G.F.) Balance

1981	\$ 154,600,000
1982	\$ 163,100,000
1983	\$ 72,000,000
1984	\$ 253,000,000

1984 G.F. Balance as % of G.F. revenues: 4.8%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	879.2	\$142.63	1.5%	.7%

NORTH DAKOTA

Moody's: Aa

SLB: Upper AA
Trend: Stable

S & P: AA

In the current biennium revenues are running slightly ahead of estimates, with major contributions being made by sales tax revenues and income tax revenues. An extension of the recent income tax rate increase has been approved. Expenditure levels are running slightly behind forecasted levels, with the largest differentials in general government spending and higher education. This performance has enabled the State to bring the cash balance back up to a level of \$161 million, after dropping to \$56 million at the end of the '81 biennium.

The economy of North Dakota is currently concentrated in the agriculture and mining sectors, making the State vulnerable to the cyclical swings of the economy. The service and government sectors have been expanding, with the manufacturing sector still approximately 1/4 the size of the national average. Due to the makeup of the economy, wealth levels have lagged behind the national average. Overall, the composition of outstanding debt (predominantly self-supporting), low debt levels, conservative financial operations and a willingness to raise tax rates in light of economic problems all combine to enable the State to maintain an Upper AA rating with a stable trend.

Population (1984): 673,000
% change 1980-1984: +3.1%

Employment Distribution

Manufacturing:	6.1%
Wholesale and Retail Trade:	25.8%
Service Industries:	21.8%
Government:	24.6%

Unemployment (3/84): 6.6%
5 year average: 5.6%

Wealth Statistics

Per capita income: \$11,666
% change 1980-1984: +35.2%
Families below poverty level: 12.6%

General Fund (G.F.) Balance

1981	\$ 160,200,000
1982	174,500,000
1983	\$ 56,100,000
1984	\$ 161,000,000

1984 G.F. Balance as % of G.F. revenues: 14.6%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	61.175	\$ 94	.8%	.2%

OHIO

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

Ohio ended the 1984 fiscal year with an improved financial position, showing a fund balance of \$93 million. This is a substantial gain over past years ending balances, particularly 1981 when the final tally was \$200,000. The gains can be attributed to two major factors, the first being an improved economy nationwide; and the second tax rate increases for personal income, corporate franchise and public utilities taxes. Between 1983 and 1984, income tax revenues increased at a 24.6% rate and corporate franchise revenues increased 36.9%.

The performance of the State, which has a large portion of its economy concentrated in durable goods manufacturing, was particularly hard hit by the 1980-1982 recession. The economic mix of Ohio has shifted somewhat in recent years, moving more towards non-manufacturing sectors. Wealth levels of the State are moderate, with unemployment, due to the large durable goods sector, above the U.S. average. Debt ratios are slightly above average, with over half the debt representing moral obligations of Ohio. The well developed economy of the State, and its willingness to take measures necessary to increase the revenue stream and control expenditures, places Ohio in the Mid AA category with a stable trend.

Population (1984): 10,752,000
% change 1980-1984: -.4%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.6%
Service Industries:	21.4%
Government:	16.1%

Unemployment (1984): 9.1%
5 year average: 10.36%

Wealth Statistics

Per capita income: \$11,216
% change 1980-1984: +18.6%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 200,000
1982	\$ 50,200,000
1983	\$ 43,600,000
1984	\$ 93,300,000

1984 G.F. Balance as % of G.F. revenues: .9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	3163.4	\$294	2.6%	1.2%

OREGON

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: A+

After returning to surplus operations in the 1983 fiscal year, Oregon continued the trend in 1984, widening the General Fund balance to \$134.7 million. Revenues decreased slightly in 1984, although the major revenue sources showed gains. The jump in income and cigarette tax revenues can be traced to rate increases. Expenditures were kept at an increase of 8.1%. In fiscal 1985, preliminary projections call for an increase in the General Fund balance to approximately \$171 million.

The Oregon economy is based predominantly in the wood products industries, exposing the State to the cyclical swings of the economy. Recently, however, some diversification has been evidenced, particularly in high technology. Wealth levels are average, with unemployment rates above average. Debt ratios are very high when the self-supporting Veterans Loan program is considered. Prospective cash flow problems have been addressed, and remedial actions have hopefully corrected the problem although a lawsuit initiated on behalf of the veterans has clouded the issue. While we do not believe the suit will be successful, its progress will be closely monitored. Overall, the State faces frequent initiative action, possesses a weak economy and uncertainty surrounding the Veterans bonds. Implementation of a 5% sales tax has recently been rejected (9/85). All of the above factors cause us to view the State as an Upper A with a stable trend.

Population (1984): 2,674,000
% change 1980-1984: +1.6

Employment Distribution (1984)

Manufacturing:	19.8%
Wholesale and Retail Trade:	25.1%
Service Industries:	20.4%
Government:	19.4%

Unemployment (1984): 9.4%
5 year average: 9.98%

Wealth Statistics

Per capita income: \$11,582
% change 1980-1984: +24.3%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	\$ 15,157,000
1982	\$ (181,391,000)
1983	\$ 45,600,000
1984	\$ 134,705,000

1984 G.F. Balance as % of G.F. revenues: 8.4%

Debt Ratios

	<u>Outstanding</u> (000,000)	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	465.5	\$174	1.6%	.6%
Total Debt (including Veteran Bonds)	6420.1	\$2400	20.7%	7.5%

PENNSYLVANIA

Moody's: A

SLB: Mid A
Trend: Upward

S&P: AA-

Aided by a temporary personal income tax increase, an improved overall national economy and tax accelerations, Pennsylvania moved from a large 1983 General Fund deficit to a surplus of \$76.4 million. Income tax revenues increased at a 23.9% clip, sales tax revenues increased 14.6% and overall revenues were up 6.3%. At the same time, disbursements were kept at a low increase of 3.3%. These numbers compare favorably to the previous fiscal year when revenues were up only 3.3% and disbursements rose 5.6%.

The economy of the State is extremely reliant on manufacturing and mining (steel and coal), making it extremely sensitive to downturns in the economy. Employment in the service sector, up 55% since 1970, has helped to diversify the economy somewhat. Population has remained virtually the same since 1970, wealth levels are close to national averages, and unemployment has been well above the national average. The debt ratios of the State are moderate and have decreased in recent years, along with the level of short-term borrowing. The willingness of the State to control expenditures, and its attempt to diversify the economy and take measures to raise revenues, help to overshadow the heavy reliance on cyclical industries, and place Pennsylvania as a Mid A with an upward trend.

Population (1984): 11,901,000
% change 1980-1984: +.3%

Employment Distribution (1984)

Manufacturing:	24.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	23.7%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.6%

Wealth Statistics

Per capita income: \$11,629
% change 1980-1984: +23.4%
Families below poverty level: 10.5%

General Fund (G.F.) Balance

1981	\$ 71,800,000
1982	\$ 7,500,000
1983	\$ (234,700,000)
1984	\$ 76,400,000

1984 G.F. Balance as % of G.F. revenues: .6%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	4602.5	\$387	3.4%	3.4%

RHODE ISLAND

Moody's: Aa

SLB: Mid AA
Trend: Downward

S & P: AA-

Aided by an improved economy, the 1984 fiscal year saw Rhode Island improve its bottom line, with the General Fund balance increasing to a level of \$32 million. Revenues were led by sales taxes (+15%), income taxes (+7.6%) and corporate taxes (+39%), with Federal revenues accounting for 24.4% of receipts. Tax revenues were strong in part because of rate increases. Overall, revenues rose 9.6% from the 1983 fiscal year. Expenditures were kept at a reasonable increase of 6.1%, with spending for mental health and hospitals rising 10%.

The economy of the State is extremely reliant on manufacturing in areas which are sensitive to the cyclical swings of the economy (e.g. textiles, rubber and plastic). This sector currently accounts for 32% of total employment. Unemployment rates have historically been above the national average, with the population base holding steady. On the negative side, the State has a heavy reliance on the Federal Government for revenues, a highly cyclical economy, and an income tax base which could be affected by any Federal tax changes. Positive factors, including moderate debt, conservative fiscal management and a willingness to increase taxes, combine with the negatives to place the State as a Mid AA with a downward trend.

Population (1984): 958,000
% change 1980-1984: +1.2%

Employment Distribution

Manufacturing:	32.2%
Wholesale and Retail Trade:	20.3%
Service Industries:	21.0%
Government:	14.9%

Unemployment (1984): 6%
5 year average: 7.9%

Wealth Statistics

Per capita income: \$11,670
% change 1980-1984: +26.5%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 31,000,000
1982	\$ 3,200,000
1983	\$ 3,900,000
1984	\$ 32,000,000

1984 G.F. Balance as % of G.F. revenues: 2.5%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	356.8	\$ 372.44	3.2%	1.7%

SOUTH CAROLINA

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AAA

The financial bottom line improved substantially in 1984, with revenues increasing at a rate of 13.1% and expenditures increasing 9%. The General Fund reserve balance increased to a level of \$98.5 million in the 1984 fiscal year. The major sources of revenue for South Carolina include income taxes (+12.7%) and sales taxes (+15.5%). The largest expenditure, education, increased 9.1%. The General Reserve Fund, which must be maintained at between 3% and 5% (level subject to general assembly vote), provides a measure of stability for operations.

The South Carolina economy, which had previously been anchored by the agricultural sector has become more diversified, although textile manufacturing dominates. In the event of a recession, the State is somewhat vulnerable. Per capita income in the State is well below the national average, while unemployment has been slightly above. The debt ratios are below average, and short-term borrowing to cover cash flow shortages has not been used for the past 50 years. Overall, consistent financial performance, a constitutional limitation on debt issuance and a comfortable General Fund balance overshadow the current economic make-up, and cause us to view the State as a Lower AAA with a stable trend.

Population (1984): 3,300,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	30.6%
Wholesale and Retail Trade:	20.1%
Service Industries:	15.0%
Government:	19.5%

Unemployment (10/84): 7.0%
5 year average: 8.6%

Wealth Statistics

Per capita income: \$9,187
% change 1980-1984: +26.5%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	\$ 76,500,000
1982	\$ 21,100,000
1983	\$ 40,000,000
1984	\$ 98,500,000

1984 G.F. Balance as % of G.F. revenues: 4.4%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	645.7	\$196	2.2%	1.0%

TENNESSEE

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AA+

In 1984, total revenues increased at a rate of 15.1% over 1983, compared to a 3.3% increase the year before. Sales and use taxes led the way increasing 15.6%, due in part to a temporary 1% increase in the rate. This source of income accounts for 55.6% of all tax revenues. Expenditures increased 10.1% over 1983 levels, led by increases in health, social services, and transportation. The fund balance of Tennessee expanded from 1983 levels, ending fiscal '84 at \$163.7 million.

The economic picture of Tennessee is dominated by the manufacturing sector, which makes the State sensitive to the ups and downs of the business cycle. Wealth levels are below average, with the unemployment rate above average. Debt ratios are low and have declined in the past year with no new debt issued in 1984. Issuance of new debt is tied to the growth in personal income. Despite the sensitivity of the economy, low levels of debt, consistent operational surplus and stable General Fund balances help to support the prime rating.

Population (1984): 4,722,000

% change 1980-1984: +2.6%

Employment Distribution (as % of G.N.P.)

Manufacturing:	33.2%
Wholesale and Retail Trade:	16.1%
Service Industries:	12.4%
Government:	11.1%

Unemployment (1984): 8.7%

5 year average: 9.5%

Wealth Statistics

Per capita income: \$10,231

% change 1980-1984: +34.4%

Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 23,100,000
1982	\$ 31,800,00
1983	\$ 40,500,000
1984	\$ 163,700,000

1984 G.F. Balance as % of G.F. revenues: 5.0%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net G.O. Debt	524.3	\$111	1.0%	.5%

TEXAS

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S&P: AAA

To summarize the past performance and future outlook for the State of Texas, it can be largely broken down to the areas of oil and gas. These two industries directly or indirectly account for approximately 20% of tax revenues in the State. Texas has been moving towards a more diversified economy. General Fund cash balance moved from a surplus of over a billion dollars in 1983 to an ending balance of \$743 million in 1984, and has declined further in 1985 to a level of \$232.5 million. Oil is currently priced at approximately \$27 per barrel and is forecasted to drop to \$24.15 by 1987. Every \$1 drop in the price translates into a loss of tax revenue in the area of \$100 million. Projections of many economists see a price for oil of under \$20 per barrel within the next few years.

The 1984-1985 biennium should show a growth in revenues over the previous biennium, oil price weakness notwithstanding, due in part to an increase in the State sales tax. Other tax legislation will effect an increase in motor fuels tax and motor vehicle sales tax. However, given a continued weakness in the price of oil, the future revenue stream remains cloudy. Even with the State cutting expenditures, the key is to find a replacement for lost oil and gas revenues. While implementation of an income tax is probably not a likely occurrence, other tax sources, such as a value added tax, could raise significant funds. The State has many positive areas, among them a high amount of self supporting general obligation debt, low debt ratios, low unemployment, high personal income, a diversifying economy and conservative financial operations. Although negative factors such as the continued and expected declines in the General Fund Cash balance, continued weakness in oil prices and lack of any strong revenue increasing legislation indicate a negative performance trend, the positive aspects indicate that the rating of Texas will remain stable.

Population (1984): 15,221,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	15.6%
Wholesale and Retail Trade:	25.1%
Service Industries:	19.4%
Government:	16.9%

Unemployment (1984): 5.9%
5 year average: 6.3%

Wealth Statistics

Per capita income: \$11,419
% change 1980-1984: +40.4%
Families below poverty level: 14.7%

General Fund (G.F.) Balance

1981	\$ 676,291,000
1982	\$ 1,331,215,000
1983	\$ 1,007,085,000
1984	\$ 668,154,000

1984 G.F. Balance as % of G.F. revenues: 12.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1065.3	\$67	.6%	.2%

UTAH

Moody's: Aaa

SLB: Lower AAA
Trend: Stable

S & P: AAA

1984 was an excellent year for Utah, with the General Fund balance expanding to a level of \$159.6 million. Revenues, which were right on budgeted levels, were aided by increases in the State sales tax and the corporate income tax. Sales tax revenues increased 34.9%, with corporate tax revenues up 40.6%. Expenditures were approximately \$40 million below budgeted levels.

The economy of Utah is concentrated outside of the manufacturing sector, with employment gains having been particularly strong in government and services. This helps to insulate the State somewhat from cyclical swings in the economy, and has helped to keep unemployment levels below the national average. Per capita income is below the national average, but population growth has been very strong. Debt levels, which had been on the rise have declined, and are below average. Overall the diversified economy, growing population base, low debt with rapid retirement, consistent General Fund balances and a willingness to raise the tax base help to support Utah's rating.

Population (1984): 1,672,000
% change 1980-1984: +13.6%

Employment Distribution

Manufacturing:	15.7%
Wholesale and Retail Trade:	23.4%
Service Industries:	20.2%
Government:	21.8%

Unemployment (1984): 8.0%
5 year average: 7.6%

Wealth Statistics

Per capita income: \$9,100
% change 1980-1984: +18.8%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	\$ 42,600,000
1982	\$ 109,300,000
1983	\$ 64,800,000
1984	\$ 159,623,000

1984 G.F. Balance as % of G.F. revenues: 13.9%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	292.2	\$ 177	2.0%	.6%

VERMONT

Moody's: Aa

SLB: Mid AA
Trend: Downward

S & P: NR

In fiscal 1984, total General Fund revenues for the State finished \$8.7 million behind projected levels, with \$5 million being added to the accumulated General Fund deficit. This weakness in receipts comes amid a series of tax rate increases, with personal income tax revenues and corporate income tax revenues hurt by Federal tax law changes. Expenditure limitations and tax rate increases were implemented in order to eliminate the deficit, which ended 1984 at \$35 million.

The economy of Vermont is concentrated in the areas of manufacturing, tourism and agriculture, and has become less sensitive to the cyclical swings of the economy. Wealth levels are low compared to the national average, and very low compared to New England states. Population has shown some growth, with unemployment at low levels. The debt ratios of the State are high, but are expected to decrease at a fairly steady rate. While the implementation of a plan to erase the State deficit is a very positive step, Vermont remains extremely vulnerable to Federal tax law changes and economic slowdown. The uncertainty created by this situation causes us to view the State as a Mid AA with a downward trend.

