

ALASKA LEGISLATURE COMMITTEE FILES 1981-1982 8672

1453 SHESS EXECUTIVE ORDER # 50 - SB 13 1983

NOW:

1) Div. of Communications (in DOT-PF)
installs & maintains radios
for troopers and
Marine Transportation

2) the "AJIS" system and
Marine Trans reservation system
flows through the Div. Data Processing,
in the Dept. of Admin.

With E.O. #50:

1) Div. Comm. will be in Dept. Admin.
will still install & maintain radios for troopers & Marine Trans.

2) the "AJIS" system &
Marine Trans reservation system
will remain in Admin.

E. O. # 50

Admin.

system

div. of communication
tape delay center

services

3 telecommunication planners

Alaska Public Broadcasting Commission
Rural Alaska Television Network

Kathy Ulmer - 235-8934 home
235-8595

Anonymous support
for E.O.#50

plan devel prom
public broadcast

wants out of ~~state~~ telecomm.
top delay center

At. Pub. Bld.

Finance request?

E.O. # 50
2-2-81

1. Karen Perdue

DOE > Admin.
DOT

2 Div. 1. systems (hardware)
2. services (support)

\$ cost more? - extra positions
long run - save state \$

2. Dick Smith - Admin.

fiscal notes - all budgets that
exist

will have a budget amendment
700,000 (dep. comm. etc.)

Charlie's guess - @ DOE & UH instructional
T.V.

EMS

planning : H&SS

DOE

Pub. Safety

3. Charney - sep. of powers -

4. Elaine Mitchell -

ak. Pub. Bid. Comm.

supports E.O. # 50

under E.O. # 50, the comm. can
plan

no Ed. channels by F.C.C.
local tape-delay center
translators ("mini-T.V." station)
a clarification & simplification
of activity -
can pay attention to broadcasting
rather than budgeting

5. Steve Holt, DOE
memorandum of agreement

IST
Instructional TV section in DOE
"hardware" type stuff → admin.
& DOE will concentrate on
programming "software"

? electronic mail system?

6. Jennifer White, DOE
dev. of "software" for programs
K-12 - Ed on Alaska topics
MA -
would answer of E.O. #50

7. Charlie Hartman - Cap. Community Bd.

Elaine → tape-delay handled by
Public Bd. Comm. - perhaps
reduce staff -

8. Stuart Brown - consultant
could save \$ on long distance calls
save across - statewide to
govt. offices

Toneau
Arch.

62894
Elaine Mitchell
Stowell Johnston

AK. Pub. Brcd. Comm.

24.30.130

H&SS - any special cases

now - } 2 organization charts
E.O.

_____ control
----- admin. support

(watch Public Broadcasting)
(E.O. no instr. T.V. - Wilke)

call Wilke today - DOE who's feeding

fact Wed.

Pub. Broadcasting Comm. -

statute → E. O. #50

(pg. 2. line 21 - pg. 3)

takes title away from Commission

S B

4

WITNESSES FOR
SENATE H.E.S.S. MEETINGS

1-21-81
SB 4

Name	Address/Phone	Representing
BRIAN ROGERS	4925	"
DON KOCH	2577	
Deborah Behr		
Becky Bear		Family Center Births
Melinda Lee	586-3236	"
Mary Alice McKeen		"
Robert H Ogden	3355	DHSS
Michael Thomas	586 3340	American Council of Life Ins

n: SB 4

Margaret Crawford would like
to be notified when this bill is
considered. Her number is 586-3736

Rocky

Seattle Wash.

MEMO re: THIRD PARTY PAYMENTS FOR THE BIRTHPLACE SERVICES

Date: February 8, 1980

From: Carla Reinke, Executive Director

The Birthplace is a freestanding birth center which offers complete pregnancy and birth care by certified nurse midwives. The package fee is \$850. This fee covers total prenatal, intrapartum and postpartum care. Specifically, this includes all prenatal visits (done on a standard prenatal schedule), labor and birth at the facility, a home follow-up on day one and again on day three, a six-week examination, family-planning counseling and fitting of diaphragm, insertion of IUD, etc., and a complete program of education which includes classes in early pregnancy, nutrition, childbirth education, baby care, parenting, breastfeeding and post partum conditioning.

