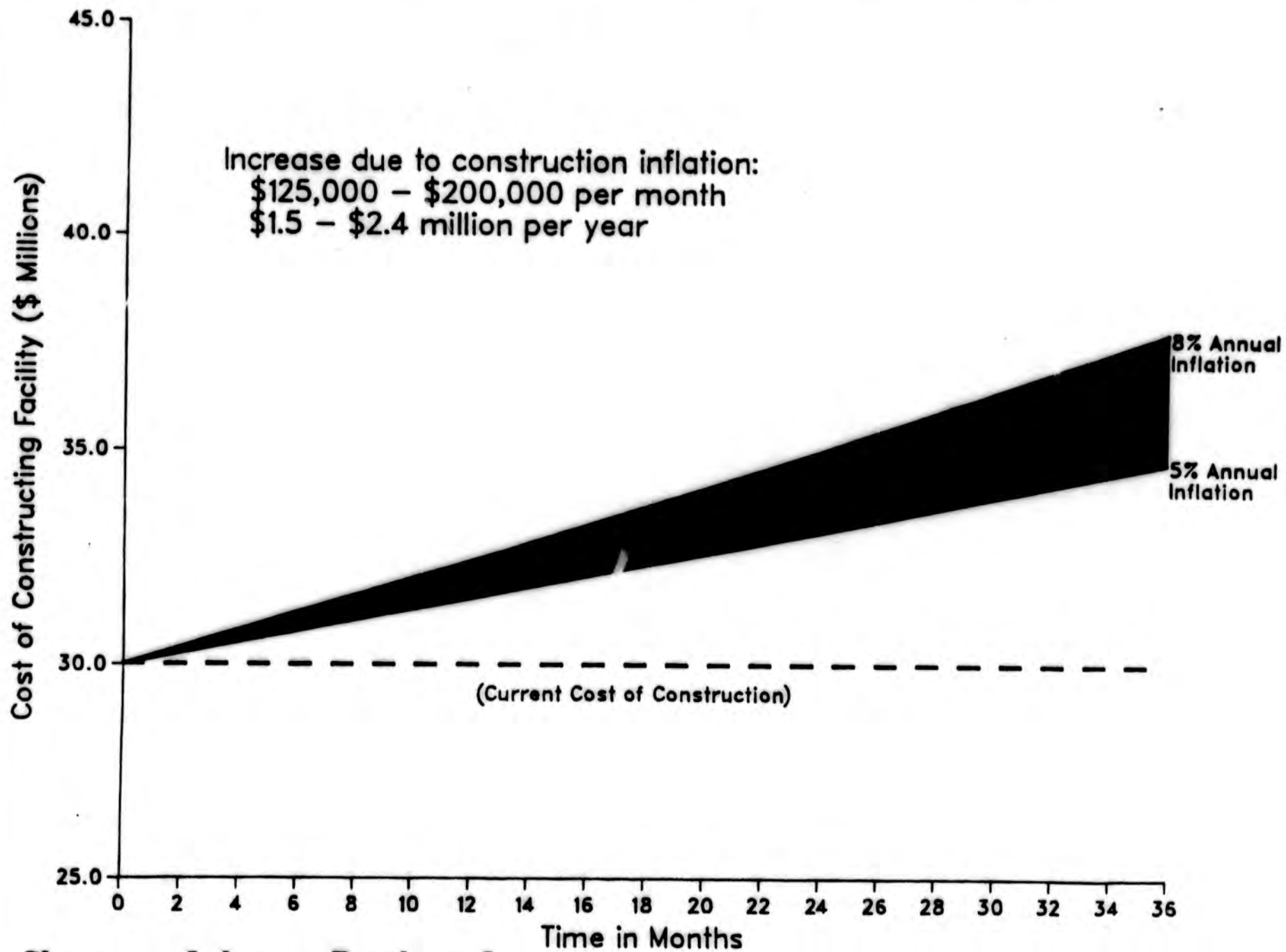


ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1342 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86

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.

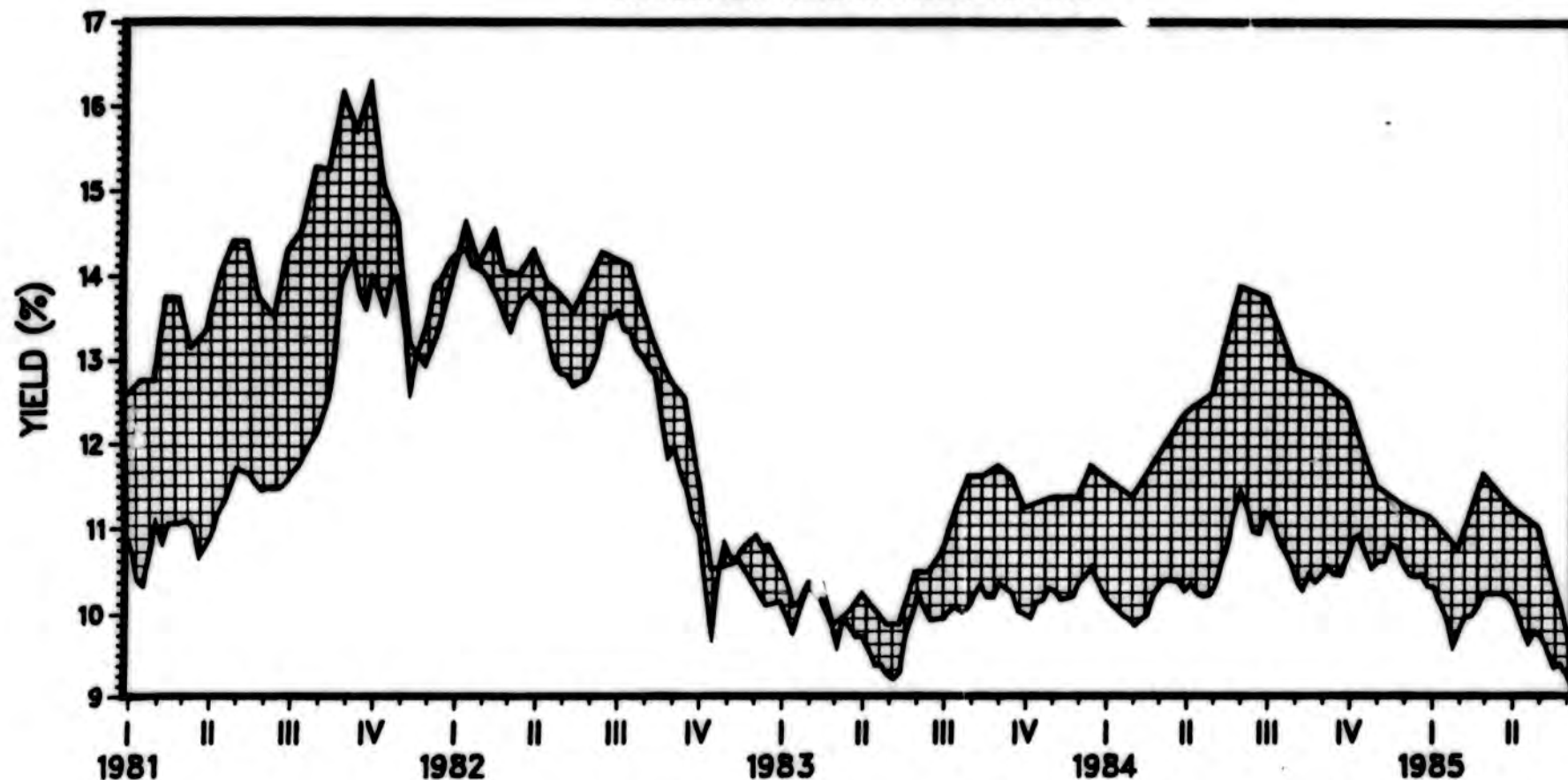
In a project financing most of the proceeds of the bond issue are deposited with a trustee bank into the construction fund. Because draws are from the fund over time, the unexpended portion of the fund should be invested, usually in short-term government securities such as Treasury bills. This means 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 appropriation~~
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).
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29