Population (1984): 530,000
% change 1980-1984: +3.7%

Employment Distribution

Manufacturing:	23.2%
Wholesale and Retail Trade:	20.9%
Service Industries:	24.7%
Government:	18.2%

Unemployment (1984): 5.2%
5 year average: 6.22%

Wealth Statistics

Per capita income: \$10,692
% change 1980-1984: +36.9%
Families below poverty level: 12.1%

General Fund (G.F.) Balance

1981	\$ (1,200,000)
1982	\$ (100,000)
1983	\$ (30,800,000)
1984	\$ (35,800,000)

1984 G.F. Balance as % of G.F. revenues: (10.7%)

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	273.9	\$ 515.79	4.8%	1.6%

VIRGINIA

Moody's: Aaa

SLB: Mid AAA
Trend: Stable

S&P: AAA

In fiscal 1984, Virginia achieved substantial gains in its General Fund balance, moving from a 1983 ending balance of \$101.9 million to an '84 ending balance of \$208 million. The improvement was due to the strong performance of the corporate income tax (+33%), sales tax (+15.3%) and personal income tax revenues (+14.1%), while expenditure increases were kept at a reasonable level (+7.9%).

The State possesses a triple A by both rating services, putting it into an elite group of eight states. Virginia is generally considered one of the best G.O. credits around. The State has not funded cash-flow deficiencies with short-term borrowing since 1969, debt ratios have been stable and low, no major tax increases have been implemented, and fiscal management has been strong. All of these factors combine with above average wealth levels, low unemployment, a growing population base and a diversified economy which has seen some shift away from the manufacturing sector, and includes mineral production, agriculture and tourism. We view the State as a Mid AAA with a stable trend.

Population (1984): 5,636,000
% change 1980-1984: +5.4%

Employment Distribution (1984)

Manufacturing:	18.7%
Wholesale and Retail Trade:	21.4%
Service Industries:	20.1%
Government:	23.5%

Unemployment (1984): 5.0%
5 year average: 5.98%

Wealth Statistics

Per capita income: \$12,116
% change 1980-1984: +28.8%
Families below poverty level: 11.8%

General Fund (G.F.) Balance

1981	\$ 300,200,000
1982	\$ 213,200,000
1983	\$ 101,900,000
1984	\$ 208,000,000

1984 G.F. Balance as % of G.F. revenues: 6.1%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	475.2	\$84	.7%	.7%

WASHINGTON

Moody's: A

SLB: Lower AA
Trend: Downward

S & P: AA-

The 1984 fiscal year was marked by the austerity budget instituted by Washington, with total expenditures declining 1.7%. Combined with the increase in revenues of 6.1%, the General Fund balance moved from a level of \$79.8 million to \$66.5 million. One problem with the revenue stream of the State is the heavy reliance on sales tax revenues in the absence of any personal income taxes. In 1983 the sales tax rate was increased from 5.4% to 6.5%, along with increases in motor vehicle, tobacco and liquor sales taxes. Tax revenue projections for the current year have been sharply revised downward, with a General Fund balance of \$0 expected by the end of the biennium. Passage of Initiative 464 (sales tax based on the value of an item minus trade-in value) should not have a large impact on State operations, but its effect will be monitored.

An economy reliant on cyclical and interest sensitive industries is the basis of the State's problems, with concentration primarily in forest products and aerospace. Wealth levels are above the national average but unemployment is consistently high, debt ratios are high, and short-term borrowing to cover cash flow deficits has become the norm. Talks are currently underway concerning potential tax increases. The negatives of Washington greatly outweigh the positive aspect of fiscal responsibility, and cause us to view the State as a Lower AA with a downward trend.

Population (1984): 4,349,000
% change 1980-1984: +5.2%

Employment Distribution

Manufacturing:	17.5%
Wholesale and Retail Trade:	24.8%
Service Industries:	20.8%
Government:	20.6%

Unemployment (1984): 9.5%
5 year average: 9.78%

Wealth Statistics

- Per capita income: \$12,728
- % change 1980-1984: +22.9%
- Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	\$ 10,500,000
1982	\$ (149,500,000)
1983	\$ 79,800,000
1984	\$ 66,520,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	2510.3	\$574	4.4%	1.6%

WEST VIRGINIA

Moody's: A1

SLB: Upper A
Trend: Stable

S&P: AA-

During the 1984 fiscal year, General Fund receipts expanded over expenditures, allowing the General Fund balance to increase to a level of \$142 million. The largest components of revenues are business and occupation taxes, sales taxes and income taxes. The major expenditure of the State is in the area of education. The method of taxing business has been redefined.

The West Virginia economy is extremely reliant on the coal industry, which has contributed to the above average unemployment levels as well as to the low levels of per capita wealth. There have recently been major job losses in the areas of construction, mining and manufacturing, which played a role in the S & P rating downgrade to AA-. Per capita debt, which is above average, has remained stable since the last report. Overall, the economic reliance on an industry which is vulnerable to the business cycle together with the presence of adequate fund balances cause us to view the State as an Upper A credit with a stable trend.

Population (1984): 1,953,000
% change 1980-1984: +2.8

Employment Distribution (1984)

Manufacturing:	16.2%
Wholesale and Retail Trade:	21.1%
Service Industries:	17.0%
Government:	20.9%

Unemployment (1984): 11.0%
5 year average: 10.2%

Wealth Statistics

Per capita income: \$8,997
% change 1980-1984: +30.4%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	\$ 42,200,000
1982	\$ 78,200,000
1983	\$ 62,000,000
1984	\$ 142,000,000

1984 G.F. Balance as % of G.F. revenues: 9.9%

Debt Ratios

	<u>Outstanding</u> <u>(000,000)</u>	<u>Per Capita</u>	<u>% of</u> <u>Personal Income</u>	<u>% of Full</u> <u>Market Value</u>
Net tax supported debt	773.3	\$396	4.3%	1.6%

WISCONSIN

Moody's: Aa

SLB: Mid AA
Trend: Stable

S&P: AA

The State of Wisconsin performed well above expectations in the '83-'84 fiscal year, moving from a General Fund deficit balance of close to \$200 million, to a surplus of \$360 million. The economic recovery hit the State in a big way, with income and sales taxes showing good gains, increasing 25.8% and 13.7% respectively. With total revenues increasing 6.4%, expenditures were kept at a 3.5% rise.

The manufacturing sector of the State, particularly durable goods has made it sensitive to economic downturns. The economy has been diversifying with manufacturing, still dominant, losing some ground while the service sector has been gaining. Wisconsin has been having trouble with its Veterans Bond program, but a restructuring has hopefully alleviated the problem. Per capita income figures are good, with unemployment very close to the national average. The debt ratios of the State are moderate, with a demonstrated willingness having been shown to increase the revenue stream while controlling expenses. All of the factors combine to place Wisconsin as a Mid AA with a stable trend.

Population (1984): 4,766,000
% change 1980-1984: +1.3%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	23.1%
Service Industries:	20.9%
Government:	17.0%

Unemployment (1984): 7.7%
5 year average: 8.76%

Wealth Statistics

Per capita income: \$11,352
% change 1980-1984: +20.6%
Families below poverty level: 8.7%

General Fund (G.F.) Balance

1981	\$ 14,065,000
1982	\$ 26,485,000
1983	\$ (182,100,000)
1984	\$ 360,000,000

1984 G.F. Balance as % of G.F. revenues: 3.4%

Debt Ratios

	<u>Outstanding (000,000)</u>	<u>Per Capita</u>	<u>% of Personal Income</u>	<u>% of Full Market Value</u>
Net tax supported debt	1543.9	\$324	3.4%	1.3%

Additional information available upon request.

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STATE OF ALASKA

A Discussion of Lease Purchase Financing

SHEARSON LEHMAN BROTHERS

February 13, 1986

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1. What is tax-exempt lease purchase financing?

Lease purchase financing is an attractive alternative to general obligation financing and is being used extensively by state and local government across the country. Lease purchase revenue bonds differ most from general obligation bonds in their security features. General obligation bonds are secured by the full faith and credit of the government which issues them. The government's taxing powers are thus called upon to make the debt service payments on the bonds. Lease purchase revenue bonds, however, are secured by lease rental payments which flow from the government which uses the facility to the entity which issues the bonds. This entity acts as nominal owner and lessor of the facility, and the lease payments flow through the lessor to the bondholders. Thus, the lease payments, which result from annual or bi-annual appropriations by the government which uses the facility, are the security for lease purchase revenue bonds.

Although called a lease, the lease purchase agreement actually represents an installment sale arrangement which provides for the financing of a capital facility such as a state office building, prisons, courthouses or municipal parking facilities. Payments are made to the lessor over a period of time by the lessee or buyer (any government body, including a state, county or agency), while investors in the lease purchase revenue bonds provide the funds for construction. Lease payments must be divided into principal and interest components for the interest portion to be considered tax-exempt income by the parties providing the financing. To be eligible for tax-exempt financing, a lease purchase contract must meet requirements for tax exemption under Section 103 of the Internal Revenue Code. In brief, the lessee and final owner must be a public entity financing facilities in order to further the public interest.

The Lessee and the Lessor -- The government body, as lessee, enters into a lease purchase agreement with another municipal entity (either another government or a duly empowered body such as a public building authority or the Division of Bond Finance) or with a non-profit, IRS Ruling 63-20 corporation* acting as lessor. For this purpose the lessor is often simply an entity created by the government body for the purpose of issuing bonds on its behalf. In some cases the issuing entity is also empowered to operate and maintain the facilities under agreements with government departments. The financing can also be structured through a municipal leasing corporation or bank trustee which would act as nominal lessor and hold title to the facility, while tax exempt certificates of participation evidencing proportional interests in the lease payments are sold by an investment bank in the same manner as municipal bonds are sold.

* Corporation organized under the general non-profit corporation ("NPC") law of a state or county are deemed to be issuing bonds on behalf of a political subdivision when following the rules set forth in Revenue Ruling 63-20 of the IRS. Such entities can be created quickly by a state or local government or an existing NPC's charter could be changed for this purpose.

Procedure for Lease Purchase Financing -- Before construction of the facility began, the state or local government would enter into a lease purchase agreement with a lessor providing for a lease payments by the government body. An investment bank, acting as underwriter, would purchase the bonds from the issuer and sell them to investors whose investments would be secured by the lease payments due from the state or local government under the lease. The lease payments would be assigned to a trustee bank and would be paid to bondholders; the interest portion would be exempt from federal and state income taxes.

The same trustee would hold and disburse the proceeds from the sale of the bonds according to a construction schedule. Prior to drawdown, balances in the construction fund would be invested in taxable securities in order to produce interest earnings to help minimize the net cost of constructing the facility. At the end of the term of the lease, title to the facility would pass to the lessee (i.e., the state or local government). This contrasts with financings involving the private ownership of the facility and the capture of depreciation benefits, which would require a payment at the fair market value of the facility if the government wished to acquire the building.

Construction Risk -- Pursuant to the lease, lease payments from the government body could commence upon issuance of the bonds and not be contingent upon completion of the facility. In this scenario, construction risk is borne by the lessee as would be the case for general obligation financing. Such an arrangement accomodates bondholders who would expect timely and full payment of interest and principal due on the bonds. In general, investors in tax-exempt instruments are risk averse and are not willing to invest in a project when repayment of their investment is conditioned upon successful completion of construction and the resulting commencement of lease payments. Similarly, the lessor is typically not able to bear construction or completion risk in the financing, especially when it is an entity simply created to issue debt securities on behalf of the government body.

Successful lease purchase financing therefore requires the government body either to make lease payments before project completion or to obtain insurance against construction and completion risk by a third party, so that neither the government body, the bondholders nor the lessor bears this risk. A contractor, perhaps with the assistance of a financial institution, could cover any construction cost overruns and could also provide financing in the event of a delay (i.e., contracting for a guaranteed maximum price and a guaranteed completion date with per diem liquidated damages equal to the financing cost). Some extraordinary events are difficult to insure, for example, problems caused by natural disasters, war, breakdowns in the transportation system and strikes. However, adequate insurance of construction and completion risk can be obtained, if desired, especially in light of the straightforward nature of public building construction and the lack of technological complexity. The cost of insurance coverage (construction bonding) is usually passed on in a fixed price construction contract. Alternatively, the issuer might self-insure against the risks or the underwriter can sometimes assist the issuer in obtaining a bank letter of credit or municipal bond insurance.

Ownership of the Facility -- If the state or local government were to use lease purchase financing, title to the facility would usually be held in trust by a trustee bank for the benefit of the bondholders throughout the term of the lease in order to protect their investment. Together with call provisions on the bonds, the government body could have the option to purchase the facility prior to the termination of the lease for a payment equal to the outstanding principal component of the lease payments plus a premium. In the event that such an option were not exercised, title would pass to the lessee and the lessee would own the facility free and clear at the end of the term of the lease. For federal and state income tax purposes, a lease purchase transaction would be considered a conditional sale implying ownership by the government body. For this reason, no tax benefits such as depreciation or investment tax credit would be available to any private tax-paying entities involved in the financing. Conversely, the property would not be subject to real estate taxes, as the government body is the user.

Non-Appropriation Clause -- The lease and the subsequent financing provided by the lessor in most cases is not considered a debt obligation of the government body because the lease would be subject to annual appropriation (in some states such as Michigan and New Jersey, it is not considered to be debt even if there is a contractual obligation to make payments for the entire lease period). For this reason, lease purchase financing is often used in situations where governments are constrained by debt limitations or referendum requirements regarding the issuance of debt. Typical non-appropriation language, which would be included in the lease, would be similar to the following:

Lessee reasonably believes that funds can be obtained sufficient to make all Lease Payments due during the term of the lease. Lessee hereby covenants that it will do all things lawfully within its power to obtain and maintain funds from which Lease Payments may be made, including making provisions for such payments to the extent necessary in each bi-annual or annual budget submitted for the purpose of obtaining funding, using its bona fide best efforts to have such portion of the budget approved, and exhausting all available review and appeals in the event such portion of the budget is not approved.

In the event that the Lessee is unable to obtain funding for any renewal term, Lessee shall have the right to terminate this Lease at the conclusion of the then current term of the Lease and shall neither be obligated to make any Lease Payments due beyond the current term, nor to make any concluding payment whatsoever, and this lease shall terminate as to that leased facility. Provided, however, that in the event Lessee does not appropriate such funds, Lessee will use its good faith best efforts to acquire the necessary funding from other agencies or sources. Upon termination as provided for above, Lessor or its agents or assigns should have the right to take possession of the leased facility and Lessee shall be liable to return the leased facility to Lessor in full operational and good working order.

Accounting Treatment of the Lease Obligation -- Because the non-appropriation clause could permit the government body to stop making lease payments without defaulting under the lease, the obligation has often been treated as a current expense and has only been listed in the footnotes to the balance sheet. The National Council on Governmental Accounting's recent Statement 5 on accounting for leases recommends additional accounting disclosure of such obligations, including calculation of the present value of the lease obligation on the municipality's balance sheet. Accounting treatment of governmental lease obligations is expected to be clarified in the near future by the newly Government Accounting Standards Board.

Preservation of General Obligation Debt Capacity -- In most cases the government body's commitment under the lease would be conditioned upon appropriation. In contrast, financing through general obligation bond offerings requires the "full faith and credit" or tax-supported pledge of the government body. For this reason, lease purchase financing can be less of a strain on a state or local government's financial condition because it is, in effect, subordinated as a result of the non-appropriation clause and can preserve general obligation debt capacity for other needed projects. Lease purchase financing can be an attractive way to avoid excessive general obligation borrowing and to allow administrative flexibility under tax-supported debt restrictions.

Essential Use Facility/Bondholder's Security --- In assessing the security of investing in instruments backed by a lease purchase agreement, investors and rating agencies evaluate the possibility of an event of non-appropriation by the lessee. The nature of the facility which is being financed and its importance to the lessee's efforts to discharge its responsibility of providing essential services are pivotal. Lease purchase financing of non-essential public facilities, such as convention centers, is not as well received by investors as bonds backed by lease purchase agreements associated with the financing of more essential facilities. Correctional facilities, for example, represent an extreme in essential use because governments obviously must avoid closing down a correctional facility and releasing prisoners. Investors, for this reason, regard lease purchase financing involving such facilities as representing a strong and attractive credit. To formalize this situation, investors sometimes request the state or local government lessee to provide a letter setting forth the essential nature of the leased property.

Non-Substitution Clause -- Investors traditionally have been comforted by the inclusion of a non-substitution clause in the lease purchase agreement which would preclude the government body from acquiring the same or a similar facility for a period of time in the event of non-appropriation. This can reduce the risk of early termination of the lease for other than the legitimate absence of sufficient funds. Typical non-substitution language would read as follows:

The Lessee agrees that in the event the Lessee exercise its right to terminate this Lease in accordance with the non-appropriation provisions contained herein, the Lessee will not purchase, lease, or rent other property for the purpose of performing the functions and projects which were to be performed by the leased facility for a period of one year from the date of termination of this lease.