The philosophy of care is based on a physiologic approach to child-bearing and encourages family centered maternity care. Options are encouraged and easily available: siblings, extended family members, and friends are welcome at the parents' invitation; celebrations (from parties to religious ceremonies); as much privacy as the couple desires (no extra people are brought in as observers); a peaceful, calm and supportive atmosphere; gentle birth procedures and no separation of the family unit after birth. Continuity of care is assured by the opportunity to see all of the midwives and nurses during prenatal care. The clients will only be attended by birth attendants with whom she is familiar. If a hospital birth is necessary, one of our staff will stay with her if she desires.

The majority of the physical care of the clients is done by certified nurse-midwives who are licensed RNs with 1-2 years additional graduate education in an American College of Nurse-Midwifery approved school of nurse-midwifery. The nurse-midwives are practicing under the Nurse Practitioners Act of the state of Washington. The nurse-midwives use Board Certified obstetricians and pediatricians for consultation and chart review. They have privileges at Virginia Mason Hospital; they may admit, attend deliveries and discharge clients there. They are capable and experienced in the field of nurse-midwifery, and are assurance of quality and reliably safe care.

The American College of Nurse-Midwives describes the nurse-midwife and her functions as follows:

The nurse-midwife is a Registered Nurse who by virtue of added knowledge and skill gained through an organized program of study and clinical experience recognized by the American College of Nurse-Midwives, has extended the limits of her practice into the area of management of care of mothers and babies throughout the maternity cycle so long as progress meets criteria accepted as normal.

In association with the obstetrician to whom she is responsible, the nurse-midwife provides care as long as progress is normal. She cares for the mother during pregnancy and stays with her during labor providing continuous physical and emotional support. She evaluates and provides immediate care for the newborn. She helps the mother to care for herself and for her infant; to adjust the home situation to the new child; and to lay a healthful foundation for future pregnancies. The nurse-midwife is prepared to teach, interpret and provide support as an integral part of her service.

At The Birthplace expectant parents are treated as intelligent, responsible, healthy adults who are motivated to take the best care of themselves and their babies. Parents are fully informed of their and their babies condition at each appointment. The course of the pregnancy is carefully explained, questions are encouraged and answered thoroughly, variations in pregnancy and birth are completely discussed, clients are helped to understand and read their charts and are encouraged to make entries in their own charts. They take an active role in deciding on options (medical and personal) and in planning their births. The education program is designed to inform and to motivate the mother to take the best possible care of herself, through good nutrition, avoidance of potentially harmful substances, conditioning exercises, and knowledge of problem symptoms of pregnancy. The childbirth preparation classes thoroughly familiarize the mother and her partner with normal labor and birth, possible variations and prepare them to cope with the normal labor. Parents are also informed of the responsibility of choosing an out of hospital birth center and are prepared for a hospital birth should that need arise.

In the Seattle area there are approximately 40-60 planned births each month in out-of-hospital centers and at home. The Birthplace had an average of 6.5 births per month in 1978, and 12.5 births per month in 1979. Continued growth is expected in 1980. We hope eventually to reach an average of 30 births per month. We could easily double our present client load if third party payments were readily available.

Guidelines for the Birthplace have been adapted from the American College of Nurse Midwifery for careful physical screening and selection of families for its services. The service is an extension of the medical team. The midwives consult with our back-up physicians as variations from normal pregnancy and birth occur. Clients are carefully managed during pregnancy, and are screened out of the program if significant risk factors arise. The Birthplace has an efficient plan for transport during or after labor. If a fast transport is necessary an ambulance is used. The hospital is alerted that a client is coming and informed of the reason. The Birthplace is 3 miles from University Hospital and it takes about ten minutes to get there. One of the staff accompanies the client with her records. If the reason for transport is precautionary and it looks as if the nurse-midwife can do the delivery, the client will be transferred to Virginia Mason. The Birthplace has emergency equipment: oxygen, suction, infant resuscitation and intravenous capabilities.

The Birthplace has created a bonded community among parents and with our staff. There is considerable supportive and positive feedback from the clients, from evaluation forms, and as they come by to let the staff see their babies grow. There is a wide spectrum of clients from very young to 40 years old with the average age in the upper twenties, an average education of 2 years of college. Most clients have health insurance, but have sacrificed their coverage in order to obtain what they feel is the best care as they start their families.