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 "1"

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

2 spaces
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"

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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 '67 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
AVAILABLE FOR DEBT SERVICE	<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	<u>120,000</u>	<u>12,000</u>	<u>132,000</u>
	<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

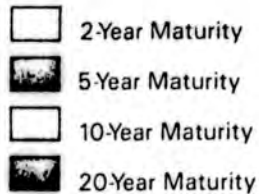
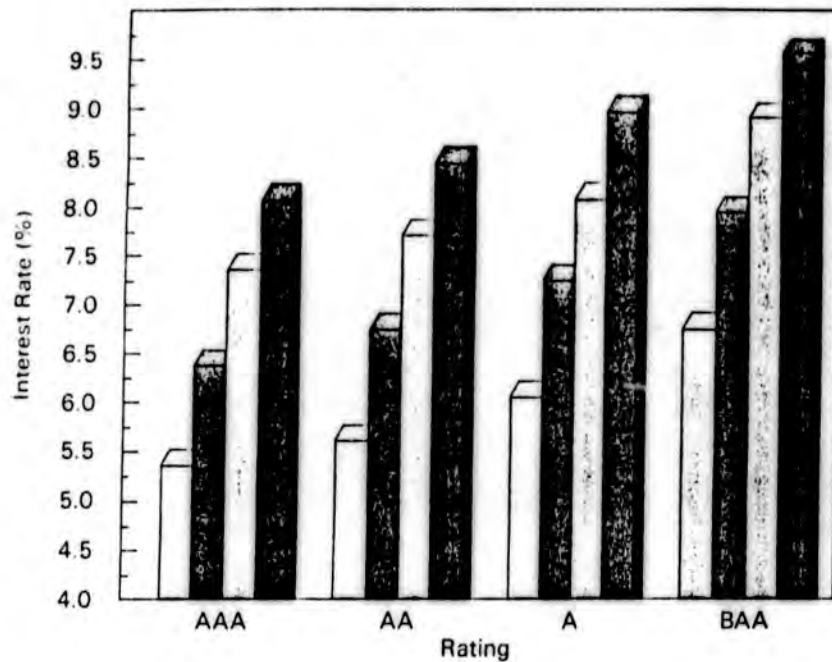
Moderator: **ALBERT F. HAIBACK**

Managing Officer
Infrastructure Finance Group
Kidder, Peabody & Co., Inc.

ALBERT F. HAIBACK:

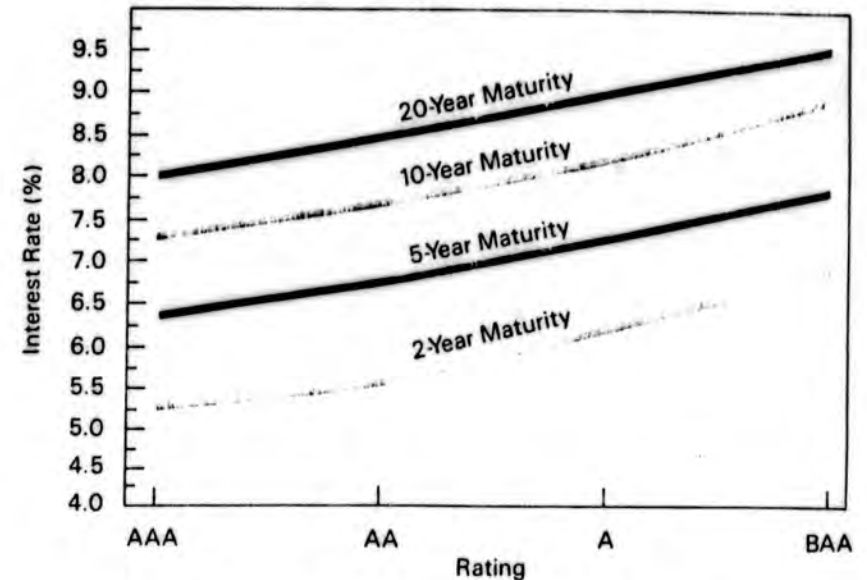
"The Importance of Economic Development to a Rating" is a subject of critical importance to practically every prospective issuer of bonds. This is because the rating that is assigned to a bond issue significantly affects both the eligibility of the bonds for purchase by certain investors, particularly 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



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.