Credit Ratings -- The rating agencies generally rate lease purchase one full grade below the general obligation rating of the lessee. For example, if a state or local government is rated AA, the lease purchase issue would generally be rated A. This rating policy stems from the risk of non-appropriation. Factors which could improve such a rating are: (i) extremely strong security features on the lease including a lengthy lease term, automatic lease renewals, a contractual requirement to make lease payments or a non-substitution clause; (ii) additional security backing (such as insurance or a bank letter of credit) or specific additional revenues pledged toward payment on the bonds; (iii) powerful evidence of the essentiality of the facility; and (iv) clear statutory authority for leasing and historical experience by the lessee in making appropriations for tax-exempt municipal leasing. As described below, the lower rating will usually cost between 1/4 and 3/4 of one percentage point in additional interest compared to the lessee's general obligation bonds. However, this increased coupon rate can be at least partially offset by the earnings on the debt service reserve fund which is only allowed with the lease purchase issue. If the state or local government has the choice for a given project of using either general obligation or lease purchase financing with equal annual payments, the impact of either on the government body's overall credit rating would be the same. When the lease purchase financing can be structured to cost less than general obligation financing, the lease purchase issue would have less of an impact on the government body's debt capacity and thus help to preserve the credit rating.

Cost Comparison -- The nominal interest cost on bonds backed by a "full faith and credit", or general obligation pledge is lower (generally 1/4 to 3/4 of one percentage point) than the interest rate charged for bonds backed by a lease purchase agreement. This differential reflects the added risk which the possibility of non-appropriation introduces into a lease purchase structure. In effect, the state or local government will have created subordinated debt with a slightly higher interest cost in contrast to the senior debt represented by its general obligation bonds. However, by employing a lease purchase structure, the government body can fund out of the bond proceeds a debt service reserve fund and a contingency reserve fund in order to provide reasonably required added security to the bondholders. The debt service reserve fund would cover a full year's lease payments on the facility while the contingency reserve fund could permit the government body to cover the cost of damage to the facility without having to turn to the legislative body for emergency funding. Furthermore, these funds together can be as large as 15% of the total size of the bond issue and can be invested in U.S. Government securities bearing higher, taxable long-term interest rates, thereby producing significant earnings during the life of the issue. The resulting arbitrage earnings generally bring the net cost of lease purchase financing near the cost of general obligation financing. General obligation bonds do not benefit from the arbitrage earnings which debt service reserve and contingency reserve funds provide because, according to tax law, their increased security eliminates the need for such reserve funds.

In addition, if a lease purchase transaction allows a faster receipt of funds and a quicker construction start, a government can avoid significant construction inflation costs and earn additional funds on invested proceeds during the construction period. Similar savings might be obtained if the transaction allows the government to avoid cumbersome construction contracting requirements that add major costs or delays to a project. The comparative costs will thus depend on the respective interest rates, timing, size of reserve funds, reserve fund investment rates and costs of issuance of the general obligation or lease purchase bonds. These will, of course, vary on a case-by-case basis.

Time Required for Implementation -- Legal documents for lease purchase financing are straight-forward and the basic structure is well established. As a result, funds for a facility can generally be obtained within 60 to 90 days of the decision to use lease purchase financing. In many cases, a government can save substantial amounts of money by avoiding construction cost increases during lengthy delays for referendum requirements of administrative procedures often associated with general obligation financing.

2. How is the credit of the bond issue determined?

The credit rating of the bond issue is determined by Moody's Investors Service and Standard & Poor's Corporation, the two major rating agencies upon which investors rely when they purchase bonds in the primary and secondary markets. A more secure credit will receive a higher rating, will be more favorably received in the marketplace, and result in substantially lower interest payments over the life of the bond issue. If the credit of the transaction is weak, it may be advisable to seek credit enhancement in the form of municipal bond insurance or a letter of credit. (Both are discussed at length in the next section.)

In working with the rating agencies and municipal bond insurers, we have been able to assemble the following list of general criteria they seek in municipal leasing transactions:

General Tax-Exempt Municipal Leasing Credit Criteria

- o The lease debt should be evaluated with all the other outstanding debt of the issuer on an aggregate basis and on an annual debt service basis.
- o The debt should be no longer than the useful life of the asset.
- o As a proportion of the operating budget, the lease debt service, along with other debt service, should not exceed 15%.
- o The essential nature of the project will be an important determinant of the rating and insurability because it affects the likelihood of the government to budget, appropriate and pay for the lease rentals.
- o In certain cases, a feasibility study may be required.
- o The documents must provide for legal validity and full insurance protection.
- o With new construction projects, interest should be capitalized until the lease is initiated.
- o An automatic renewal provision should be included in the lease. Any non-renewal would have to be accompanied by a 60-day notice before the commencement of the new fiscal year.
- o A reserve fund is preferred as well as business interruption insurance to serve as additional protection in a period of insufficient funds or during abatement.
- o The extent of representation with respect to non-appropriation will be scrutinized to the extent it may or may not be a prelude to an actual or technical event of default.

- o The rating agency or bond insurer should have evidence that the trustee's leasehold interest in the property is perfected as security for the bondholder. Insurance levels will have to be judged adequate to cover the operations in the event of damage and destruction, public liability disturbances, and acts of god.
- o Self insurance will be acceptable where the issuer has some claims-paying ability in the form of additional back-up blanket or umbrella policies.
- o If the project is in a defined earthquake zone, the lease must provide for earthquake insurance, if commercially available, with deductibles that are the accepted standard.
- o If the technology of the project is relatively new and innovative there should be some evidence of where this application has been used successfully in other empirical examples.

These criteria are those ideally expected in a tax-exempt purchase transaction. Those items that cannot be present in a given transaction are likely to result in a somewhat lower rating or higher insurance cost.

The following page from the October 22, 1984 edition of Standard & Poor's Creditweek discusses in greater detail the "essentiality" factor in credit analysis of lease purchase debt.

3. How can municipal bond insurance or a letter of credit improve the security and lower interest costs?

Municipal bond insurance provides a third party guarantee of timely payment of principal and interest on a tax-exempt bond issue. The insurance policy is given in exchange for a one time premium paid upon issuance and calculated as a percentage of total principal and interest payments over the life of the bonds. The insurance provides a AAA rating from one or both of the major credit rating agencies which can result in substantial savings after the cost of the insurance is taken into account.

Until a few years ago, tax-exempt leases which depended upon annual appropriations were not considered to be insurable. More recently, because of new entrants into the municipal bond insurance industry and more experience with annual appropriation risk, certain lease purchase transactions with strong security features have been eligible for such insurance. For example, a recent \$32 million transaction Shearson Lehman underwrote for a Kentucky Authority achieved nearly \$2 million in present value savings by raising the rating from a likely BBB to AAA. A number of past transactions of the Michigan State Building Authority have been insured, largely on the basis of a court-enforceable contractual obligation of the state to make annual appropriations to pay debt service.

Similarly, a letter of credit from a commercial bank provides a guarantee that substitutes the bank's credit for that of the issuer. The letter of credit, however, is provided in exchange for an annual fee expressed as a percentage of the principal amount of the bonds. The letter of credit is usually available for less than the life of a long-term bond issue and would have to be renewed (usually every five years) to remain in affect.

An issuer and its investment banker would first evaluate the potential costs and economic benefits of using either an insurance policy or a letter of credit for a given bond issue. This would be determined based on the interest cost savings of enhancing the credit rating after taking into account the price of the enhancement. The savings would be calculated on a present value basis. In general, a bond issue which would otherwise be rated A or lower will benefit from the use of insurance, while ratings lower than BBB- are not insurable. Next, the availability of such credit enhancement would have to be determined in the marketplace. This will often depend on the legal constraints on the issuer and the degree to which the issuer is willing to comply with the restrictive covenants the insurer or bank may require as prerequisites to an agreement. The investment banker would then negotiate with one or more firms providing credit enhancement to find the most advantageous terms.

4. What other types of bonds can be issued besides traditional long-term, fixed-rate bonds?

Today's financial markets provide issuers of tax-exempt securities many choices in terms of maturity, call provisions, interest rate and payment schedules for the securities they issue. Issuers are no longer limited to the "vanilla", 30-year, fixed-rate transaction, and many have utilized more sophisticated structures. The result is hundreds of thousands of dollars in savings to the issuer, and bond structures which meet the unique needs of each individual issuer. Two of the more popular structures being utilized today are put bonds which pay low, short-term interest rates and capital appreciation bonds, which may pay no interest until their final maturity. Both can be adapted for use with lease purchase revenue bonds.

Put Bonds

Put bonds usually have a variable interest rate which is tied to a short-term interest rate index. They derive their name from the feature that allows investors to put (sell) the bonds back to the issuer at a given time period's notice. The issuer usually has to maintain a line of credit with a major bank to buy any bonds which have been put and cannot be remarketed (resold). There are many types of put bonds, but all are meant to achieve the same result--a lower interest rate for the issuer. The risk associated with these bonds is that short term interest rates may increase to a point where the issuer would have been better off issuing fixed rate debt initially. Furthermore, some issuers are uncomfortable with the uncertainty of periodic fluctuations in the interest rate. However, as this market has matured, many devices have been developed to reduce the risk and uncertainty. These include municipal bond insurance, interest rate caps and interest rate swaps. Variable rate debt used to be considered unavailable for lease purchase transactions because of the difficulties of structuring how to appropriate a lease payment that varies over time. Shearson Lehman pioneered in the structuring of one of the first such floating rate lease transactions for an issue last year for the County of Los Angeles. This transaction is described on the following page. The Appendix section contains an article entitled "Risks and Rewards of Short Term Financing Techniques" which discusses variable rate debt issuance in greater detail.

Capital Appreciation Bonds

Capital appreciation bonds (CABs) are similar to zero coupon bonds which are bought at a deep discount and do not have any current interest payments. The interest payments are instead compounded at the yield to maturity on the bonds and are all paid on the retirement date of the bonds. As an example, an investor might pay \$185 for a thirty-year CAB and receive \$5,000 at the end of the thirty-year period. The par amount of CABs is considered to be the amount of the original proceeds (\$185 in this example), as opposed to zero coupon bonds. Thus CABs actually describe the amount of money the issuer can expect to receive. This avoids the "sticker shock" an issuer experiences from issuing a par amount of bonds far greater than the proceeds he requires. Because CABs accelerate the payment of principal and have experienced a great deal of demand in the marketplace, their use can reduce overall debt service for many different types of issues.

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Jail Issue Uses Lease-Purchase Backing To Take Advantage of a Floating Rate

By Leslie Eaton

Los Angeles County has awarded an \$18.4 million issue that the underwriter says may be the first to allow a municipality using lease-purchase backing to take advantage of a daily floating rate.

Shearson Lehman/American Express Inc., which developed the technique, expects it to become popular among the many issuers that use lease-purchase projects, including convention centers and parking garages, according to John W. Gillespie Jr., a correctional facilities finance specialist at the firm. Shearson Lehman has started a new program to provide financing for jails and prisons.

The award, which was made Tuesday, was for one of the first innovative financings for jail and prison projects, for which \$4 billion to \$6 billion in financing is now being planned by municipalities around the country, Mr. Gillespie said. The bonds have a put feature that allows holders to sell them back daily to Shearson Lehman.

Jails and prisons are generally financed through general obligation debt, although Mr. Gillespie said that in the last few years a number of counties have used lease-purchase financing.

In a lease-purchase financing, a special municipal authority sells bonds that are backed by set rental payments from a local government. The structure is similar to that of industrial development bonds, except that the beneficiary is a municipality, which usually receives title to the project it has been renting when the bonds mature.

One of the difficulties in structuring a lease-purchase-backed issue with a floating rate, Mr. Gillespie said, is that since the rate

on the bonds is to be adjusted, the municipality does not know how high to set the rental payment, which covers the interest payments on the bonds. The firm developed two ways to solve that problem, he said.

One method would be to put some of the bond proceeds into a special interest-bearing fund that would be used to cover additional payments if the rate on the bonds rises above the level anticipated by the municipality.

The other method, which was chosen by Los Angeles County, requires the municipality to set the rental payments assuming a high interest rate, and using any excess rental payments to prepay some of the bonds. The county will make rental payments to the authority assuming an interest rate of 12%, although the interest rate it is paying is currently about 5%, said Richard Dixon, Los Angeles County treasurer. The excess should allow the county to retire the debt in about 15 years, although the bonds do not mature until 2014.

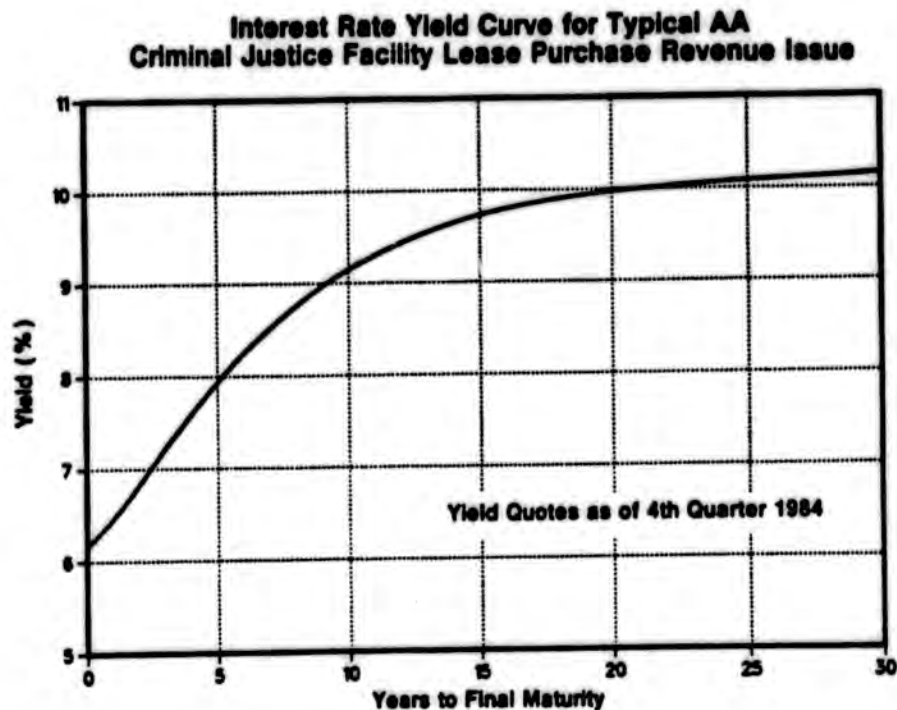
"We got two advantages from this structure that are related to each other: a very good rate and, associated with that, the economic savings from being able to retire our debt relatively early [and] lower our total debt service," Mr. Dixon said. The county's alternative, he added, would have been to sell 20-year fixed-rate lease-purchase bonds with a net interest cost of about 10%.

Other municipalities are likely to follow the county's lead in using that new structure, Mr. Dixon said, adding, "I know of one other city that almost stood at the end of the Xerox machine to get copies of our documents."

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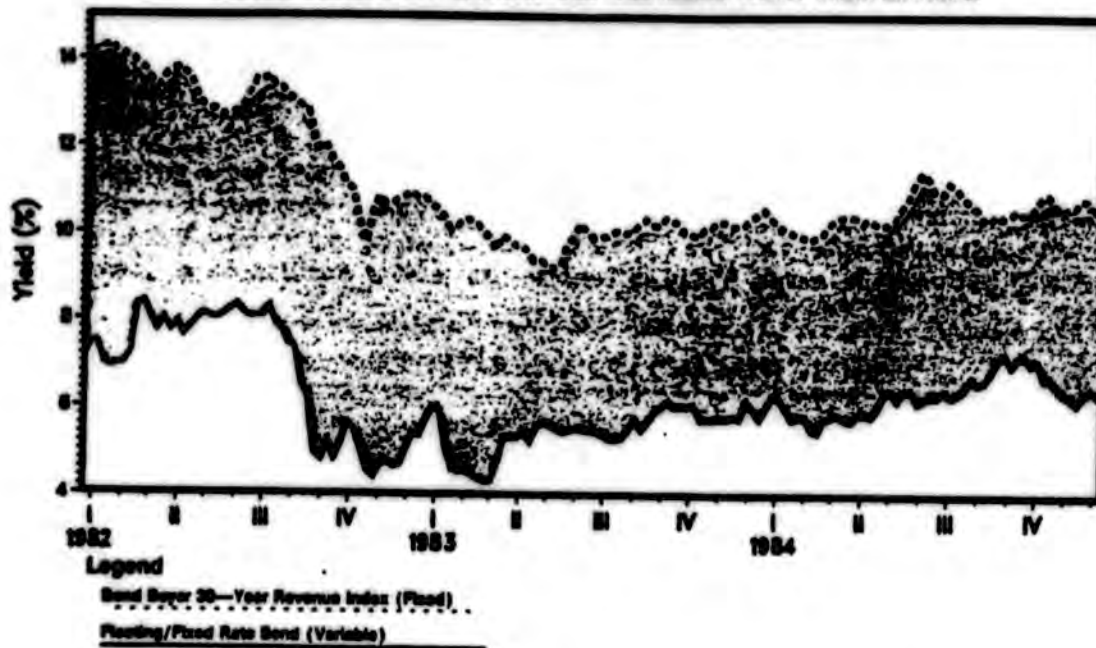
5. How can arbitrage an unexpended construction funds and on reserve funds lower the net cost?