The Birthplace offers a high quality, low cost program. Through education and emphasis on preventative health care The Birthplace has achieved a low incidence of preeclampsia (2% compared to 6% overall) and a low incidence of prematurity (1.5% compared to 7% overall). The cesarean section rate is 7%, compared to the local average of 15-20%. Another reason this low cost care is possible is that healthy clients do not need the costly forms of medical intervention usually used in hospitals. In fact, in normal, healthy labors most forms of medical intervention carry a certain amount of risk without significant benefit to mother or baby.

Third party reimbursement is essential to the survival of The Birthplace and to the continued availability of this type of service. The Birthplace could double its client load with easily available insurance coverage. The two oldest birth centers (each 4 years old) in the United States, Luciana in Cottage Grove Oregon, and the Childbearing Center in New York City, receive 100% reimbursement from all carriers. They have demonstrated themselves to be safe and economical. They are leaders in providing education for maintaining healthy pregnancies. This concept of a freestanding birth center, run by certified nurse-midwives as part of a health professional team, is becoming widely accepted and will become more common in the 1980's. It is the most conservative of the birthing alternatives available throughout the United States and should be encouraged and supported through the availability of insurance coverage. The benefit to insurance companies is obvious when they only have to pay 1/3 to 1/2 physician and hospital confinement costs for the vast majority of clients who have normal births.

Low risk pregnancies and births need not be managed in a traditional hospital setting. More and more people are seeking a safe, satisfying and economical alternative to hospital birth. The number of birth centers like The Birthplace is growing every year. Care givers for those seeking out of hospital births should be qualified and licensed so that these options are safe and available. All prospective parents who desire this service should not be denied it because of lack of insurance coverage. Insurance companies will save money by including coverage for alternative birth managed by licensed nurse-midwives.

*The Birthplace
Seattle, Wash.*



Alaska State Legislature
Senate

JUNEAU, ALASKA

MEMORANDUM

TO: Senate HESS Committee Members

FROM: Rocky Weller

RE: SB 4

DATE: January 21, 1981

Kay Lahdenpera telephoned from Anchorage and wanted the Committee to know the Alaska Nurses Association is in favor of Senate Bill 4.

Ivallean Brooks also called from Anchorage and wants to go on the record as being in favor of Senate Bill 4.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. S B-4

Title An act relating to Health Care Services & Nurse Midwives

Requested by Ziegler

Date 1-20-81

II. FISCAL DETAIL

Agency Affected Division - of Insurance

Program Category Affected Public Protection

BRU, Program, or Subprogram(s) Affected Division of Insurance

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES	0					
200 TRAVEL	0					
300 CONTRACTUAL	0					
400 COMMODITIES	0					
500 EQUIPMENT	0					
600 LAND & STRUCTURES	0					
700 GRANTS, CLAIMS, ETC.	0					
TOTAL	0					

FUNDING (Thousands of Dollars)

GENERAL FUND	0					
FEDERAL FUNDS	0					
OTHER (Specify Fund Source)	0					

POSITIONS

FULL TIME	0					
PART TIME	0					
TEMPORARY	0					

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

IV. DATE 1-20-81

PREPARED BY

Kenneth C. Moore
Kenneth C. Moore, Div. of Insurance

AGENCY

Commerce & Economic Development

PHONE

7515

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

April 8, 1980

X HOUSE BILL 802 - An act relating to nurse-midwives

We have the first certified licensed nurse-midwife in private practice in the state in our hospital working with Dr. Babcock. We have had good experience with the program and would like to see it continue. We also feel that the para-professional who is certified and licensed should be paid for their services by any insurance company.

From Ketchikan General Hospital
3100 Tongass Ave
Ketchikan, ALASKA 99901

ly

e

in
ard.

uld

There still is one small problem and that is that the legislature is lumping all things or persons, good and evil, under the name or title of physician. (Ref para 9 (8), etc.) As a matter of some pride, I would like "ph,sician" to stand alone (as we frequently do) and dentists, osteopaths, etc. be called by their title, not mine.

Keep happy and well and start planning for a fall trip.

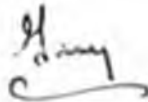
Sincerely,



Bill Henrickson, M.D.

BH/br

This change appears in SB 4 this year.