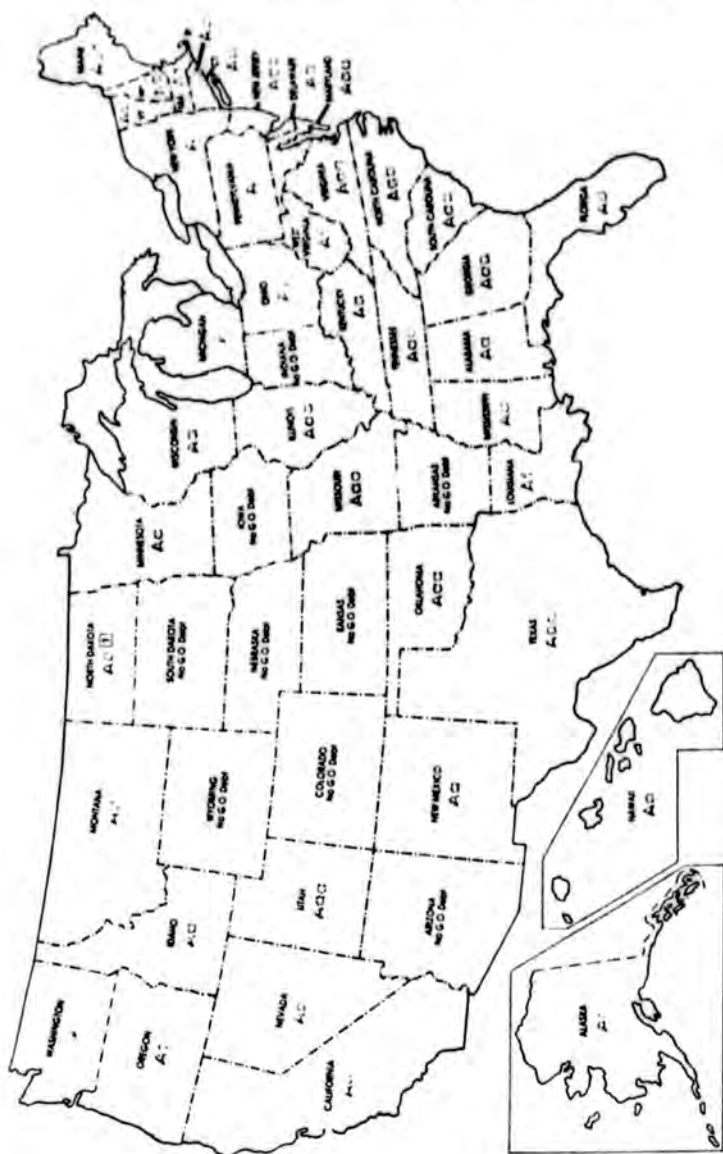
2) The Migration to the Sun Belt

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



□ 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.



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Alaska State Legislature

ANCHORAGE
DOWNTOWN
DISTRICT TWELVE

AIRPORT HEIGHTS
CITY VIEW
DOWNTOWN
FAIRVIEW
GOVERNMENT HILL
INLET VIEW
SOUTH ADDITION



House of Representatives

Representative

RICK UEHLING

MEMBER

HOUSE FINANCE COMMITTEE

HOUSE SPECIAL COMMITTEE
ON STATE LOANS

HOUSE FINANCE SUBCOMMITTEE ON
ADMINISTRATION, REVENUE
AND THE GOVERNOR'S OFFICE

To: Rep. John Sund
Chair, House Special Committee on State Loans
From: Rep. Rick Uehling
Subject: " HB 553, An Act making special appropriations to the Department of Community and Regional Affairs for senior citizen housing development grants; and for low cost and low income housing development; and providing for an effective date. "
Date: April 9, 1986

I have asked staff to prepare the following background and information regarding HB 553.

HB553 as written, appropriates \$21,963,000 to the Department of Community and Regional Affairs for the development of senior housing projects throughout the State and \$3,000,000 for the development of low cost and low income housing.

In developing the list of projects to be included in the legislation for Senior Housing, all projects for which applications were received by CR&A were included. The intent was to try to show that there was a need for Senior Housing throughout the State and not just in Anchorage.

In developing the amount for Low Income and Low cost Housing the amount of \$3,000,000 was simply chosen. This program has never received a great deal of funding since its inception and is out of money.

It is obvious under the current revenue situation the outlook for funding of these two programs at the level proposed in the legislation is not probable. There are two ways that the Loans committee could attempt to reduce the amount of the appropriation.

First, with regard to Senior Housing, the committee could chose which projects to fund and include them in the bill or second, the Loans committee could take a dollar amount and appropriate it, letting the Department of Community and Regional Affairs decide who should receive funding. There is a draft committee substitute which takes the second approach. In the draft committee substitute, \$7,000,000 is the amount appropriated to the Department for Senior Housing and 1,500,000 is the amount appropriated for Low income, Low cost Housing. The Department has a grant review committee which reviews the grant applications and awards the grants. The department is familar with the applicants and would be in the best situation to decide who should recieve funding. This would be the preferable approach.

Sec. 44.47.610. Declaration of purpose. There exists in the state a serious shortage of decent, safe and sanitary residential housing available at low or moderate prices or rentals to persons 60 years of age or older. There also exists in the state organizations whose purposes are to provide the kinds of housing needed to alleviate this shortage. Development work to provide such housing involves substantial expense that is often beyond the resources of the organizations. (§ 51 ch 113 SLA 1982)

Sec. 44.47.620. Senior citizens housing development. (a) There is created in the department a senior citizens housing development fund. Subject to direct appropriation or through proceeds of a bond issue the department shall make grants to municipalities or public or private nonprofit corporations designated as tax exempt under 26 U.S.C. 501(c)(3) and (4) (Internal Revenue Code of 1954) for the purpose of developing senior citizen housing. A grant from the proceeds of a bond issue may be made only to municipalities.