State and local governments can achieve further cost savings by capital facilities with short-term debt during the construction period or with the use of variable rate securities. Because investors are more certain about inflation in the short-term than in the long-term, they are prepared to charge less interest for use of their money over a shorter period of time. The following chart shows how interest rates demanded by investors change depending on the term of the bond issue:



Investors are also willing to charge less interest for the use of their money in the short-term if the issuing governmental body is prepared to cover some of the risk associated with interest rate volatility. For state or local governments with good revenue-raising ability, a variable rate bond can be structured to provide investors with variable interest rates based on fluctuations in the market for similar bonds. Shearson Lehman recently sold an \$18.4 million variable rate issue as the first portion of the County of Los Angeles' Jail Expansion Program. This lease purchase transaction involves bonds that offer a variable interest rate priced on a daily basis and entitle the County to convert the outstanding debt to a fixed long-term rate whenever there is a cost advantage to doing so. This issue obtained an initial interest cost of 5 7/8%. The following graph shows the difference in recent interest costs between variable rate and fixed rate debt:

Comparative Interest Rates Fixed Rate Instrument vs. Variable Rate Instrument



Shearson Lehman is a major player in the short-term and variable rate tax-exempt markets and can tailor a program for your specific needs once the decision to finance has been made. Below is a brief description of the more popular financing instruments.

Variable Rate Demand Instruments

- o short- or long-term maturity: from several months to 30 years
- o optional put for redemption by investor
- o may be callable by issuer
- o low, short-term interest rate: fluctuates weekly, monthly or at some other set period in a band around a tax-exempt commercial paper index
- o requires a bank or other committed source of stand-by liquidity support in the event investors demand principal and interest payments on a repricing date.

Floating/Fixed Rate Instruments

- o long-term maturity: up to 30-40 years
- o issuer has option to fix the rate: interest rate floats at a low, short-term rate until (optional) conversion to a fixed interest rate
- o optional put for redemption by investor during variable rate period
- o may be callable by issuer during variable rate period and beyond
- o requires committed bank or other source of liquidity during variable rate period

Fixed-Rate Construction Notes

- o short-term maturity matches the construction period
- o ability to lock in low, short-term interest rate
- o permits much higher reinvestment earnings on unexpended portion of the Construction Fund, therefore reducing the required bond size
- o may be secured by Construction Fund
- o allows long-term issuance after project completion

6. Can an issuer sell bonds before a project has been finalized or make lease payments before the project is completed?

In general, an issuer is able to wait until a construction project has been bid before it is necessary to obtain funds through a lease purchase bond issue. In some cases, in fact, it is a legal requirement that such bids and all construction costs be finalized to a bond issue so that the fair market rental value of the facility can be determined by an appraiser.

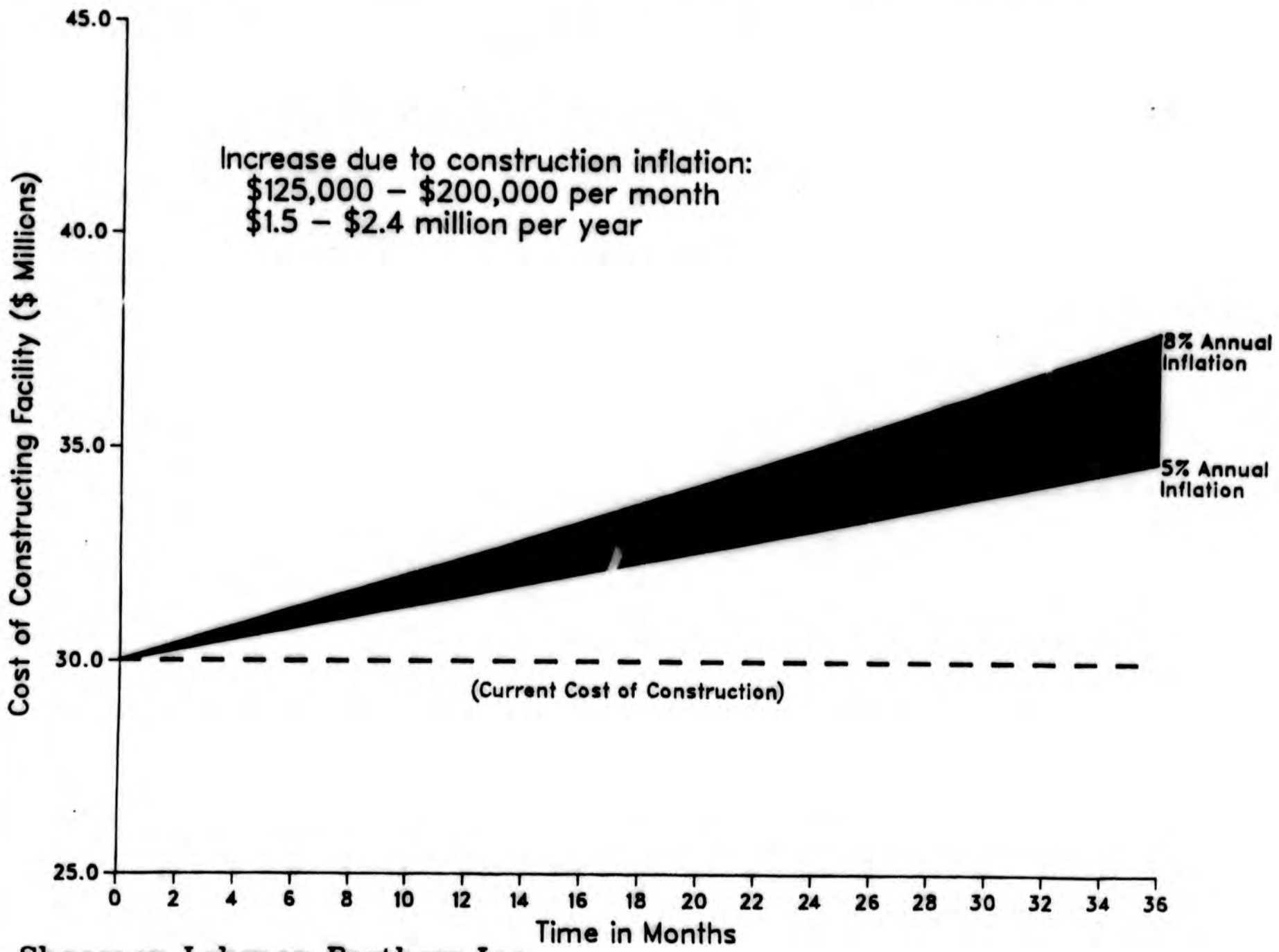
It is often prudent for the issuer to lock in lease purchase costs in advance with so-called Guaranteed Maximum Price and Guaranteed Date of Completion construction contracts. In such cases, the contractor is responsible for any cost overruns not resulting from change orders by the issuer and must make penalty payments ("liquidated damages") for any period of construction running beyond the agreed date of delivery. In such cases, the issuer knows in advance the amount of financing required.

In a few cases, however, it is economically advantageous to complete the financing before a project's full costs are finalized. For example, it can often help to increase interest earnings on unexpended construction funds by issuing earlier. By this means, the average maturity of the U.S. government securities in the construction fund can be longer and, in most instances, will bear higher rates of interest. Occasionally, an issuer will need substantial funds for such expenses as land acquisition, site preparation, architectural or engineering services or other development costs before it is possible to obtain final construction cost figures. Finally, a project may be able to be included as part of a larger package of projects in a bond issue even though it is not yet finalized. The issuer thus achieves cost of issuance savings by not waiting for a later separate issue.

Unless the authorizing statute or bond indenture specifically forbids the practice, it is usually possible to allow for completion bonds should the original bond issue not provide sufficient funds to finish the project. In projects involving extremely lengthy construction periods, uncertain final costs or a very large expense, it is often better to issue in two or more series of bond issues.

A similar issue arises in the question of whether the lessee can begin to make payments for the facility prior to the completion of construction. On the one hand, it makes excellent economic sense to do so -- the cost of capitalizing interest payments (issuing additional bonds to cover interest during construction) can add millions of dollars to the cost of even a small project. On the other hand, the practice would seem to violate the structure of the lease transaction if a government were, in effect, paying for the use of a building it was not yet able to occupy. As a result, the general practice has been to capitalize interest during the construction period and not to make payments from appropriations until the facility has been accepted and occupied by the lessee. The concept extends to periods in which the facility is rendered unoccupiable for whatever reason and the lessee stops making lease payments until the facility is re-occupied. Protection for the bondholders against this contingency usually requires rental interruption insurance. In cases where lease payments have been made prior to occupancy, they have sometimes been characterized as installment payments toward acquisition of the building or a lease payments on the portion of the facility that has been completed. Savings resulting from avoiding the need to capitalize interest can be significant and thus the legal situation regarding such avoidance should be explored.

COST OF DELAYING A \$30 MILLION PROJECT



7. How can arbitrage on unexpended construction funds and on reserve funds lower the net cost to the state?

Arbitrage is simply the difference between the investment rate on the issuer's unexpended funds and the interest cost on the issuer's bonds. The issuer, of course, hopes to be able to invest unexpended funds at a rate higher than what he must pay the bondholders for the use of their money. In this case, the issuer benefits from "positive arbitrage". When the interest rate on the bonds is higher than the rate available on unexpended funds, the issuer loses, suffering from "negative arbitrage".

The two basic sources of potential arbitrage are the construction fund and the debt service reserve fund. If there is a capitalized interest fund, arbitrage may be earned on it in the same manner as on the construction fund.

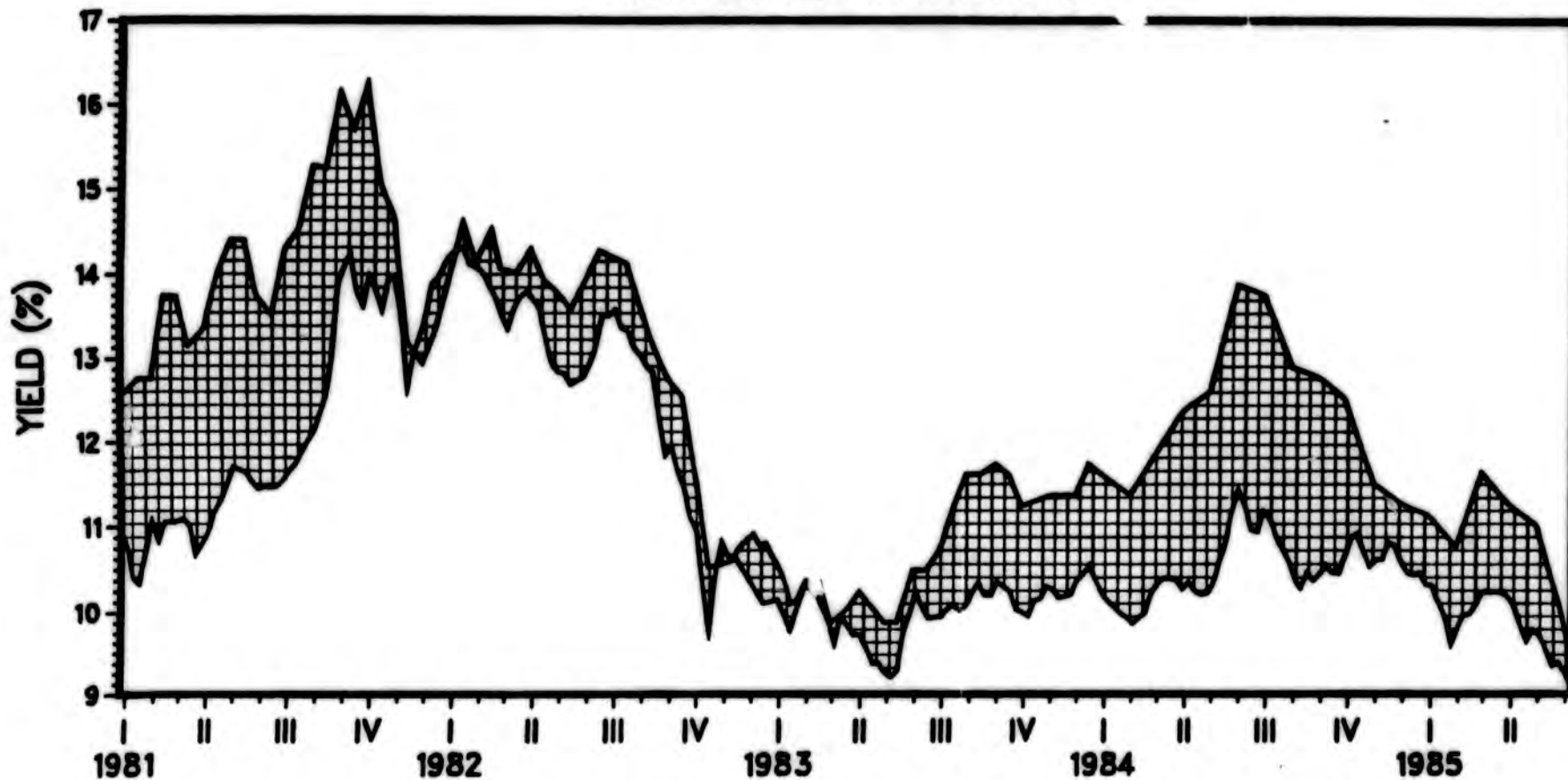
In a project financing most of the proceeds of the bond issue are deposited with a trustee bank into the construction fund. Because draws are from the fund over time, the unexpended portion of the fund should be invested, usually in short-term government securities such as Treasury bills. This means that the original par amount of bonds issued can be reduced by the amount of projected investment earnings on the construction fund. This technique is commonly referred to as "net-funding" the construction fund. When the interest rates on short-term Treasury securities is high, it may be advantageous for the issuer to issue bonds before a project has been finalized in order to maximize the arbitrage on the construction fund. IRS regulations require that some monies be drawn from the construction fund within six months of the bond issue for "public-purpose" projects.

In contrast to the construction fund, which will be totally expended in the first few years of a bond program, the debt service reserve fund must be in place for the life of the bond issue to provide additional security to the bondholders. This fund is usually invested in longer-term government securities, which tend to bear a higher interest rate. Because the debt service reserve fund is outstanding for the life of the bond issue, the investment earnings on it are used to reduce the annual debt service payments. This reduction can be passed through in the form of lower annual rental payments.

The chart on the following page models arbitrage on a debt service reserve fund over the past five years. The Bond Buyer Revenue Index proxies for the interest rate on the bonds, and the five-year Treasury-note yield is the assumed investment rate on the debt service reserve fund. A variable rate issue could substantially increase this spread between the interest rates on the bonds and the invested funds.

Such arbitrage earnings may not be available after this year if the Reagan Administration's tax proposals are enacted into law. The material in the Appendix on the proposals affecting municipal bonds should be examined in this regard. Issuers may want to accelerate the financing of any projects that it can which would be harmed by such a provision and thus preserve the benefits of arbitrage profits this year.

HISTORICAL ARBITRAGE ON DEBT SERVICE RESERVE FUND
Spread Between Cost of Funds and
Investment Rate on Reserve Fund



Legend

5 Year Treasury Note

Bond Buyer Revenue Index (Cost of Funds)

8. What services are provided by a senior managing investment banker?

The key to a successful marketing program is the effective coordination of the successive stages of the financing from the earliest phases of planning through the management of the syndicate which markets the bonds. The following list of services has been compiled to show what Shearson Lehman typically provides in its role as senior managing investment banker for its lease purchase issuers and how these services relate to each other. Despite the sequential appearance of the list, the tasks will invariably overlap as a result of the need to accommodate the varying time schedules of the parties to the financing. The extent of the services we provide is limited only by the needs of the financing.

Services performed during the development of the program:

- o Work with the issuer to develop a master facilities plan which is consistent with the issuer's anticipated needs;
- o Assist the issuer in evaluating its plan for the projects by facilitating communications with Shearson Lehman clients and consultants who have dealt with similar projects;
- o Assist the issuer in the analysis of financing alternatives through the use of cash flow projections based on various interest rate scenarios and other assumptions regarding size, timing and reinvestment of funds for the program;
- o Review documentation regarding the issuer's outstanding and existing programs to prepare legal and quantitative analyses to assess the merits of various financing scenarios and the refunding of any previous debt; and
- o Assist the issuer in establishing its role as the lessor for the proposed lease purchase financings.