SB4

2

MSG 81-00008169 PRY 1 03/13/81 12:54:54 ORIG: LF00 IN= 0014 OUT= 0027
FROM: MAXINE TO: JUND INFO
TARGET: LJH2 SUBJ: FOM PAGE 0001

TO: REP ROGER, SEN ZEIGLER
FR: CHRIS F DENNIS, FBX MED ASSOC.
SR 40512, FAIRBANKS 99701 PH. 456-3851
RE: SB4

REDACTED: FBX MED ASSOC UNANIMOUSLY WITHDRAWS
OBJECTION TO SB4

FBX/LID

MSG 81-00005882 PRTY 3 02/25/81 11:42:15 ORIG: LF00 IN= 0003 OUT= 0025
FROM: MAXINE TO: DEBI/JNO
TARGET: LJH2 SUBJ: POM URGENT PAGE 0001

TO: SEN. BENNETT, FAHRENKAMP, PARR
REP. BETTISWORTH, BROWI, FANNING, RANDOLPH, ROGERS, SMITH

FR: C. F. DENNIS, MD. SR 40512, FAIRBANKS 99701 PH. 456-3851

RE: SB 4

THE 90 MEMBER FAIRBANKS MEDICAL ASSOC. OPPOSES SB4. AS 08.68.410
DOES NOT SPECIFICALLY REGULATE THE MIDWIFE AND HER CRITICAL DUTIES,
AND THE ROLE OF THE MEDICAL BOARD & NURSHING BOARD IS BEING
DETERMINED BY TRIAL AND ERROR. OTHER PROVIDER REGULATIONS ARE MORE
VAGUE.
WITHOUT PROVEN REGULATIONS OUR ONLY QUALITY CONTROL MECHANISM IS THE
POCKET BOOK.

FBX/MAXINE

POSITION PAPER

SENATE BILL NO. 4

"An Act relating to health care services and the coverage of the services of nurse midwives under the insurance laws of the state."

SB No. 4 requires the coverage of nurse midwives' practice under those health and disability insurance policies that pay for maternity care, and adds nurse midwife services to the list of medical services provided to eligible persons for Medicaid. The Bill also amends the term "participant physician" to "participant provider" and includes the nurse midwife; and the bill adds a new paragraph defining "nurse midwife" to the Alaska Statutes.

The Department of Health and Social Services will limit its comments to the areas of the practice of the nurse midwife and coverage of these services under the State Medicaid Program. It is our understanding that the Department of Commerce and Economic Development, Division of Insurance, has commented separately on the section dealing with mandatory insurance coverage.

Practice of Nurse Midwives

Nurse midwives have been a part of the American health care system for over fifty years. The practice of nurse midwifery, including the management of labor and delivery, is recognized in the laws of all states except Kansas, Michigan, and Wisconsin. The typical recent graduate of a nurse midwifery educational program has six years of professional nursing experience and a bachelor's degree in addition to nine months to two years of midwifery training. Upon successful completion of the course and a national certification examination, the nurse midwife is prepared to care for women's health needs, including normal childbirth and uncomplicated gynecological and family planning services.

The nurse midwife according to Alaska law collaborates with a physician. Nationally, nurse midwives are employed by hospitals, public health agencies, private physicians, the military, prepaid health plans, and birthing centers. Their practice typically extends beyond pregnancy and birth to include the post-partum care of the well woman and neonatal care of the infant. Health education is a vital component of the nurse midwife's role.

The use of nurse midwives can offer greater availability of quality prenatal care, delivery, and post-natal care in medically underserved areas. As a member of the health care team, the nurse midwife can provide professional care to the normal obstetrical or postpartum patient, freeing her collaborating physician to concentrate on patients with problems requiring medical expertise. An expanded use of nurse midwives also can offer an alternative style of care to families at a special time in their lives. The desire of certain families for such an alternative may partially account for the apparent increase in home deliveries, a practice which involves increased risk to mother and baby.

Medicaid Coverage of Nurse Midwives

Federal regulations permit the expansion of covered services under Medicaid to include qualified nurse midwives as defined in SB No. 4. The Department of Health and Social Services supports the inclusion of nurse midwives under the list of covered medical services, and expects no resulting additional cost to the State.