(b) Application for a grant under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan that shall demonstrate the ability of the eligible recipient to sustain the proposed project.

(c) All projects under this section shall be in accordance with facility procurement policies developed under AS 35.10.160 — 35.10.200 and are public facilities under those sections.

(d) The department shall adopt regulations to carry out the purposes of this section. The provisions of the Administrative Procedure Act (AS 44.62) apply to regulations adopted under this section.

(e) In this section "senior citizen housing" means a specific work or improvement undertaken primarily to provide dwelling accommodations for persons 60 years of age or older, including but not limited to conventional housing, housing for the frail elderly, group homes, congregate housing, and other housing that meets special needs of the elderly; senior citizen housing includes the acquisition, construction, or rehabilitation of land, buildings, improvements, and other nonhousing facilities that are incidental or appurtenant to the housing. (§ 51 ch 113 SLA 1982)

Article 11. Low Cost and Low Income Multiple Family Housing Development Fund.

Section

630. Declaration of purpose

635. Low cost and low income multiple
family housing development

§ 44.47.620

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§ 44.47.630

STATE GOVERNMENT

§ 44.47.635

Sec. 44.47.630. Declaration of purpose. There exists in the state a serious shortage of low cost multiple family residential rental housing, and owner-occupied housing, in the case of property acquired or to be acquired by the Municipality of Anchorage that was formerly the site of the S&S Apartments. There also exist in the state organizations whose purpose is to provide the housing needed to alleviate this shortage. Development work to provide this housing involves substantial expense that is often beyond the resources of the organizations. (§ 21 ch 102 SLA 1983; am § 8 ch 128 SLA 1984)

Effect of amendments. — The 1984 amendment substituted "rental housing, and owner-occupied housing, in the case of property acquired or to be acquired by the Municipality of Anchorage that was

formerly the site of the S&S Apartments" for "housing available at low rentals" in the first sentence and "exist" for "exists" and "purpose is" for "purposes are" in the second sentence.

Sec. 44.47.635. Low cost and low income multiple family housing development. (a) There is created in the department a low cost and low income multiple family housing development fund. Subject to appropriation the department shall make grants to municipalities or public or private nonprofit corporations designated as tax exempt under 26 U.S.C. 501(c)(3) and (4) (Internal Revenue Code of 1954) for the purpose of developing low cost, low income multiple family housing.

(b) Application for a grant under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for low cost, low income multiple family housing in the area to be served, the feasibility of the proposed project, and an adequate management plan that shall demonstrate the ability of the eligible recipient to sustain the proposed project.

(c) All projects under this section shall be in accordance with facility procurement policies developed under AS 35.10.160 — 35.10.200 and are public facilities under those sections.

(d) The department shall adopt regulations to carry out the purposes of this section. The provisions of the Administrative Procedure Act (AS 44.62) apply to regulations adopted under this section.

(e) In this section "low cost and low income multiple family housing" means a specific work or improvement undertaken primarily to provide multiple family dwelling accommodations for low income persons. Low cost and low income multiple family housing includes the acquisition, construction, or rehabilitation of land, buildings, improvements, and other nonhousing facilities that are incidental or appurtenant to the housing. (§ 21 ch 102 SLA 1983)

Introduced: 2/7/55
Referred: House Special Committee on
State Loans, Community & Regional
Affairs and Finance

Funding Information

General Fund \$24,963,000
Other Funds --0-
\$24,963,000

BY UEHLING, GOLL AND
BOUCHER

1 IN THE HOUSE

2 HOUSE BILL NO. 553

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the Depart-
7 ment of Community and Regional Affairs for senior
8 citizen housing development grants and for low-cost
9 and low-income housing development; and providing for
10 an effective date."

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

12 * Section 1. The sum of \$21,963,000 is appropriated from the general
13 fund to the senior citizens housing development fund in the Department of
14 Community and Regional Affairs for the purpose of making grants under
15 AS 44.47.620 for senior citizen housing development as follows:

16 APPROPRIATION ITEMS	AMOUNT OF APPROPRIATION
17 Cook Inlet Housing Authority	
18 Anchorage Residential II	\$4,500,000
19 Meridian Living, Inc.	
20 Anchorage	3,500,000
21 City of Fairbanks	
22 Fairbanks II	2,500,000
23 City of Haines	
24 Haines	1,500,000
25 Homer Senior Citizens, Inc.	
26 Homer Phase II	2,063,000
27 Tlingit Haida Housing Authority	
28 Kake	1,200,000
29 Alaska State Housing Authority	

BILL SHEFFIELD, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

February 3, 1986

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700
☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

The Honorable Rick Uehling
Alaska State House
of Representatives
P.O. Box V
Juneau, AK 99811

Dear Representative Uehling:

Following a request from David Cobb of your staff, we are sending you the status of the Senior Citizen Housing Development Program and the State Assisted Rental Housing Program.

Senior Citizen Housing Development

FY 82, 83, 84 and 85

Total Appropriated	\$44,000,000
Total Committed	43,803,651
Total Disbursed	29,202,757
Remaining balance to be paid	14,600,894
Held for Contingency	196,349

Total pending applications \$21,662,345

State Assisted Rental Housing Program

FY 84 and 85

Total Appropriated	8,580,000
Total Committed	8,580,000
Total Disbursed	7,415,000
Remaining balance to be paid	1,165,000
Available to Commit	-0-

We have attached a summary of the committed agencies for both programs and applicant request for Senior Citizen funding. Additionally, our Housing office telecommunicated the applicant request to you on January 30.

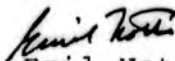
As you know, there was no funding appropriated for either of these programs in FY 86, and there is no funding in the budget for these two programs for FY 87.

Representative Rick Uehling
February 3, 1986
Page Two

I hope this information will assist you at this time, but should you have any questions or desire additional information, please contact Clark Boston of the Housing Assistance Division.

Thank you.