Services performed during the development of the financing plan:

- o Establish a list of duties of all parties in each financing with a projected schedule of events and dates leading up to the issuance of the securities;
- o Provide the issuer with recommendations regarding the timing, pricing and sizing of the issue in view of prevailing market conditions;
- o Develop and recommend specific elements of the structure of the financing, including bond amortization schedules, redemption prices, reserve and contingency funds, covenants and additional provisions as necessary;
- o Review financing options with issuer staff based on defined objectives and constraints. Select most appropriate overall financing structure;

- o In conjunction with issuer staff, select Trustee; and
- o Negotiate with commercial banks to obtain services such as Issuing and Paying Agent and liquidity or credit support as appropriate.

Services performed during the preparation of legal documents:

- o Work with the issuer's administrative staff, Counsel, Bond Counsel, Auditors and other advisors in the preparation of all legal instruments, resolutions and other documents required for the completion of each financing;
- o Prepare preliminary and final Official Statements describing each financing and incorporating financial data, feasibility studies, descriptions of lending institutions, and legal opinions as required; and
- o Coordinate the printing and distribution of the preliminary and final Official Statements, as required for each bond issue, to prospective underwriters and institutional investors.

Services performed during the stage of market development:

- o Submit the bond issues to the appropriate rating agencies and work actively in the interest of the issuer to obtain the best possible credit rating;
- o Work with Bond Counsel and other advisors and counsel to the issuer on arrangements for the sale of the debt;
- o Monitor the condition of the bond market to detect changes which could influence the timing of the sales; and
- o Arrange informational meetings at appropriate locations to provide marketing support for the bonds among institutional and retail investors.

Services performed while the bonds are being marketed:

- o Continuously monitor market climate to determine the best marketing strategy for the securities and the most advantageous timing for placing them into the market;
- o Determine the preliminary pricing of the securities by reviewing the current secondary market yields of bonds which are similar in rating, security, geographic location of issuer, type and other key factors; and
- o Commence selling activity and adjust pricing as necessary while maintaining close communication between the issuer and the underwriter to prevent the bonds from becoming unattractive to either the issuer or the investor.

Services performed after the bond sale:

- o Prepare a debt service payment schedule as appropriate;

- o Prepare a schedule of recommended investment securities for the investment of funds required by the bond indenture and assist with the placement of such funds;
- o Serve as Remarketing Agent for the bonds if variable rate securities are used;
- o Act as underwriter for bonds if and when a decision is made to convert any variable rate securities to a fixed rate;
- o Provide secondary market support for future trading of the securities;
- o Continue to advise the issuer's staff of changes which may affect future capital formation and provide consultation and advice as requested, and
- o Remain available to assist the issuer with any issues which affect the existing indebtedness or remaining debt capacity.

9. How quickly can the issuer issue bonds and what is the procedure?

A typical lease purchase transaction generally takes 60 to 90 days to complete once operating and administrative decisions have been made and the plans for the new facilities have been finalized. In addition, the rating agencies and bond insurers will need to be educated not only about the specific features of the initial bond issue, but also about the issuer's credit, its structure and the authorizing legislation. The timetable below shows the schedule of activities necessary to complete the financing on a tight time schedule once all relevant facilities-related and administrative decisions have been made.

<u>Activity</u>	<u>Timing</u>
Distribute time schedule and outline of process	Week One
Mail bank solicitation letters, if necessary (Including draft of bank agreements to be used)	Week One
Distribute first draft of: Authorization Resolution Bond Purchase Agreement Issuing and Paying Agent Agreement Trust Indenture Bank Agreement Lease Agreement	Week Two
Selection of Bank Trustee, Issuing and Paying Agent	Week Three
Receive comments on first draft of documents	Week Three
Distribute revised drafts of documents and first draft of Official Statement or Offering Memorandum	Week Four
Submit preliminary documents to the rating agencies	Week Four
Comments on revised drafts	Week Five
Meet with ratings agencies	Week Six
Distribute final drafts of documents and submit package to rating agencies	Week Six
Receive final approval by issuer	Week Six
Receive ratings	Week Seven
Document closing Pricing of Issue Sale of Bonds	Week Eight
Pre-closing Closing	Week Eleven

The following shows how the proceeds of the bond issue are used:

The underwriter takes his fee in the form of a discount -- he buys the bonds at an amount less than the par amount of the bonds. The discount is usually quoted as a percentage of par, e.g. 2.5% or as a dollar price per bond, e.g. \$25 (per \$1,000 bond).

The monies remaining after the underwriter takes his fee are the proceeds which are generally given to a trustee bank to hold and invest on behalf of the issuer. As specified in the trust indenture, the proceeds are deposited into various funds.

Construction Fund

The construction fund is invested in short-term securities which are scheduled to mature when the construction funds are needed. Both the interest income on this fund and the original fund balance are used to make construction expenditures.

Debt Service Reserve Fund

Most project financings require a reserve fund to provide security to the bondholders in the event that projected revenues are not available to make a debt service payment. In a leasing transaction, the reserve fund provides security against the risk of non-appropriation. The reserve fund is generally equal to the maximum annual debt service payment, although it can be as large as 15% of the bond issue size.

The debt service reserve fund is generally invested by the trustee bank for the life of the bond issue, and the earnings derived from it can be used to reduce debt service payments, and ultimately lease rental payments.

Capitalized Interest Fund

Most project financings do not generate any revenues until construction of the project is complete. In a leasing transaction, often times the lessee is prohibited from making lease payments until the facility is ready for occupancy. In either case, no funds are available to pay interest or principal on the bonds during the construction period. Principal payments can be delayed, but interest payments must be made. Therefore, it is necessary to issue additional bonds, the proceeds of which will make interest payments to the bondholders during the construction period. This fund can also be invested until the monies are needed.

Costs of Issuance Fund

Most often an issuer would like to finance the costs associated with the bond issue along with the project. Thus, additional bonds must be issued to pay costs of issuance, which include bond counsel fees and other expenses.

**IMPACT OF TAX REFORM PROPOSAL ON
GENERAL OBLIGATION AND TRADITIONAL REVENUE BONDS**

1. "Qualified governmental units" may issue tax-exempt bonds. This is intended to continue existing law. Thus States, political subdivisions and their constituted authorities under existing law are qualified governmental units under the bill. Also possessions of the United States and the District of Columbia.
2. Bill distinguishes between bonds for "essential governmental functions", which are not subject to volume restriction, the alternative minimum tax on individuals and corporations, and many other restrictions, and "non-essential function bonds", which are. The distinction actually is not on the basis of the function financed, but on the involvement of non-governmental persons in the use of proceeds of the bonds. The test: bonds are "non-essential function bonds" if (a) lesser of 10 percent or \$10 million of proceeds is used in a trade or business of a person or persons other than a qualified governmental unit or (b) lesser of 5 percent or \$5 million of bond proceeds is loaned to such a person or persons.
 - A. Use in a trade or business is derived from the trade or business test for industrial development bonds under present law. Security interest test is dropped. Trade or business requirement is in effect dropped: any activity by any entity other than a natural person is a trade or business. Uses by two or more persons are aggregated. Use means use on a basis other than use by general public. Examples discussed in Committee Report, pp. 522-25.
 - B. Loans to non-governmental persons is concept derived from consumer loan bonds provision of existing law. Includes substantive loans, despite form (may be finance lease or installment sale) and "deemed" loans: e.g., Committee Report excludes tax-assessment bonds.
3. Non-essential function bonds may nonetheless be tax-exempt as "exempt-facility bonds", "qualified veterans' mortgage bonds", "qualified mortgage bonds", "small-issue bonds", "section 501(c) (3) organization bonds", "qualified student loan bonds" or "qualified redevelopment bonds". "Exempt-facility bonds" may be used to finance airports, docks and wharves, mass commuting facilities, water facilities, solid waste disposal facilities, and qualified multi-family residential rental projects. All must meet public use test. All but multi-family residential rental projects and sewage and solid waste disposal facilities must be governmentally owned under federal income tax concepts (no waiver of tax benefits permitted). "Bad money" rule eliminated: "net proceeds" must go to exempt facility.

"Functionally related and subordinate property" concept eliminated. Except for airports (excluding cargo storage facilities) and docks and wharves (excluding immediate storage facilities), exempt-facility bonds are subject to the volume cap.

4. "Non-governmental portion" of essential function bonds is also subject to the volume cap to the extent that it exceeds \$1 million dollars in any issue. This means a trade or business use by or a loan to a non-governmental person of more than \$1 million can render taxable an essential function bond issue.
5. Existing "general" arbitrage restrictions, tightened by the bill, apply to essential function bonds. Minor portion rule eliminated. "Acquired obligations" expanded to include any investment other than bonds exempt under section 103 or real or tangible personal property: e.g., deferred payment (annuity) contract. Rev. Ruls. 80-91, 80-92 codified re "reasonable expectations". Election to forego temporary period eliminated. Temporary periods restricted: Proceeds to be used for acquisition have 30 days. Proceeds to be used for construction have until earliest of (1) 90-percent completion date, (2) date when amount equal to amount of bonds has been spent on the property, and (3) three years after earlier of issuance of bonds or commencement of construction. State of Washington v. Commissioner reversed, so that issuance expenses will not be taken into account in determining yield on bonds.
6. "Additional" (IDB) arbitrage restrictions extended to all bonds (including essential function bonds).
 - A. Rebate rules. Essentially, all arbitrage (including temporary period and reserve fund arbitrage) from investment of "gross proceeds" broadly defined, plus all investment income on such arbitrage, must be computed at least annually and at least 90 percent of the "rebate amount" must be paid to the Treasury at least every five years. Thirty days after maturity of last obligation of the issue, 100 percent of cumulative rebate amount must be paid. Exceptions: (1) If gross proceeds are expended within 6 months; (2) Bona fide debt service fund income of less than \$100,000 per bond year, subject to election by issuer. Special rules for mortgage subsidy bonds.
 - B. Investments in higher-yielding non-purpose investments restricted to 150 percent of bond debt service for the year. Does not apply to temporary period investments.
7. Only essential function bonds may be advance refunded. Unless refunded bonds are retired within 30 days of issuance, refunding bonds are advance refunding bonds.

For advance refunding purposes, essential function bonds includes bonds issued before effective date of the bill which were not, when issued, IDBs, qualified mortgage bonds, qualified veterans' mortgage bonds, student loan bonds, private loan bonds, bonds to benefit section 501(c)(3) organizations, or comparable non-Code bonds. Advance refundings for essential function bonds are restricted as follows: (1) Original issue may be advance refunded only two times; (2) Unless present value of interest saving exceeds costs of issuance, aggregate amount of refunding bonds may not exceed 250 percent of amount of refunded (i.e., original) bonds; (3) Refunded bonds must be redeemed at earliest date at par or premium of 3 percent or less; (4) Any temporary period for refunding bond proceeds expires 30 days after issuance, and for refunded bonds, upon issuance of refunding bonds; and (5) To extent that non-governmental use of refunded bonds exceeds \$1 million, refunding bonds are subject to volume cap.

8. **Current refundings are governed by transition rules. With designated exceptions, set forth below, the new rules do not apply to current refundings of "qualified obligations", which means any obligation (other than a refunding obligation) issued before January 1, 1985 if the interest thereon is exempt under section 103 but would be taxable if the obligation were issued after December 31, 1985. The new rules that do apply to such a refunding are:**
 - A. **Unified State volume cap. But see section 145(k) re refundings outside of cap.**
 - B. **Public approval requirement.**
 - C. **Arbitrage.**
 - D. **Early issuance.**
 - E. **Advance refunding.**
9. **Early issuance rule applies to all bonds, including essential function bonds. Bonds become taxable unless 5 percent of proceeds are spent within 30 days of issuance and all proceeds (other than reasonably required reserve or replacement fund) are spent within 3 years of issuance. IRS ruling can extend these periods.**
10. **Information reporting requirement is extended to all tax-exempt bonds, including essential function bonds. Secretary can vary information required from that on present forms for IDBs, qualified mortgage bonds, qualified veterans' mortgage bonds and bonds for section 501(c) (3) organizations.**

CORRECTIONAL FACILITIES AND PUBLIC BUILDING LEASE FINANCE

Recent Case Studies

Shearson Lehman Brothers truly is a leader and innovator in the lease financing of correctional facilities and other public buildings. Within the Infrastructure Department, two bankers devote nearly 100% of their time to working with state and local governments to find innovative solutions to financing the construction and renovation of prisons, jails and other public buildings.

These two specialists, John W. Gillespie, Jr. and Valerie K. Spitler, are currently assisting the National Institute of Justice with a study of alternative methods of financing correctional facilities. In November and December of 1985 alone Shearson Lehman managed over one-quarter billion dollars in major lease purchase transactions for new state prison facilities in California, Louisiana and Rhode Island. Previously, Mr. Gillespie led the Firm's efforts in structuring the first variable rate, lease purchase certificate of participation transaction for a correctional facility. Miss Spitler and Mr. Gillespie co-structured a transaction for the Commonwealth of Kentucky which utilized not only lease purchase pooled jail financing but also a dedicated revenue stream. This bond issue will finance the construction and renovation of 23 county jails in Kentucky. Last fall Miss Spitler and Mr. Gillespie and other members of the Infrastructure Group successfully completed a \$13.5 million private placement financing for the renovation of a school building in Baltimore. The certificates were placed with two institutional investors and all documentation was completed within two weeks. These and other recent transactions are summarized below.

Louisiana Prisons: \$155.8 Million Lease Revenue Bonds

Shearson Lehman Brothers served as co-senior managing underwriter for \$155,775,000 in lease purchase correctional facilities bonds for the State of Louisiana in December 1985. The bonds were issued through the Louisiana Correctional Facilities Corporation, a new entity created by the legislature in 1985, and will be used to construct three new state prisons and plan two additional facilities. The 20 year bonds carry a multi-mode, variable rate which can be set at a fixed rate at any time selected by the state. Because of threatened restrictions included in the federal tax reform act with an effective date of January 1, 1986, the bonds were sold within six weeks of the underwriter's selection. The state is estimated to save over \$15 million in interest costs over the life of the bonds as a result of the variable rate structure and the issuance before year-end.

Rhode Island Prison: \$30 Million Lease Purchase Bonds

In November 1985 the State of Rhode Island issued a \$71,670,000 lease purchase bond issue, \$30 million of which is to construct and equip a new medium security adult correctional facility in the city of Cranston, Rhode Island. A public ballot issue to allow issuance of a general obligation bond for the prison had previously failed. Shearson Lehman Brothers bankers worked with the State Department of Correction and Department of Administration staff for over 10 months on various analyses of the most practical and economical means of financing the facility. Following Shearson Lehman's recommendation, the state issued the bonds through the Rhode Island Public Buildings Authority. Initially, the bonds were going to be issued with a variable rate of interest. However, as result of the improvements in the long term, fixed rate markets during late October and early November, the State and its investment bankers decided to lock in an attractive fixed rate. Shearson Lehman co-managed this financing which was issued on an accelerated schedule to avoid restrictions included in the federal tax reform proposal.

California Prison: \$104.4 Million Lease Purchase

The State of California issued \$104,400,000 in lease purchase revenue bonds in December 1985 to finance two 500 bed maximum security facilities at the Southern Maximum Security Complex in Tehachapi, California. The project is part of California's \$1.4 billion prison construction program and the first to use the lease purchase financing technique authorized by the legislature in its 1984 session. Shearson Lehman Brothers public finance bankers had worked with the California Department of Correction throughout 1984 while they studied financing alternatives and guided the authorizing bill through the State Legislature. Shearson Lehman Corrections Finance Specialist John Gillespie testified on behalf of the legislation and provided assistance in structuring the resulting transaction. The 15-year bonds, for which Shearson Lehman served as co-managing underwriter, were issued through the State Public Works Board and achieved a fixed interest rate of 8.45% in the longest maturity. The State plans to issue at least an additional \$195 million in lease purchase bonds already authorized for the prison construction program and may seek legislation for additional lease purchase bonds.

Kentucky Jails: \$32.3 Million Revenue Bonds

Shearson Lehman Brothers is proud of the pioneering work it did to structure a unique transaction for the Kentucky Local Correctional Facilities Construction Authority. The Authority was established to aid Kentucky counties with the funding of the construction or renovation of their local jails. At the same time the Authority was established, court costs were raised by \$5 (and, by the time of the bond issue, by a total of \$10); the earmarked funds are to be used by the Authority. This revenue source, as well as lease payments by some of the counties which needed to borrow from the Authority their share of the capital cost of their facilities, was pledged to paying principal and interest on the bonds.