Department Position

The Department of Health and Social Services recognizes the valuable contribution that nurse midwives can make to the overall physical and emotional health of the family at time of pregnancy and delivery. We would encourage hospitals to provide staff privileges to well-qualified nurse midwives who meet the requirements of the Advanced Nurse Practitioner Guidelines issued by the Alaska Board of Nursing. We endorse coverage of nurse midwife services under Medicaid.

Recommended by:

David Bruce
David Bruce, Deputy Director
Division of Public Health

Date:

1/17/81

Rod Betit
Rod Betit, Director
Division of
Public Assistance

Date:

1/20/81

Approved by:

Helen D. Beirne
Helen D. Beirne
Commissioner

Date:

1/20/81

Don Koch - 2577

~~XXXXXX~~

aware of no problems
w/ malpractice insurance
nurse-midwife has to have
in agreement w/ a doc. to practice.

015 call Eiken Montana
ref SB4 - in S. Rules
452 - 8181 ex 504

Fairbanks Nurses Assoc.
supports bill

Finance CS

Bennett:
no reg. for malpractice
insurance
no standards for M.P.
association
no control

heard Bennet, Fabrenkamp, & Parr opposed to SB4

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Senate Bill No. 4
 Title "An Act relating to nurse midwives."
 Requested by Commissioner's Office Date 01/16/81

II. FISCAL DETAIL

Agency Affected _____
 Program Category Affected Health/Division of Public Health
 BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES	0	0	0	0	0	0
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	0	0	0	0	0	0
400 COMMODITIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	0	0	0	0	0	0
700 GRANTS, CLAIMS, ETC.	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER (Specify Fund Source)	0	0	0	0	0	0

POSITIONS

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

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

IV. DATE 1/17/81 PREPARED BY Vernellia Phillips
 AGENCY Public Health
 PHONE 465-3100
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

A M E N D M E N T # /

Offered in the SENATE

By Sturgulewski

TO: CSSB 4 (Finance)

Page 1, line 26:

After "provide" delete "for the furnishing of the same services by"
and insert "that"

Page 1, line 27:

After "practitioner" insert "may furnish those same services instead
of a physician"

Alaska State Legislature

SENATOR
ROBERT H. ZIEGLER, SR.
307 BAWDEN STREET
KETCHIKAN, ALASKA 99901

POUCH V
JUNEAU, ALASKA 99811



Senate

CHAIRMAN
SENATE JUDICIARY COMMITTEE
IMMEDIATE PAST CHAIRMAN
WESTERN CONFERENCE - COUNCIL OF
STATE GOVERNMENTS

VICE CHAIRMAN
SENATE RULES COMMITTEE

MEMBER
SENATE STATE AFFAIRS COMMITTEE
SENATE COMMITTEE ON COMMITTEES
LEGISLATIVE COUNCIL
WESTERN STATES LEGISLATIVE
FORESTRY TASK FORCE

January 21, 1981

The Honorable Charles Parr,
Alaska State Senator
Room 210 Behrends Building
Juneau, Alaska

Charlie:

SB 4, which I don't intend to testify on, the nurse mid-wives bill, is really Representative Roger's baby (no pun intended). As far as I know, no one objects to the bill and, for whatever it may be worth, the Ketchikan Medical Association has unanimously endorsed the bill.

Sincerely,


Robert H. Ziegler, Sr.

RHZ:lk

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT

Old

back
up

HB902

differences w/ HB802 & SB 4

sec. 1 & 2 same

sec. 3 — ~~24~~ 24 different

sec. ~~7~~ 7 & 25 same

8 & 26

6 & 24

new

old - CS HB 802 am

New SB 4

1

same

2

3

↓

1 = 1

2 = 2

3 — 23 new language

6 = 24

7 = 25

8 = 26

TO: HOUSE H.E.S.S. COMMITTEE

FROM: ENID GEIST (CERTIFIED CHILD BIRTH EDUCATOR)
SR BOX 40022, FAIRBANKS, 99701 PH. 452-8740

RE: IB 802

I SUPPORT THIS BILL, I DO NOT THINK THAT IT GOES FAR ENOUGH
THAT HOME BIRTH SHOULD BE INCLUDED WITH MEDICAL BACK-UP.