Sincerely,


Emil Notti
Commissioner

Enclosure

cc: Clark D. Boston

REPORT # 0010-SC
DATE: 01/31/86

PAGE 1 OF 3

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

MASTER LIST - SENIOR CITIZEN HOUSING PROGRAM

FY'82-FY'85 FUNDING

<u>PROJECT LOCATION</u>	<u># OF UNITS</u>	<u>SPONSOR</u>	<u>AMOUNT COMMITTED</u>
ANCHORAGE		COOK INLET HOUSING AUTHORITY	90,000
ANCHORAGE	120	COOK INLET HOUSING AUTHORITY	7,486,000
ANCHORAGE INTERMEDIATE CARE	60	COOK INLET HOUSING AUTHORITY	65,000
ANCHORAGE	0	COOK INLET HOUSING AUTHORITY	250,000
ANCHORAGE RESIDENTIAL II		COOK INLET HOUSING AUTHORITY	50,000
ANCHORAGE CHUGACH VIEW		ASHA	75,000
ANCHORAGE CHUGACH VIEW	120	ASHA	9,925,000
ANCHORAGE		MERIDIAN LIVING	50,000
ANGOON		TLINGIT/HAIDA HSG. AUTH.	30,000
ANGOON	12	TLINGIT/HAIDA HSG. AUTH.	1,150,655
CHUGIAK/EAGLE RIVER PHASE II	20	MUNICIPALITY OF ANCHORAGE	2,500,000
DILLINGHAM	15	CITY OF DILLINGHAM	30,000
DILLINGHAM	15	BBHA	1,335,000
FAIRBANKS		CITY OF FAIRBANKS	49,693

FAIRBANKS	40	ASHA	4,300,000
FAIRBANKS II		CITY OF FAIRBANKS	50,000
HAINES		CITY OF HAINES	30,000
HOMER	24	HOMER SENIOR CITIZENS, INC.	2,400,000
HOMER PHASE II		HOMER SENIOR CITIZENS, INC.	50,000
HOMER PHASE II		HOMER SENIOR CITIZENS, INC.	337,655
KAKE		TLINGIT/HAIDA HSG. AUTH.	30,000
KENAI	24	COOK INLET HOUSING AUTHORITY	1,066,000
KLAWOCK		TLINGIT/HAIDA HSG. AUTH.	30,000
KLAWOCK	10	TLINGIT/HAIDA HSG. AUTH.	846,284
KODIAK		KODIAK SENIOR CITIZENS, INC.	48,425
METLAKATLA	25	CITY OF METLAKATLA	1,383,000
NINILCHIK	10	COOK INLET HOUSING AUTHORITY	500,000
PALMER		ASHA	50,000
PETERSBURG		CITY OF PETERSBURG	30,731
SITKA		CITY & BOROUGH OF SITKA	50,000
SITKA	20	ASHA	1,800,000
ST. MICHAEL	8	CITY OF ST. MICHAEL	12,000
ST. PAUL		CITY OF ST. PAUL	30,000
ST. PAUL	14	CITY OF ST. PAUL	1,275,000
STEBBINS		CITY OF STEBBINS	25,000

TANANA	3	CITY OF TANANA	328,507
VALDEZ		CITY OF VALDEZ	30,000
VALDEZ	15	CITY OF VALDEZ	1,470,000
WASILLA	18	ASHA	1,650,000
WASILLA, PHASE II		ASHA	30,000
WASILLA, PHASE II	14	ASHA	1,260,000
WRANGELL	24	WRANGELL/SENIOR CITIZENS, INC.	1,574,700
YAKUTAT		TLINGIT/HAIDA HSG. AUTH.	30,000
TOTALS	611		43,803,701

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 6, 1986

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

POSITION PAPER

RE: House Bill 553

SPONSOR: Representatives Uehling, Goll and Boucher

Program Effects of the Bill:

HB-553 is an appropriations bill that provides funds for projects for which the Housing Assistance Division is responsible. The itemized projects are those which have planning completed but have not had construction funds awarded by the Division. This has been due to lack of appropriation for this purpose.

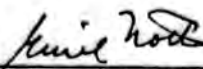
Comments:

This bill would cover all the pending project applications, however, all of the specified projects have not been approved as viable and necessary. Normally a development grant is awarded following a rigorous review by a selection committee. The committee makes recommendations based on 1) a demonstration of need for senior citizen housing in a community 2) a determination of the feasibility of any proposed project and 3) the establishment of a plan which shows the ability of the grant recipient to manage and sustain the project from construction or renovation through operation.

If this bill were to pass, all the listed projects would then become directly funded by a legislative appropriation and the Division would automatically fund these projects whether or not they met the above criteria.

If all the above projects were funded, they would eventually provide 241 units of Senior Citizen housing.

It would be preferred that funding be appropriated on the basis that funds be allocated only for projects that prove to be feasible following a review. The Department would prefer that normal safeguards be mandatory through the use of established guidelines.



Emil Notti, Commissioner

STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 553
 Title : Approp: Senior and Low cost
Housing.
 Sponsor : Uehling
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : DCRA
 BRU : _____
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Clark Boston
 Division : Housing Assistance Division

Phone : 561-0900
 Date : 3/7/86

Approved by Commissioner : Emil Notti
 Agency : Community and Regional Affairs

Date : 3/7/86

Distribution (by Agency preparing fiscal note) :

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



NATIONAL ASSOCIATION OF
SOCIAL WORKERS

March 11, 1986

Representative John Sund, Chair
House Special Committee on Loans
Pouch V
Juneau, Alaska 99811

MAR 14 1986

Dear Representative Sund,

The Alaska Chapter, National Association of Social Workers is writing to advise you of the strong support of our members for the provisions of Section 2 of HB553. The three million dollars proposed for appropriation to the low-income multiple family housing development fund would provide for badly needed low-income housing units in Alaska.

Since 1983, when AS44.47.635 was enacted, social workers around the State have endorsed the Program because our members must daily confront people's desperate needs for affordable housing. We are acutely aware of the housing shortages for people with moderate and low incomes.

As of February 28, 1986, the Alaska State Housing Authority office reported a waiting list of four-hundred ninety-seven families for the available low-income units which ASHA manages in Anchorage alone!! The need for additional affordable housing is obvious.