The bonds were 30-year, fixed rate obligations, rated Aaa/AAA because they were insured by a major bond insurer. The bond insurer required the projected revenue stream to cover debt service on the bonds 1.3 times. Shearson Lehman Brothers structured a "super sinker" term bond which the Authority could redeem early with the revenues remaining after debt service had been paid. Early retirement of this bond will enable the Authority to issue traditional bonds sooner. Shearson Lehman Brothers' exceptional marketing capabilities to both institutional and retail obtained a very favorable interest rate on the "super sinker" for the Authority.

Trustees of the Loan and Guarantee Program: \$26 Million Certificates of Participation


Shearson Lehman Brothers recently senior-managed a \$26 million certificate of participation lease purchase transaction to finance the Rivoli Office Building Project in Baltimore. The City wished to complete the transaction by the end of 1985 to insure obtaining unrestricted yields on construction and reserve fund investments. The issue was the first lease purchase transaction involving the simultaneous defeasance of outstanding conditional purchase agreements for the property on which the new facility will be located. The issue was insured by FGIC and issued as fixed rate COP's in late December 1985.

The list beginning on the next page provides a selective sampling of Shearson Lehman Brothers' experience with lease purchase appropriation financings which are similar to that to be issued by the Texas Department of Correction.

MEMORANDUM

03/03/1986

TO: Rep. John Sund

FROM: J. Hartle, AA 

RE: Today's Loans Committee Meeting

CSHB 579 (Loans):

- Adds, per the Administration request (Gregg Baker, DCED), Timber processors and harvestors to the exemption from the Alaskan-only provision in CFAB statutes.

- Adds timber harvestors and processors to the findings.

- Removes the constitutionally doubtful language on Alaska hire in the original bill; replaces it with language from SB 410 by Zharoff.

JH rec: Pass it out to Resources (chaired by the sponsor...).

CSHB 519 (Loans):

- Adds amendments by the Administration (Revenue and Law) drafted in response to Loans Committee concerns

- Adds language stating that all lease-purchases must be approved by law.

- See handout by Revenue explaining changes and copy of amendment incorporated into bill.

JH rec: Hand out copies and briefing materials from the Administration, plan to pass out of Committee tomorrow.

CSHB 477 (Loans)

- Adopts language from Senate Resources CS for SB 338.

- Changes "Susitna project" to "Railbelt energy development"

JH rec: Hearings and amend HB 501 to create "Railbelt Energy Development Fund" in the General Fund, amend HB 477 to appropriate it to this new fund.

Original sponsor: Rules/governor

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON STATE LOANS

2 CS FOR HOUSE BILL NO. 519 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to public finance; and providing for
7 an effective date."

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

9 * Section 1. AS 14.40.040 is amended to read:

10 Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is
11 created and established a corporation to be called the University of
12 Alaska. It may in that name

13 (1) sue and be sued;

14 (2) receive and hold real and personal property;

15 (3) contract and be contracted with;

16 (4) adopt, use and alter a corporate seal;

17 (5) borrow money, issue debt, or enter into long-term

18 obligations for the purchase of facilities, goods, or services, which

19 obligations secure, in whole or in part, debt issued by another party,

20 as approved by the state bond committee under AS 37.15.770; ^{and by law} _{Approp does not constitute}

21 (6) do and have done all matters necessary for the purpose

22 of any function set out [FORTH] in this chapter.

23 * Sec. 2. AS 14.40 is amended by adding a new section to read:

24 Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter
25 into lease-financing agreements only with the Alaska State Housing
26 Authority acting as the Alaska State Building Authority. A lease-
27 financing agreement must provide that lease payments are subject to
28 annual appropriation. If the board intends to enter into an agreement
29 under this subsection, the board shall provide notice to the

1 legislature and to the state bond committee. The notice must include
2 the anticipated annual lease payment, the anticipated principal amount
3 of the debt to be issued by the Alaska State Housing Authority acting
4 as the Alaska State Building Authority, and the anticipated total
5 construction or acquisition cost of the project. The board may not
6 enter into an agreement under this section unless the public building
7 to be provided has been approved by law. An appropriation for the
8 project does not constitute approval by law for purposes of this
9 section.

10 * Sec. 3. AS 18.55.100(a)(15) is amended to read:

11 (15) acting as the Alaska State Building Authority arrange
12 or contract for the financing or [, DESIGN, CONSTRUCTION AND] acqui-
13 sition of public buildings designed by, constructed by, or whose acqui-
14 sition has been approved by the Department of Transportation and
15 Public Facilities for lease to the state in accordance with
16 AS 18.55.010 - 18.55.290 and AS 37.15.770.

17 * Sec. 4. AS 18.55.140 is amended to read:

18 Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS.
19 The authority may issue bonds and notes from time to time in its
20 discretion for any of its corporate purposes and may issue refunding
21 bonds for the purpose of paying or retiring bonds previously issued by
22 it. The authority may not issue bonds for public buildings until the
23 state bond committee has approved the proposal for the issuance of
24 debt under AS 37.15.770. Refinancing? (Add and by law)

25 * Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

26 (b) Bonds issued by the authority for public buildings must be
27 issued in the name of the Alaska State Building Authority and are
28 subject to AS 18.55.010 - 18.55.290.

29 * Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

1 (4) "bond" means any bond, note, interim certificate,
2 debenture, or other obligation issued by the authority or the author-
3 ity acting as the Alaska State Building Authority under AS 18.55.010 -
4 18.55.290;

5 * Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

6 (c) The supreme court may enter into lease-financing agreements
7 only with the Alaska State Housing Authority acting as the Alaska
8 State Building Authority. A lease-financing agreement must provide
9 that lease payments are subject to annual appropriation. If the
10 supreme court intends to enter into an agreement under this subsec-
11 tion, the supreme court shall provide notice to the legislature and to
12 the state bond committee. The notice must include the anticipated
13 annual lease payment, the anticipated principal amount of the debt to
14 be issued by the Alaska State Housing Authority acting as the Alaska
15 State Building Authority, and the anticipated total construction or
16 acquisition cost of the project. The supreme court may not enter into
17 an agreement under this subsection unless the public building to be
18 provided has been approved by law. An appropriation for the project
19 does not constitute approval by law for purposes of this section.

20 * Sec. 8. AS 24.23 is amended by adding new sections to read:

21 ARTICLE 2. LEASE AGREEMENTS.

22 Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency
23 may lease necessary office space, and contract for the lease of space,
24 for the use of the Alaska legislature and its employees.

25 Sec. 24.23.110. The Legislative Affairs Agency may enter into
26 lease-financing agreements only with the Alaska State Housing Author-
27 ity acting as the Alaska State Building Authority. A lease-financing
28 agreement must provide that lease payments are subject to annual
29 appropriation. If the agency intends to enter into an agreement under

1 this subsection, the agency shall provide notice to the legislature
2 and to the state bond committee. The notice must include the
3 anticipated annual lease payment, the anticipated principal amount of
4 the debt to be issued by the Alaska State Housing Authority acting as
5 the Alaska State Building Authority, and the anticipated total
6 construction or acquisition cost of the project. The agency may not
7 enter into an agreement under this section unless the public building
8 to be provided has been approved by law. An appropriation for the
9 project does not constitute approval by law for purposes of this
10 section.

11 * Sec. 9. AS 37.05.280 is amended to read:

12 Sec. 37.05.280. LEASES. The department shall lease necessary
13 space, and contract for the lease of space, for the use of the state
14 or an agency of the state, wherever it is necessary and feasible,
15 subject to compliance with the requirements of AS 37.05.220 - 37.05.280.
16 A [NO] lease or contract for a lease may not provide for a period of
17 occupancy greater than 40 years. * An agency of the state requiring
18 office, warehouse, or other space shall lease the space through the
19 department. *All leases shall contain provision that subject to annual approval*
20 [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966,
21 WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF
22 \$12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED
23 FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE
24 LEGISLATURE BY CONCURRENT RESOLUTION.]

25 * Sec. 10. AS 37.05 is amended by adding a new section to read:

26 Sec. 37.05.285. LEASE FINANCING. The department may enter into
27 lease-financing agreements only with the Alaska State Housing Author-
28 ity acting as the Alaska State Building Authority. *A lease-financing*
29 *agreement must provide that lease payments are subject to annual*
appropriation. If the department intends to enter into an agreement

1 under this subsection, the department shall provide notice to the
2 legislature and to the state bond committee. The notice must include
3 the anticipated annual lease payment, the anticipated principal amount
4 of the debt to be issued by the Alaska State Housing Authority acting
5 as the Alaska State Building Authority, and the anticipated total
6 construction or acquisition cost of the project. The department may
7 not enter into an agreement under this subsection unless the public
8 building to be provided has been approved by law. An appropriation
9 for the project does not constitute approval by law for purposes of
10 this section.

11 * Sec. 11. AS 37.15.040 is amended to read:

12 Sec. 37.15.040. SALE OF BONDS. Before selling an issue or
13 series of bonds, the state bond committee shall give notice inviting
14 sealed bids in the [SUCH] manner [AS] it may prescribe. If satisfac-
15 tory bids are received, the bonds offered for sale shall be awarded to
16 the highest responsible bidder or bidders. If the state bond
17 committee determines that the bids received are not satisfactory as to
18 price or responsibility of the bidders, it may reject all bids
19 received.

20 * Sec. 12. AS 37.15.110 is amended to read:

21 Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.
22 There is created within the Department of Revenue a committee known as
23 the "state bond committee," the members of which are the commissioner
24 of commerce and economic development, the commissioner of administra-
25 tion, and the commissioner of revenue. If a member of the committee
26 is absent or otherwise unable to act, the member's designee (IN THE
27 DEPARTMENT) shall act as a member of the committee in the member's
28 place.

29 * Sec. 13. AS 37.15.130 is amended to read:

1 Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commis-
2 sioner of commerce and economic development is the chairman of the
3 state bond committee and the commissioner of revenue is the secretary.
4 A majority of the members of the committee constitute a quorum. The
5 committee shall keep a full, complete, and permanent record of its
6 proceedings. All records and correspondence of the committee shall
7 be kept in the office of the commissioner of revenue. For the purpose
8 of this chapter and AS 44.62.310, public notice of 24 hours or more is
9 adequate notice of a meeting of the committee at which the issuance of
10 bonds is authorized.

11 * Sec. 14. AS 37.15.140 is amended to read:

12 Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond
13 committee shall adopt the resolution and prepare the documents neces-
14 sary for the issuance, sale, and delivery of state general obligation
15 bonds.

16 * Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

17 (b) The state bond committee shall prepare an annual report to
18 be submitted to the governor and legislature before March 31 of each
19 year. The report must show

20 (1) all outstanding debt of debt-issuing entities of the
21 state;

22 (2) the anticipated effect on the finances and credit of
23 the state, including the effect on long-term debt capacity and credit-
24 worthiness, resulting from that debt;

25 (3) which long-term debt is state supported and which is
26 supported only by revenue attributable to the project being financed
27 by the debt;

28 (4) all long-term capital lease obligations of the state;

29 (5) the volume of short-term debt issued and retired during

1 the year by debt-issuing entities of the state;

2 → (6) specific identification of each issue for which the
3 state has pledged some form of indirect support for the debt, includ-
4 ing any moral obligation of the state to support the debt;

5 (7) future bonding and debt capacity implications of legis-
6 lation enacted in the previous legislative session; and

7 (8) the recommended debt issuance capacity of the state for
8 the next two years following the year of the report.

9 (c) The state bond committee may develop written policies con-
10 cerning debt of the state.

11 * Sec. 16. AS 37.15.150 is amended to read:

12 Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SER-
13 VICES. The state bond committee may appoint an executive director who
14 may, with approval of the committee, select and employ additional
15 staff as necessary. Employees of the committee are in the partially
16 exempt service under AS 39.25.120. If the [STATE BOND] committee
17 considers it necessary and advisable, it may procure architectural or
18 engineering, fiscal agent or municipal investment, legal, and other
19 expert or specialized services at reasonable and customary fees to
20 assist it in accomplishing the most advantageous sale of the bonds.
21 The fees may be paid from the proceeds of the sale or advanced from
22 the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR]
23 or otherwise. 77

24 * Sec. 17. AS 37.15.450(a) is amended to read:

25 (a) The bonds shall be sold in the manner, price or prices,
26 [SUCH] amounts or series, and at the [SUCH] time or times [AS] de-
27 termined by the committee at either public or private sale. [BEFORE
28 SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING
29 SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS

1 ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE
2 HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS
3 RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
4 BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series
5 of them, shall be sold at such a price so that the effective interest
6 rate over the life of the bonds does not exceed 11 percent per year or
7 that rate of interest which is 125 percent of the rate of the Bond
8 Buyer Index of 20 Municipal Bond Average Yields for the week previous
9 to the date of sale of the bonds, whichever is higher. Interest shall
10 be payable annually or semiannually.

11 * Sec. 18. AS 37.15.460 is amended to read:

12 Sec. 37.15.460. BOND RESOLUTION. The committee is authorized
13 and directed to adopt the bond resolution and prepare all other docu-
14 ments and proceedings necessary for the issuance, sale and delivery of
15 the bonds or any part or series of them. The bond resolution shall
16 fix the principal amount, denomination, date, maturities, place or
17 places of payment, rights of redemption, if any, terms, form, condi-
18 tions and covenants of the bonds or each series of them. The commit-
19 tee shall also determine and provide for the date and manner of sale
20 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
21 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
22 REQUIRED BY AS 37.15.450].

23 * Sec. 19. AS 37.15.650(a) is amended to read:

24 (a) The toll facilities bonds are sold in the manner, price or
25 prices, amounts or series, and at the time as determined by the com-
26 mittee, at either public or private sale. [BEFORE SELLING A SERIES OF
27 BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF
28 SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED
29 TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A

1 BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE
2 BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a
3 series of bonds, may not be sold if the effective interest rate over
4 the life of the bonds exceeds 11 percent per year or that rate of
5 interest that is 125 percent of the rate of the Bond Buyer Index of 20
6 Municipal Bond Average Yields for the week previous to the date of
7 sale of the bonds, whichever is higher. Interest is payable annually
8 or semiannually.

9 * Sec. 20. AS 37.15.660 is amended to read:

10 Sec. 37.15.660. BOND RESOLUTION. The committee is authorized
11 and directed to adopt the bond resolution and prepare all other docu-
12 ments and proceedings necessary for the issuance, sale, and delivery
13 of the bonds or any part or series of them. The bond resolution shall
14 fix the principal amount, denomination, date, maturities, place or
15 places of payment, rights of redemption, if any, terms, form, condi-
16 tions, and covenants of the bonds or each series of them. The commit-
17 tee shall also determine and provide for the date and manner of sale
18 of the bonds, and shall provide where a [WHETHER THE] notice of sale,
19 if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION
20 REQUIRED BY AS 37.15.650].

21 * Sec. 21. AS 37.15 is amended by adding new sections to read:

22 ARTICLE 5. STATE-SUPPORTED DEBT.

23 Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond commit-
24 tee shall review proposals for the issuance of debt by or on behalf of

25 (1) the Alaska State Housing Authority acting as the Alaska
26 State Building Authority for the purpose of providing public build-
27 ings; and

28 (2) the University of Alaska.

29 (b) The committee may review the general programs and financing

1 plans of the agency that proposes to issue the debt as well as the
2 specific aspects of the proposed debt issue, including

- 3 (1) amounts;
4 (2) times;
5 (3) maturities;
6 (4) debt structure and security features;
7 (5) credit enhancements;
8 (6) use of proceeds;
9 (7) official documents;
10 (8) planned rating agency presentations; and
11 (9) selection, retention, or compensation of financial
12 advisors, bond counsel, trustees, underwriters, and other profession-
13 als.

14 (c) The state bond committee shall consider approval of the
15 amount and time of sale of the debt. The committee shall approve the
16 issuance of the debt if, in its judgment, issuance of the debt is in
17 the best interests of the state. The committee may limit approval of
18 the issuance of debt upon compliance with terms established by the
19 committee.

20 (d) At the time of sale of the debt, the state bond committee
21 shall review the bids or pricing of the debt, including discounts,
22 underwriting spreads, and interest rates. If the committee determines
23 that the bids or prices are not satisfactory or that the bidders are
24 not responsible, the agency may not sell the debt.

25 Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the
26 state bond committee, in its judgment, determines that the amount or
27 retirement of debt issued by municipalities and subject to reimburse-
28 ment by the state under AS 14.11.100 is not in the best interest of
29 the state, the committee may

1 (1) establish an amount or amounts, for any or all years
2 before the maturity of all of that municipal debt, that may not be
3 exceeded by the Department of Education in approving requests under
4 AS 14.11.103; or

5 (2) establish, under AS 14.11.100(j)(3), a term required
6 for the maturities of municipal debt authorized by local voters after
7 March 31, 1986.