As oil revenues decline, the Legislature must prioritize spending for the State. Decent housing for all Alaskans should, we believe, be considered as one of the "basics" and identified as a priority for funding. We urge your support for the low-income, multiple family housing development fund appropriation contained in HB553.

Sincerely,

Cecilia Kleinkauf
Cecilia Kleinkauf, Chair
Social Policy & Action Committee
Alaska Chapter, NASW

cc. Representatives Cotten
Fuller
Duncan
Uehling ✓

P.O. Box 101394 • Anchorage, Alaska 99510 • (907) 274-4479

P.O. Box 10430 • Fairbanks, Alaska 99710 • (907) 457-5914

Rep. Peter Goll
Rep. F. Kay Wallis
Rep. Walter Furnace
Rep. Max Gruenberg
Rep. Niilo Koponen
Rep. Albert Adams
Rep. John Ringstad
Rep. John Binkley
Rep. Sam Cotten
Rep. Jim Duncan

Rep. Pat Pourchot
Rep. Steve Rieger
Rep. Mike Szymanski
✓ Rep. Rick Uehling
Rep. Ronald Larson
Rep. Steve Frank
Rep. Andre Marrou
Rep. Randy Phillips

Alaska State Legislature
P.O. Box V, MS 3100
Juneau, Ak 99811

Regarding House Bill No. 553

Please give your full support
to Bill #553. There is a great need
for senior housing in Palmer.

Many seniors live in upstairs apartments.
It gets more & more difficult for them to
climb stairs.

Single seniors find it very difficult
to maintain a yard and would feel more
secure in a housing project.

Sincerely

Mary & George McClure

*

* DELIVER TO: JPOM

*

*

* ORIGINAL

* SENT: 03/19/86 TIME: 15:49

* FROM: BARBARA NORRELL

* SUBJECT: POM

* PRINT DATE: 03/19/86 TIME: 15:50

*

TO: REPS. BOUCHER, GOLL, UEHLING, LARSON, HURLEY

FROM: DAVE HERNDON, 325 E. 3, ANCHORAGE, AK 99501,

SUBJECT: HB 553, SENIOR AND LOW COST HOUSING

OLDER PERSONS ACTION GROUP URGES APPROPRIATION FOR PROJECTS AT PALMER, HAINES AND HOMER. THESE HAVE COMPLETED PLANNING GRANTS AND ARE READY FOR BID AND CONSTRUCTION NOW. OPAG SUPPORTS OTHER PROJECTS BUT URGES PRIORITY FOR THESE NOW AREADY IN ORDER TO MINIMIZE COST INCREASES.

Rep. Peter Goll
Rep. F. Kay Wallis
Rep. Walter Furnace
Rep. Max Gruenberg
Rep. Niilo Koponen
Rep. Albert Adams
Rep. John Ringstad
Rep. John Binkley
Rep. Sam Cotten
Rep. Jim Duncan

Rep. Pat Pourchot
Rep. Steve Rieger
Rep. Mike Szymanski
✓ Rep. Rick Uehling
Rep. Ronald Larson
Rep. Steve Frank
Rep. Andre Marrou
Rep. Randy Phillips

Alaska State Legislature
P.O. Box V, MS 3100
Juneau, Ak 99811

MAR 31 1986

Regarding House Bill No. 553

Dear Legislator

I am concerned that 553 might be Cct.
In Palmer we started on housing
two or three years ago but could not
get the Real estate until last fall. The
surveys at that time was a need for about
thirty but it is now about 70 or 80.
Thank You

Floyd Davis
211 ANNA St.
Palmer.

P.S.

I would not quibble.

F.D.

ALASKA HOUSING FINANCE CORPORATION

Veterans Mortgage Program

Information as of December 31, 1985

	<u>Veterans Bonds</u>		<u>Balance Remaining</u>
	<u>Authorized</u>	<u>Issued</u>	
1982	\$400.0 million	\$400.0 million	
1983	\$500.0 million	\$405.0 million	\$ 95.0 million
1984	\$700.0 million	\$452.5 million	\$247.5 million

Loans Made:

FY 83	2,484	\$ 54,376,200
FY 84	4,016	467,310,100
FY 85	2,507	289,507,600
FY 86	840	101,838,150
	<u>9,847</u>	<u>\$913,032,050</u>

FY 86 through December 31, 1985

Total AHFC Loans	2,718	100%
AHFC Loans to Qualified Veterans	840	31%

Summary of Projected Veterans Mortgage Bond Issues

<u>Calendar Year</u>	<u>Total Bond Issuance</u>	<u>1984 Authorization</u>	<u>1986 Authorization</u>
1986	\$302.5	\$247.5	\$ 55.0
1987	302.5		302.5
1988	242.5		242.5
	<u>\$847.5</u>	<u>\$247.5</u>	<u>\$600.0</u>

Eligibility under the Veterans Mortgage Program is restricted by Federal requirements to those veterans who entered the service prior to January 1, 1977 and who have not been out of the service for more than 30 years.

In addition to the requirement for State authorization, Veterans Mortgage Bonds are subject to a Federally imposed calendar year cap of \$302.5 million.

The tax proposal recently passed by the House and currently under review by the Senate places the Veterans Mortgage Bonds under a State ceiling of \$200 million. The new ceiling would apply to Industrial Development Bonds, Qualified Mortgage (First Time Homebuyer) Bonds, Multifamily Housing Bonds, Qualified Non-Profit Agency Bonds, and Veterans Mortgage Bonds. Thus, housing bonds, including those for veterans, would be required to compete for their share of the \$200 million State cap.

The uncertainties associated with the recent tax bill currently preclude the issuance of Veterans Mortgage Bonds.