8 * Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to
9 read:

10 (19) employees of the state bond committee.

11 * Sec. 23. This Act takes effect immediately in accordance with AS 01.-
12 10.070(c).

A M E N D M E N T

Offered in the House Special Committee on State Loans

By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ",,"

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert "┘"

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

James

A M E N D M E N T

Offered in the ^{2 spaces} House Special [↓] Committee on State Loans

By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ","

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert "↓"

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 19, following "payment":

Delete "and" and insert ","

Page 4, line 21, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 4, lines 22 - 23:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 25, delete "(a)"

Page 5, lines 8 - 19, delete all material

Page 5, line 8, insert a new bill section to read:

"* Sec. 9. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Renumber remaining bill sections accordingly.

Page 7, line 28, through page 8, line 6, delete all material and insert:

"(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS

RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds,"

Page 8, following line 12, insert new bill sections to read:

"* Sec. 16. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 17. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over

the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of 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. Interest is payable annually or semiannually.

* Sec. 18. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650]."

Renumber remaining bill sections accordingly.

NOTES TO COMBINED FINANCIAL STATEMENTS--Continued

CITY OF WRANGELL

NOTE H--LONG-TERM DEBT--Continued

Revenue Bonds--Continued:

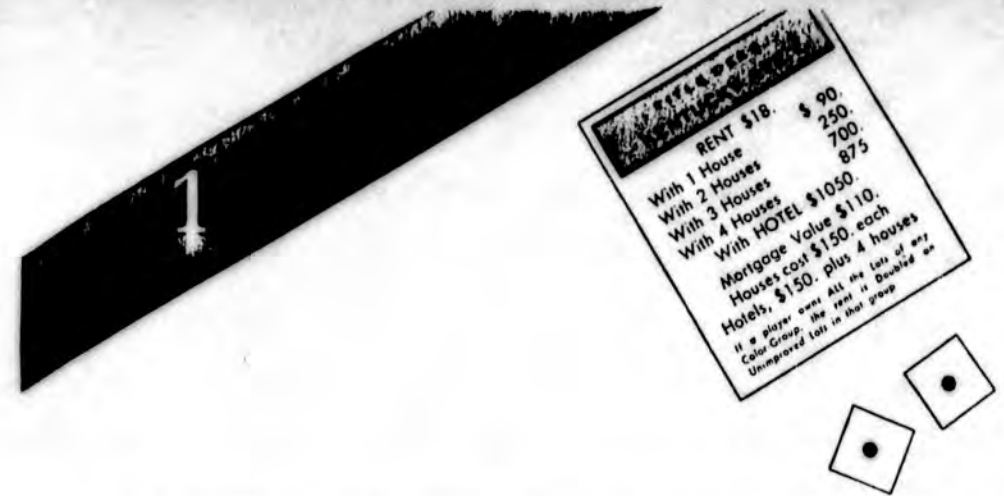
The Water Utility issues of 1967 and 1968 require that water rates be maintained at a level which will produce revenue equal to at least 1.25 times the average amount annually required for debt service after payment of current expenses of such system.

Revenue requirements of '967 and 1968 Water Utility issues are computed as follows:

	<u>1985</u>	<u>1984</u>
Net earnings (loss)	\$(28,818)	\$ 37,595
Less operating transfers from other funds		(57,323)
Add back:		
Depreciation	58,245	35,349
Interest on bonded debt	12,555	13,161
	<u>41,982</u>	<u>28,782</u>
Requirement	<u>29,193</u>	<u>29,193</u>
EXCESS OF REVENUE OVER (UNDER) REQUIREMENT	<u>\$ 12,789</u>	<u>\$ (411)</u>

Debt Service Requirements: The annual debt service requirements of the general obligation bonds outstanding at June 30, 1985 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
June 30, 1986	\$ 220,000	\$ 991,716	\$ 1,211,716
1987	240,000	968,377	1,208,377
1988	265,000	943,091	1,208,091
1989	285,000	915,617	1,200,617
1990	305,000	886,046	1,191,046
1991 - 1995	2,005,000	3,930,747	5,935,747
1996 - 2000	2,955,000	2,797,430	5,752,430
2001 - 2005	3,715,000	1,133,975	4,848,975
2006 - 2010	130,000	91,250	221,250
2011 - 2015	165,000	55,500	220,500
2016 - 2020	120,000	12,000	132,000
	<u>\$10,405,000</u>	<u>\$12,725,749</u>	<u>\$23,130,749</u>



The Rating Agencies: The Importance of Economic Development to a Rating

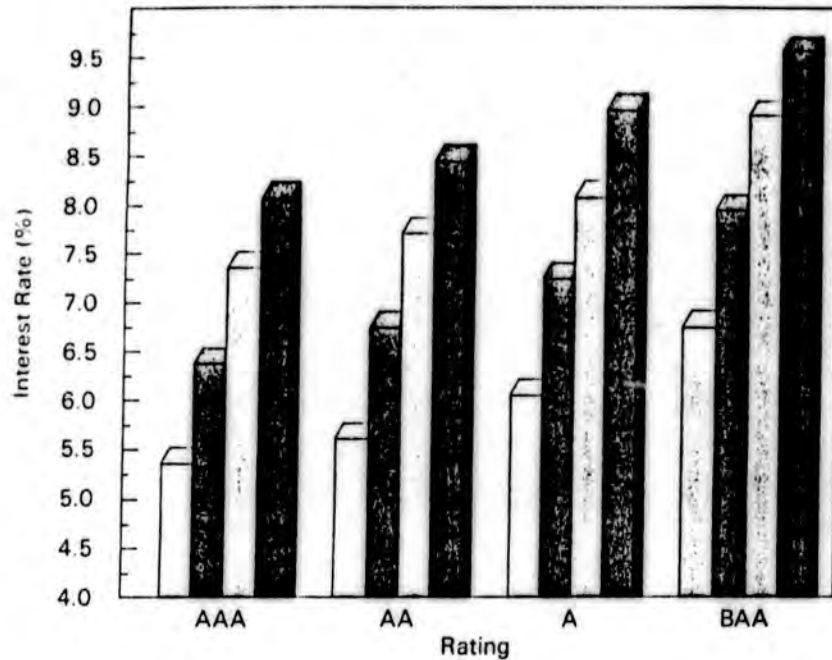
DANIEL HEIMOWITZ
Associate Director—Municipal Ratings
Moody's Investors Service

Moderator: **ALBERT F. HAIBACK**
Managing Officer
Infrastructure Finance Group
Kidder, Peabody & Co., Inc.

ALBERT F. HAIBACK:

"The Importance of Economic Development to a Rating" is a subject of critical importance to practically every prospective issuer of bonds. This is because the rating that is assigned to a bond issue significantly affects both the eligibility of the bonds for purchase by certain investors, particularly institutional investors, and the interest rates and net interest costs which the bonds will derive at sale.

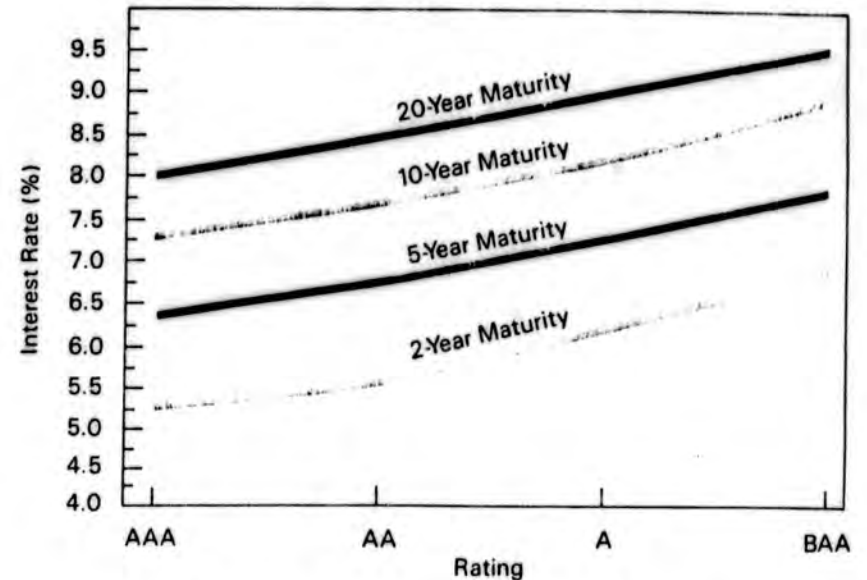
EXHIBIT 1-1
Correlation of Credit Rating and
Interest Rate for Various Maturities



- 2-Year Maturity
- 5-Year Maturity
- 10-Year Maturity
- 20-Year Maturity

Source: Delphis Hanover Corporation, November 12, 1985

EXHIBIT 1-2
Correlation of Credit Rating and
Interest Rate for Various Maturities



Source: Delphis Hanover Corporation, November 12, 1985

Case Study: The Town of Brookhaven, New York

I would like to discuss two case studies which I believe demonstrate how important the economic base of a state or town is to ratings and bond sale results. The first case study involves the town of Brookhaven, New York. As Financial Advisor to the town, Kidder, Peabody had a primary objective of aggressively seeking a AAA credit enhancement vehicle to support the town's bond issue. This was necessary because the community's bonds had recently been downgraded, and its credit was very complex.

By way of background, 28 percent of the town's total tax revenues were derived from the Long Island Lighting Company. Given this percentage, town officials were seriously concerned that the difficulties being experienced by the Lilco Shoreham Nuclear Plant, as well

as Lilco's refusal to pay its taxes, would reflect adversely on the town's credit. This would jeopardize the town's ability to successfully refinance \$16 million in notes that were coming due within 60 days. The town also wished to increase its bond issue by approximately \$20 million to undertake other capital improvements.

The legitimacy of the town officials' concerns was confirmed when Moody's downgraded the town of Brookhaven from an A rating to a Baa rating. At this point, Kidder, Peabody was retained as Financial Advisor to guide the town through its financing difficulties. After extensive quantitative study, Kidder, Peabody provided the town with the following findings:

- 1) the town's financial condition was quite favorable;
- 2) the town's economy was stable and experiencing growth, and there were substantial areas still available for development;
- 3) the town had a balanced budget, had experienced no revenue shortfalls, and had never defaulted on any debt;
- 4) unemployment was relatively low;
- 5) the median family income was relatively high;
- 6) the town's debt ratios, both on a per capita basis and as a percentage of property value, were well below the national median for municipalities of similar population size. Even when the resident share of county, school district, and special district taxes and debt were included, the overall debt ratios were close to the national median.

Kidder, Peabody's legal studies, done in cooperation with bond counsel, focused on another problem. Lilco had just previously announced that it would not pay the town \$52 million in 1984 property taxes levied against the Shoreham plant. Based upon the legal study, we determined that under the legally-imposed mechanism for distributing tax revenues under the County Tax Act, the receiver of taxes was required to distribute tax revenues on a priority basis—first to the town, then to school districts, then to special taxing districts, and any balance remaining would be distributed to the county. Since the county's share of the town's tax revenues was less than the \$52 million levied against the Shoreham plant, the town would receive its full tax revenues, and the county would incur a shortfall. We also determined that even if the Shoreham plant were abandoned, property

taxes for the average Brookhaven resident would rise only approximately eight percent. Based upon the average assessed value, this would translate into an annual property tax increase of only \$170. Thus, by analytically demonstrating that the town's economic base could withstand the most adverse impact—the abandonment of the Shoreham plant—and that its other financial conditions were sound, we were able to secure bond insurance from AMBAC. This enabled us to gain a AAA bond rating despite the recent rating downgrade. As a result, the town received a very attractive interest cost for its bonds.

Case Study: The State of New Hampshire

The second case study involves the State of New Hampshire, which selected Kidder, Peabody as senior manager of a \$52 million general obligation bond issue. In the case of New Hampshire, the objective was to pursue vigorously a rating upgrade on the state's outstanding and future debt.

By way of background, the state had received two downgrades from Moody's within an 18-month period, bringing its rating from AAA to A1. At that point, it had one of the lowest ratings of any state in the country. In 1983, the state chose Kidder, Peabody to assist it in promoting its strong credit features to rating agencies, underwriters, and prospective investors. In this way, it hoped to realize a successful negotiated sale of its \$52 million in G.O. bonds.

To begin with, Kidder, Peabody's Municipal Research and Public Finance Departments, along with representatives of the state and the state's Financial Advisor, prepared a comprehensive study of the state's economy and finances. The results of the study indicated that New Hampshire's economic outlook was bright. Its economic growth was expected to exceed regional and national growth in terms of population, employment, personal income, and manufacturing income, and the gross state product and unemployment rates indicated a firm base for economic growth and state revenue growth. Manufacturing was New Hampshire's primary economic activity, especially durable goods. Many new electronic firms had moved into the state because of its favorable business climate. In 1982, the state's business climate was ranked number 5 nationally and number 1 in the

Northeast by *Inc.* magazine. One reason for this high ranking was that New Hampshire has no personal income tax and no general sales tax. Another key factor, which was sponsored and aggressively pursued by the Governor, was the implementation of strict controls over state revenues and expenditures.

Although the State of New Hampshire did not receive an improved rating from Moody's for the 1983 issue, it did achieve a AA-rating from Standard and Poor's. Through wide distribution of the study's favorable economic and financial findings, the state was able to obtain a highly successful sales result with lower rates than were achieved from comparably rated bonds sold on a competitive basis during that same time period. In addition, this work set the stage for future rating upgrades. We pursued this with the state and its Financial Advisor during 1984, in anticipation of a bond issue during 1985. By aggressively pursuing improved economic and financial results, the state has achieved the following:

- 1) an anticipated \$45 million surplus in 1985;
- 2) an economic performance by the state that has surpassed that of the New England region and the U.S. in recent years;
- 3) an unemployment rate that was the lowest in the nation in 1983 and 1984;
- 4) a continuation of the state's low tax environment;
- 5) the demonstrated success of the Governor's fiscal management plan, which has resulted in reduced state spending, a cap on the number of state employees, and a return to on-line budgeting.

In January, 1985, New Hampshire general obligation bonds were upgraded by Moody's and Standard and Poor's to a AA rating. Kidder, Peabody was appointed again as senior manager for the state and successfully marketed a \$54 million general obligation bond issue.

DANIEL HEIMOWITZ:

Key Trends that Have Affected the Rating Agencies' Analysis of Municipal Credit

To a great extent, credit quality evaluations are based on trends of long-term performance. There are eight distinct themes that have

guided the way that Moody's has looked at credits. These themes have expanded one upon the other, and their succession represents a growing sophistication among analysts, municipal issuers, and investors.

1) The Default by New York City

The overriding factor leading to the expansion of the municipal analytical function on Wall Street and to the expansion of Moody's own Municipal Department was the default by New York City. That default, followed on a somewhat less grand scale by Cleveland three years later, led to a startling realization that municipal credit is not bottomless and that real municipal risk does in fact exist. Until this time, defaults had been virtually unheard of in the post-Depression period. As a result of the New York experience, municipal bonds backed by the powers of taxation were no longer viewed as inherently gilt-edged.

2) The Migration to the Sun Belt

Following the default by New York City, analysts began a reexamination of credit, beginning with the major cities. This reexamination was undertaken within the context of a second theme as well—the shifting of population and economic activity away from the nation's older urban centers and toward the Sun Belt. These shifts left many communities with expanding budget commitments and dwindling resources. Even more burdensome was the fact that the local budgetary and tax policies that were adopted to compensate for this loss of activity were in fact accelerating the migration to the Sun Belt. The ratings of nine of the 13 largest Northeast and Midwest cities were downgraded by Moody's between 1975 and 1980, and by contrast the ratings of 11 of the 17 Southern, Western, and Southwestern cities were upgraded between 1970 and 1980.

3) New Burdens of Proof on Issuers

A third theme stemming from the examination of credit in the aftermath of the New York crisis was the requirement for more current financial information, for disclosure, and for more direct contacts among governments, analysts, and investors. Analysts and investors seeking to differentiate among credits and to avoid another

EXHIBIT 1-3
Moody's State General Obligation Bond Ratings



1 General obligation bonds Series 1971 and 1973, which are collateralized, are rated Aaa.

Source: Moody's Investors Service, June, 1985

New York placed the burden of proof on the communities that were issuing debt. Communities had to establish confidence that they were not in a declining position, and had to provide information on which rating analysts could rely. Renewed analytical focus on factors that had long been ignored, such as pension liabilities, substantially changed the scope of credit analysis.

4) The Shift to Revenue Bonding

The questioning of the unconditional strength of the general obligation bond led to a fourth dominant theme of credit analysis in the 1970s—the shift from the general obligation bond to the limited liability revenue bond. Between 1974 and 1984, the market reversed itself, shifting from one-third revenue bonds and two-thirds general obligation bonds to two-thirds revenue bonds and one-third G.O. bonding.

5) The Impact of Tax Revolts

One advantage of revenue bonding was that it enabled the issuer to ration more effectively the revenues derived from increasingly limited taxing powers. Tax revolts, highlighted by Proposition 13 in California and Proposition 2½ in Massachusetts, have played a dominant role in credit evaluation. There have been tax and expenditure limitations of various kinds on the ballot in more than 25 states, and in 15 of those states substantive measures have been approved. There were also numerous limitations, rollbacks, and defeated budgets in many localities throughout the country between 1978 and 1980. Whereas in the past we were most concerned about the issuer's economic capacity and ability to pay, suddenly we also had to focus on the issuer's political capacity to tax and the taxpayer's willingness to pay. These issues now shared an equal position in the rating analysis.

6) Double-Digit Inflation and the Recession

The next factors to influence credit ratings were double-digit inflation, stagflation, and the recession. Inflation drove up economically sensitive revenues, particularly sales tax revenues, but it also increased costs, including wages and the costs of certain social programs. High interest rates benefited those few communities with the

luxury of having cash balances to invest. Yet, for developing communities, the cost of borrowing needed funds was rising while the level of economic activity—particularly construction—was declining. Many Sun Belt communities unexpectedly experienced their first setbacks during this period. Many older communities, particularly those in the industrial Midwest, experienced permanent economic losses and in some cases became chronically depressed.

7) Innovative Financing Techniques

Rating downgrades in 1982, 1983, and 1984 outnumbered upgrades by more than 3-to-1. Faced with budget limitations and a high interest rate environment, borrowers increasingly have turned to innovative financing techniques in the last few years. The use of credit substitution, including bond insurance and letters of credit, and the development of instruments such as tax-exempt commercial paper and variable rate demand obligations are important elements of this trend. Generally, they promote better credit ratings by improving credit quality. For instance, long-term projects can be funded through short-term variable rate obligations which the market accepts as short-term credit and short-term risk. These vehicles enable an issuer to utilize its limited resources more effectively by obtaining the lowest possible interest rates in today's market.

8) Changes at the Federal Level

Recently, the dominant influence on the municipal finance industry has been the potential impact of federal budget cutbacks and tax reform proposals. Analysts are assuming that these proposals will eventually be passed in an amended form and that they will have a significant effect on municipal credit. The Treasury has pointed to the sound financial condition of state and local governments, particularly the large surpluses that many of them have accumulated, as sound justification to shift much of the burden of the federal budget deficit to the state and local levels. There are two components of the Administration's present tax reform plan that would have a significant effect on state and local governments: 1) the often repeated attempt, although this time possibly with more force and vigor, to eliminate the tax exemption for certain types of municipal bonds, and 2) an assault on the creditworthiness of state and municipal gov-

ernments through the proposed elimination of the deductibility of state and local taxes. These two components must also be viewed in combination with direct cutbacks in the federal budget, including the proposed elimination of federal revenue sharing.

The Treasury's proposal to eliminate certain types of municipal bonds, namely industrial development revenue bonds and pollution control revenue bonds, would also eliminate certain types of revenue bonds issued for higher education, hospitals, airports, and housing. The Treasury claims these are "private purpose" bonds. Most of us in this room probably disagree.

There would be several immediate effects of these proposals, if implemented. The cost of borrowing by state and local government units would rise, and there would be enormous pressure placed on general obligation debt ceilings and on the revenues—namely property taxes—used to pay G.O. bonds. With fewer types of tax-exempt bonds at their disposal, issuers would have to compete more directly with the taxable market to attract investors. This would most definitely result in higher interest payments by municipalities. These higher rates could make many projects now financed by state and local governments economically unfeasible. Some of these projects could go by the boards entirely. This would mean a reduction in the scope of governmental services, as well as serious financial pressure either to raise current taxes to pay for these projects or to utilize G.O. bonding capacity further. This would place additional strain on both the interest rate paid and the debt ceiling. In any case, the restrictions on the types of debt considered to be tax-exempt are likely to have negative financial implications in at least the short run, and they may well lead to credit problems and rating downgradings in the long run.

The proposal to eliminate the deductibility of state and local taxes could have an even greater effect on state and local governments. This provision has the implication of penalizing those states with currently high tax burdens. Its adoption would most likely have serious consequences for the state and local credits that Moody's analyzes. At a time of increasing costs and decreasing assistance from the federal government, local governments would be penalized if they decided to make a greater local effort. This would directly lead to even higher tax burdens in many states that already have had high

taxes, and would seriously affect future economic growth and future funding of important social programs. Without sounding too pessimistic, I return to the earlier theme that taxpayers nationally have demonstrated their sensitivity to high taxes, and that we might expect the elimination of state and local tax deductibility to lead to future tax revolts.

Factors Examined by the Rating Agencies

Given the recent history of shifting economic fortunes and tax revolts, and given the scope of the Administration's tax reform proposals, it is important for communities to maintain their basic credit standings and to improve on these standings whenever possible. Strong underlying credit quality can support traditional infrastructure borrowing through general obligation bonding, and it enables the borrower to take advantage of new financing techniques. Strong credit quality allows government to leverage its resources as much as possible, and the stability that it provides can bring new economic growth to a community.

Management Record

To assess a community's basic credit position, Moody's first measures its ability to control and manage resources so that obligations are met in full and on time. Determining relative degrees of control is what the rating process is all about. The ideal level of control is that of a community with a prospering economy, unlimited power to raise funds, a great deal of discretion in determining service levels, and a proven track record of careful management which has enabled it to accumulate a surplus sufficient to deal with any unforeseen contingencies. Obviously, this is a difficult level to achieve. At the other end of the scale is the borrower whose finances are completely out of control and who lacks sufficient funds to meet an obligation that is due and payable immediately.

Economic Trends

Economic trends represent one of the most uncontrollable and unpredictable factors in our analysis. The recent recession has emphasized how little any individual community can do to buck the

EXHIBIT 1-4 General Obligation Bond Analysis

In general obligation bond analysis a great number of variables are present. Generally they may be classified under four headings: debt, finance, government, and economy.

Debt Analysis

1. Debt policy: the uses, purposes, and planning of debt issuance • the types of instruments used • debt limits.
2. Debt structure: adequacy of plans for debt retirement • the relation between rate of retirement and purpose of debt, resources of the community, existing and future debt needs.
3. Debt burden: gross and net debt related to resources and a comparison with other communities • overlapping debt and pyramiding.
4. Debt history and trend: the record as to defaults, refunding of maturing bonds and funding of operating deficits • rapidity of debt growth relative to purposes for which it has been incurred.
5. Prospective borrowing: authorized and unissued bonds • adequacy of capital programming • obsolescence or inadequacy of capital plant • existing debt structure.

Financial Analysis

6. The current account: the year-end relation of current liabilities to available cash • promptness of disposing of casual deficits • devices to keep deficits from accumulating • if accounting is revenue accrual, the adequacy of reserves for uncollectible accounts • the liquidity of current account cash and uncollected taxes should equal demand liabilities outstanding.
7. Revenue system: adequacy of property tax base • trend of assessed value, equalization ratio, levy, and collections • other components of revenue system—source, base, rates, yields • diversity, cyclical stability and adequacy of aid from other governments • limitations on revenue raising ability.
8. Expenditure analysis: vulnerability to mandated expenditures • relation of debt service to total expenditures.

EXHIBIT 1-4 (continued)

9. Budget analysis: adequacy of planning • appraisal of past performance on revenue and expenditure estimates • current trend of financial operations.
10. Financial administration: assessment practices • tax collection procedures • enforcement procedures • financial planning as evidenced by budgeting and reporting methods.
11. History of financial operations: long-term trend of revenues and expenditures • secular and cyclical patterns.

Governmental Analysis

12. Organization: diffusion of responsibility • degree of professionalism • sufficiency of powers to discharge functions.
13. Services: provision for essential services to perpetuate economic base.
14. Intergovernmental factors: the pyramid of governmental units, conflicts and duplications • cooperative efforts • other units which drain off resources or impede planning.
15. Administrative performance: conscientious administrators who promote confidence through standing and experience • availability of audits, budgets, annual reports, capital planning documents, land-use plans.

Economic Analysis

16. Identity and natural resources: geographic advantages • natural resources • size and land-use characteristics.
17. Population, wealth and labor factors: population characteristics • wealth level (family income and per capita full value) • housing characteristics • new construction values.
18. Economic structure and capital: types of employment, industry and occupations • major employers • relation to SMSA • evidence of industrial decline or demographic shifts • transportation and its relation to the economic structure.
19. Economic performance and prospects: the secular trend of the economy • the cyclical trend • seasonal and random variation.

Source: Moody's Investors Service

national economy. Recent economic volatility has taught us that even the most sophisticated econometric models are not very accurate in projecting the impact of a national economic depression on particular communities. Nevertheless, measures of relative economic control are very important to a rating analysis. In small communities especially, we examine the overall tax base, keeping an eye out for any overdependence on a single industry or the dominance of a single employer or taxpayer whose actions would have a major effect on the entire community. We also measure economic control in terms of how sensitive a community's financial condition is to the performance of its local economy. Sensitivity to the economy is often evidenced by declining sales tax revenues, greater property tax delinquency, and higher social costs, particularly those that rise in times of high unemployment.

Municipal Services and Revenue Potential

Once the analysts have looked at a community's economic base, they then determine what services the community should be expected to provide and what revenue-raising abilities they have to pay for those services. The growing complexity of municipal government requires analysts to take a number of factors into account. Among these are a municipality's organization and responsibilities, the degree of professionalism among its senior administrators, and the sufficiency of its power to perform necessary functions. Are powers vested in the chief executive or are they spread over many boards and different decision-making offices? What services does the government entity provide? Municipal governments vary widely across the United States. Even within states there is no uniform way of providing municipal services. At one extreme is New York City, which provides all of the services that are traditionally provided by a city, a county, and a school district, as well as additional services such as public transit, higher education, and the operation of 17 municipal hospitals. At the other extreme are municipalities in which even such basic services as police and fire protection are provided through separate service districts. Each of these districts has its own board and its own taxing powers, and there is little coordination among the districts. The tax burden and debt burden that arise are a conglomeration of those of the separate units, and there is little overall management.

In addition to understanding the scope of municipal services, it is important to understand the degree of flexibility that a community has in spending money on those services. Some proportion of expenditures is likely to be fixed, including debt service and other contracted obligations, such as employee pensions. Many communities are also affected by legally-mandated expenditure levels. The minimum length of a school year and the maximum ratio of students to teachers are two examples of mandates that can bind school districts to specific spending levels. Conversely, since communities also have programs that are desirable but not essential, it is important that they delineate in their budgets what items cannot be touched and what items are expendable if financial pressures come to bear.

An evaluation of revenue raising powers is also an essential element of our assessment of a community's financial control. Are there alternative ways of raising money locally, or are revenue options legally limited? Many governments do have broad powers to impose taxes and other fees, and this can provide a strong means of controlling their future financial condition.

Debt Control

Having examined a community's economic context, its administrative functions, and the powers it has, the analyst turns to actual municipal performance. Control of debt position is obviously a critical element in debt analysis. There are key indicators of debt performance that are commonly used. These include the relative level of indebtedness, which is the overall tax-supported debt relative to the value of the taxable base, and debt per capita, which is the amount of debt outstanding relative to the community's population. Moody's collects these indicators annually for the state and local governments that it rates. However, it does not rate a community simply by looking at debt burdens. Moody's also assesses the controllability of debt by measuring debt service as a percentage of the budget and the rate of debt retirement relative to tax base projections.

Short-term borrowing has been a major item in the market in recent years. These borrowings are generally for fixed maturities in anticipation of future receipts, and often they level out a problem in revenue flows. Typically, municipalities borrow for operating pur-

poses and in anticipation of taxes or other revenues or in anticipation of bond or grant proceeds. Moody's rates municipal notes through a separate rating system. The ratings are MIG 1, MIG 2, MIG 3, and MIG 4. Moody's also has a new system for variable rate demand obligations, with "V" placed in front of those ratings—VMIG 1, VMIG 2, VMIG 3, and so on.

In Moody's analysis of municipal notes, it reviews basic credit, paying particular attention to the timing of receipts and disbursements. This assures that the funds that are needed to pay short-term obligations will be available when they are needed. Questions of capital market access are asked to ensure that bond anticipation notes can be refinanced. The relative quality of short-term debt cannot readily be inferred from the long-term bond rating, and so Moody's urges investors and issuers to seek short-term credit ratings.

An overreliance on short-term debt can indicate reduced control of financial position. Most of the major problems that we have seen—New York City, Cleveland, the Chicago schools, and others—directly relate to an overreliance on short-term indebtedness. Future market acceptance of a debt issue is always associated with some vulnerability. Given possible shifts in the market as the result of tax law changes, analysts must look at least a bit skeptically on any pressing need to go to market 15 or 20 months from now. Our concern also extends to a heavy reliance on bond anticipation notes or the use of so-called blue maturities.

Through debt management and capital planning, a community can indicate to us exactly what its debt position is going to be. Another useful tool is the preparation of multi-year plans which outline project priorities, expected costs and benefits, and the probable means of financing. They have become a standard in the industry and are now expected of all sophisticated issuing communities.

Overall Financial Performance

Overall financial performance is the key to determining whether a government is operating on a sound basis. Using our assessment of a community's economic condition, its mandated spending levels, and its debt and other fixed costs, we can develop projections of future financial performance. Financial analysis for municipalities involves far more than a review of financial statements, however. Al-

though operation results and year-end positions are certainly important, they are not nearly as meaningful for a city or town as they are for a private corporation. Unlike corporations, municipalities are not profit-oriented. The key variable in determining actual financial condition is, of course, management. Budgetary planning and day-to-day spending controls are crucial ingredients. The actual level of financial resources is not nearly as important as the established trend of financial performance. Long-term financial trends demonstrate how administrators utilize their powers and adjust to changing conditions. The ability to consistently achieve budget targets, successfully implement cost control programs, increase productivity, and enhance revenues is what we look for in assessing a community's control over its financial operations. Large financial surpluses are not terribly impressive if they result from the community's inability to get planned new programs underway. Conversely, a planned drawdown of a surplus might not be viewed as a negative. In fact, sometimes building up too much of a surplus can be a negative factor. This was the case in California prior to Proposition 13, when the state's surplus fueled people's claims that the government was taxing its residents too heavily.

The goal of our financial analysis is to determine whether annually recurring resources are in fact available to meet ongoing spending requirements. Our analysts often find that under conditions of rising costs, high interest rates, and limited revenue-raising capabilities, projections of large deficits in the future are inevitable. In situations such as these, analysts gauge a community's alternative strategies and shortfall contingency plans. In this way, they can determine a community's commitment to maintaining fiscal integrity.

In this process, the adequate flow of information is vital. Financial statements should be understandable, and information should be presented on a timely basis. As an issuer, the point at which you can make the greatest impact on the entire rating process is in the provision of information, especially economic information. We use information from the U.S. Census Bureau and other federal and state sources, and we read newspapers, but we look to local officials to give us a flavor of what is happening in their community. For instance, we want to know about current downtown development and what is happening to major employers in your area.

Direct Contact with the Issuer

Our analytical process always includes direct contact with the issuer, often through meetings in our offices in New York. The contacts frequently occur prior to a debt offering, but we urge people to contact us regularly, as new information becomes available. The heated process of a bond offering is often not the best time to try to seek an upgrading. It is better to see us well in advance of a sale and discuss your plans and position at that time. We review our ratings regularly, not just at the time of the sale, and we issue revisions whenever it is appropriate.

Following the gathering of information, an analyst will speak with the issuer, obtain information from a number of other sources, and prepare a credit write-up. That credit write-up is reviewed by a senior analyst who is the supervising analyst for that particular area of the country. Together, the analyst and the senior analyst make a rating recommendation. The analysis and the rating recommendation are presented to a rating committee comprised of senior members of our department. We discuss, at times at great length and very heatedly, the pros and cons of a particular credit, and ultimately we come to a rating decision. New ratings are then communicated to the issuer. If the issuer has difficulty with the decision, we explain how we arrived at it. If the issuer feels it is unjust, particularly if the issuer feels that all of the facts did not come to light during the course of the analysis, we welcome additional information and a rehearing is possible. The day after the rating is released, our analysis and the rating are published in a municipal credit report which is issued to our subscribers. Among our subscribers are institutional investors, including major commercial and investment banks throughout the country.

In summary, in terms of economic development financing, we must be mindful of the context of budget cutbacks, tax reform, the past recession, and the like. We cannot overemphasize in our discussions with issuers the importance of maintaining a sound credit position now and in the future.