DATE 12/31/85

ALASKA HOUSING FINANCE CORPORATION
STATE GUARANTEED BONDS - VETERANS MORT.
LOAN SUMMARY MORTGAGES PURCHASED

	FY 1984		FY 1985		FY 1986 THRU(12/31/85)	
		%		%		%
SALES PRICE	129,877		130,774		135,381	
APPRAISED VALUE	132,573		133,336		138,956	
NOTE AMOUNT	116,382		115,480		121,236	
MONTHLY INCOME	5,009		4,874		5,025	
AGE OF BORROWER	38.4		38.7		39.0	
SIZE OF HOUSEHOLD	3.1		3.1		3.3	
LOAN TO SALES PRICE RATIO	89.59%		88.31%		89.55%	
WEIGHTED AVG INT. RATE	9.51%		10.49%		9.72%	
MONTHLY P&I	982.01		1,055.88		1,039.20	
DWELLING TYPE..SFR	3,433	85.48	2,179	86.92	753	89.64
CONDO	382	9.01	193	7.70	28	3.33
DUPLEX	91	2.27	22	.88	7	.83
PUD	128	3.19	92	3.67	39	4.64
MOHM	2	.05	17	.68	13	1.55
TRI-PLEX			4	.16	0	.00
FOUR PLEX					0	.00
NEW/EXISTING....NEW	2,048	50.95	1,210	48.26	342	40.71
EXISTING	1,970	49.05	1,297	51.74	498	59.29
1ST TIME HOMEOWNER..YES	1,385	34.49	921	36.74	288	34.29
NO	2,631	65.51	1,586	63.26	552	65.71
INSURANCE TYPE.....FHA					0	.00
VA	1,598	39.74	1,122	44.75	385	43.45
CONVA	2,420	60.26	1,385	55.25	475	56.55
ELIGIBILITY.....STVA	4,016	100.00	2,507	100.00	840	100.00
NON-STVA					0	.00
ORIG. PRINCIPAL BALANCE	487,310,100.00		289,507,800.00		101,838,150.00	
ORIG. NUMBER OF LOANS	4,016		2,507		840	



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 14, 1986

The Honorable Ted Stevens
United States Senate
522 Hart Building
Washington, DC 20510

Dear Senator Stevens:

The U.S. House of Representatives recently approved H.R. 3838, the Tax Reform Act of 1985, which has been sent to the U.S. Senate for consideration. The purpose of this letter is to inform you of how the provisions on tax-exempt bonding would affect the state of Alaska and to request your continued assistance to preserve the benefits of tax-exempt bond financing as an essential component of capital financing in Alaska.

Presently, the state has a federal bond ceiling of \$702.5 million for three types of tax exempt bonds: industrial development bonds (\$200 million), qualified mortgage bonds (\$200 million), and veterans mortgage bonds (\$302.5 million), plus an unlimited volume for other major types, such as multifamily housing bonds and qualified nonprofit agency bonds (e.g., hospitals). Under the House tax bill, the volume limit for all of these purposes (and certain others) would be \$200 million. This is a decrease of over 70 percent. No other state is so severely impacted.

Without belaboring the point, it is clear that the House tax bill unfairly impacts Alaska in the tax-exempt bond provisions. However, we also realize that in the current fiscal environment, some sacrifices must be made, and our requests for assistance are made in that light.

With respect to the volume cap, we have two recommendations. First, we recommend that efforts be made to remove veterans mortgage bonds from the cap. This change would affect five states and a relatively small amount of bonds, as is shown on the attachment. While bond issues may primarily be a tax matter for the federal government, we believe that on a state-by-state basis this is a programmatic issue concerning men and women who have served their nation well. We have already received an indication that the other four affected states are willing to assist in a coordinated effort to remove veterans mortgage bonds from the volume cap. Please let us know if we can assist your office in this effort.

February 14, 1986

Second, we request your assistance in getting the volume floor for states with small populations raised from \$200 million to \$300 million. This change would affect 17 states and amounts to a total possible increase of about \$1.5 billion in bonds. We believe this change would go a long way in minimizing the negative impacts of this tax bill on low-population states. Please note that even with such a modification, a low-population state would have a reduction in its maximum tax-exempt bond ceiling of over 25 percent.

We also ask your help in obtaining a transitional exemption from the bill for the Alaska Industrial Development Authority (AIDA) Red Dog project. AIDA applied last summer for a ruling from the Internal Revenue Service on the project and expects to receive shortly a favorable ruling treating the port portion of the project as qualifying for tax-exempt financing under existing law. The bill would not change the basic rule that ports of this type qualify for tax-exempt financing. The bill does, however, narrow the actual elements of the port that qualify. We would like to be able to carry out this financing under the law as now in effect and as dealt with in the ruling. A draft of language that would grant the exemption is attached for your consideration.

Finally, there is the matter of "sunset" provisions. In this case, the tax bill has one very positive provision in that it eliminates the December 31, 1986, sunset on "small issue" industrial development bonds. This specific provision is particularly helpful to Alaska, and we strongly urge you to see that it is retained. The other sunset date is for qualified mortgage bonds which are now due to sunset on December 31, 1987. This date is not changed by the tax bill. If total bond issuance is going to be as restricted as the tax bill mandates, then at least extension or elimination of this sunset should be granted to provide some relief.

If you would like any additional information, such as the number of homes financed, new investments generated, and so forth, please contact us. Thank you again for your past assistance and future efforts.

Sincerely,

Bill Sheffield
Governor

cc: John W. Katz, Special Counsel
State/Federal Relations

PROPOSED TRANSITIONAL EXEMPTION FROM H.B. 3838

The amendments made by section 701 shall not apply to obligations substantially all of the proceeds of which are to be used to provide financing for a dock and directly related storage facilities which are part of a transportation project to which a State legislature appropriated, effective July 1, 1985, (1) \$12,000,000 in money or marketable securities and (2) notes (or other evidence of debt) representing prior loans from the State or its instrumentalities to persons or businesses in the State with an aggregate unpaid principal balance in excess of \$130,000,000. The aggregate face amount of obligations (exclusive of refunding obligations) to which this paragraph applies shall not exceed \$175,00,000.

ALASKA HOUSING FINANCE CORPORATION

VETERANS BONDS VOLUME CAPS

State	Volume Cap (millions)
Alaska	\$302.5
California	340.0
Oregon	384.0
Texas	250.0
Wisconsin	93.0
TOTAL	\$1,369.5

EFFECT OF \$200 MILLION VERSUS \$300 MILLION VOLUME FLOOR
(amounts in millions of dollars)

Affected State	Volume Under \$200 Million Floor *	Volume Under \$300 Million Floor
Alaska	\$ 200	\$ 300
Delaware	200	300
Dist. of Columbia	200	300
Hawaii	200	300
Idaho	200	300
Maine	203	300
Montana	200	300
Nebraska	284	300
Nevada	200	300
New Hampshire	200	300
New Mexico	243	300
North Dakota	200	300
Rhode Island	200	300
South Dakota	200	300
Utah	278	300
Vermont	200	300
Wyoming	200	300
TOTAL	\$3,608	\$5,100

* Volume cap is the greater of \$175 per capita or the floor amount

BILL SHEFFIELD
GOVERNOR

1/31



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

11B 533

1/30/86

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would place before the voters a bond proposition for the sale of up to \$600,000,000 in state-guaranteed veterans' mortgage bonds. Federal law allows the sale of tax-exempt state-guaranteed mortgage revenue bonds for the purchase of residential mortgages made to qualified veterans. The use of tax-exempt bonds enables the Alaska Housing Finance Corporation to purchase qualified veterans' mortgages at a substantial savings to the state.

Similar bond propositions were presented to the voters in 1982, 1983, and 1984, and on each occasion the propositions were approved by substantial margins.

I recommend your prompt consideration and approval of this bill.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

page 142

Revision Date : _____

REQUEST HB 533 #1

FISCAL DETAIL

Bill/Resolution No. : _____
Title : An Act relating to issuance
of tax exempt, state-guaranteed
revenue Bonds - AHFC/veterans
Sponsor : Rules/Rqst of Governor
Requestor : AHFC/Department of Revenue
Date of Request : 9-13-85

Agency Affected : Office of the Governor
BRU : Elections
Components : I

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
---------	--	--	--	--	--	--

REVENUE		3.3 *				
---------	--	-------	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND		3.3 *				
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

* Costs included cover 2 to 3 additional pages in each Official Election Pamphlet, for printing and typesetting, and estimated costs of computer programming requirements for vote counting purposes. However, these cost are based on the assumption that all candidates and issues will fit

Prepared by : Linda Edgeworth Phone : x 4611
Division : Division of Elections Date : 12-18-85

Approved by Commissioner : [Signature] Date : 12/19/85
Agency : Office of St. Governor

Distribution (by Agency preparing fiscal note) :

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

DIVISION OF ELECTIONS
FISCAL NOTE
ANALYSIS CONTINUED

HB 533 #1
page 2 of 2

An Act relating to issuance of tax exempt, state-guaranteed revenue bonds - AHFC/veterans

on three ballot cards which is the norm. It should be noted that should the inclusion of this issue require a 4th ballot to be printed, the cost increase at 16¢ each x 320,000 ballots, for a total of \$51.2.

Under these circumstances the fiscal note would be:

54.5

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Page 1 of 2

Revision Date : _____

REQUEST HB 533 # 2

Bill/Resolution No. : _____
Title : Act relating to issuance of tax-exempt state guaranteed bonds by AHFC for Veterans housing
Sponsor : _____
Requestor : Governor
Date of Request : _____

FISCAL DETAIL

Agency Affected : Revenue
BRU : Alaska Housing Finance Corporation
Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

SEE ATTACHED

Prepared by : Mark Cameron Phone : 276-5599
Division : Alaska Housing Finance Corporation Date : December 29, 1985
Approved by Commissioner : [Signature] Date : 1/2/86
Agency : _____

Distribution (by Agency preparing fiscal note):

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

HB 533 # 2 - page 2 of 2

The attached bond proposition authorized the issuance of \$600 million state-guaranteed revenue bonds by AHFC to purchase residential loans made to veterans. This proposition will enable the continuation of the Corporation's Veterans Mortgage Program implemented in 1983. A total of \$1,257,000,000 State Guaranteed Veterans bonds have been issued by AHFC through calendar year 1985. The guarantee by the state of Alaska permitted by the favorable passage of bond proposition is necessary under federal law to sell the bonds in the tax-exempt market. Funding of the Veterans Mortgage Program in the tax-exempt market results in a reduction of the state subsidy related to the purchase of the veteran's mortgages by approximately 2/3rds.

It is assumed that the veteran's mortgage loans will be purchased by the Corporation irrespective of the receipt of the tax-exempt bond authorization. Accordingly, there is no fiscal impact on the operating budget.

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST

Bill/Resolution No. : HB 533 #3
 Title : _____

 Sponsor : _____
 Requestor : _____
 Date of Request : _____

Revision Date : _____

FISCAL DETAIL

Agency Affected : _____
 BRU : _____

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

No fiscal impact

Prepared by : Charles T. Borg Phone : 243-0656
 Division : Office of the Adjutant General Date : 12-30-85

Approved by Commissioner : Charles T. Borg Deputy Comm Date : 12-30-85
 Agency : Department of Military & Veterans Affairs

Distribution (by Agency preparing fiscal note) :

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

WORK DRAFT

WORK DRAFT

WORK DRAFT

Ford
4/9/86

Original sponsors: Uehling, Goll,
Boucher, et al

Funding Information

General Fund	\$8,500,000
Other Funds	-0-
	<u>\$8,500,000</u>

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 553 (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 making special appropriations to the Depart-
7 ment of Community and Regional Affairs for senior
8 citizen housing development grants and for low-cost
9 and low-income housing development; and providing for
10 an effective date."

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

12 * Section 1. The sum of \$7,000,000 is appropriated from the general
13 fund to the senior citizens housing development fund in the Department of
14 Community and Regional Affairs for the purpose of making grants under
15 AS 44.47.620 for senior citizen housing development.

16 * Sec. 2. The sum of \$1,500,000 is appropriated from the general fund
17 to the low-cost and low-income multiple family housing development fund
18 (AS 44.47.635) in the Department of Community and Regional Affairs for the
19 purpose of developing low-cost, low-income multiple family housing.

20 * Sec. 3. The appropriations made by this Act are for capital projects
21 and are subject to AS 37.25.020.

22 * Sec. 4. This Act takes effect July 1, 1986.