FBX/LIO/MW

SC 11433
Fairbanks Alaska 99701
March 13, 1980

Thelma Buckholz, Chairman
House HESS Committee
Pouch V - State Capital
Anchorage, Alaska 99511

Dear Mrs Buckholz,
As chairman of the Board of Nursing I have been
asked to respond to HB 802 on behalf of the Board.
Since our mission is to protect the public I do not
think it appropriate that the Board take a position
on a matter of self-interest to the nursing profession.

As an individual, however, I support the bill.
We currently have no nurse midwives authorized to
practice under our regulations we have one application
that is still being processed. The bill would provide an
incentive to attract more of these highly qualified
individuals to Alaska.

I do think the matter of mandating that, not
only the nurse midwives directly needs to be
related with reference to the availability of medical
insurance within the state. What insurance companies
agree to comply, and how do we guarantee coverage
would be available to many citizens of our State? I must
express my regret on this matter, but assume your
committee will research it.

Yours truly,
S. Jack Hoxby

Ketchikan General Hospital

3100 TONGASS AVE.
KETCHIKAN, ALASKA 99901
907 - 225-5171

March 6, 1920

Representative Terry Gardiner
House of Representatives
State of Alaska
Pouch "V"
Juneau, Alaska 99811

Dear Terry:

The Medical Staff of Ketchikan General Hospital has asked me to write to you in regard to House Bill 802, introduced by McKinnon, nurse-midwives, particularly in relation to provision of coverage of cost of services provided by nurse-midwives by state licensed insurance companies.


In general, we are in support of the bill and feel it effectively recognizes the role of nurse-midwives in the provision of medical care in the State of Alaska. We have only one problem with the bill and that is Section 18.20.005 which states that a hospital may not be issued a license unless the hospital permits nurse-practitioners to practice in the hospital.

Our objection is essentially a disinterested one as we have a nurse-midwife on the staff at Ketchikan General Hospital who will be accorded full privileges as soon as her certification comes through which we expect within the next two months. We previously had a certified nurse-midwife on the staff and she had full privileges. We are fully in support of the concept of such practitioners functioning in the Ketchikan area. Nonetheless, to restrict a hospital's license simply because it does not choose to employ nurse-midwives seems to be an unnecessary interference in the provision of medical care and an unwarranted intrusion of government regulations into what is essentially a private contractual matter. The intrusion might be warranted if it could be demonstrated that failure to provide nurse-midwifery services would reduce the quality of medical care and jeopardize patients, but I can think of no way of proving such a contention.

It is our feeling that nurse-midwifery is very much a coming thing and it will gradually be accepted throughout the country. We see no need to force the matter and indeed to force the matter only raises resentment.

With alteration of this provision we feel we could support the measure. Thank you for your interest in this matter.

Sincerely,


T.L. Conley, M.D.
Chief of Medical Staff

KGH

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

POUCH D
JUNEAU, ALASKA 99811

March 4, 1980

Honorable Thelma Buchholdt
Chairman
House Education, & Social
Services Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Ms. Buchholdt:

RE: House Bill 802

You have requested a position paper for House Bill 802. The Division of Insurance has in the past opposed mandated or required coverages for disability insurance policies. We have on two occasions ventured across this line to support mandated coverages. The first was in support of coverage for newly-born children which became law in 1975 (AS 21.42.345). The second was with Senate Bill 227 which would mandate alcoholism benefits. This bill was before your committee last year and is presently in House Rules.

In both cases there was substantial imperative for the types of benefits sought. With newly-born children, the practice of insurers was to provide no coverage until 14 days after birth, which when coupled with the preexisting conditions clause in many policies, gave rise to some substantial financial burdens on new parents with sick, ill or defective newborn children. In the case of a mandated alcoholism benefit, the imperative was, and is, that alcoholism is generally recognized as Alaska's number one health problem. We do not believe that similar imperatives exist to suggest a required maternity or nurse midwife coverage.

We have prepared a section-by-section analysis or commentary which may help in our view of this legislation.

Section 1. This section would most appropriately be commented on by the Department of Health and Social Services. The section is not crucial to the insurance aspects of the bill, which represents the remaining portion of the proposed legislation.

Section 2. Under this section coverages provided on an expense incurred basis shall provide that the health insurance benefits applicable to maternity coverage consider benefits provided by nurse midwife. This language is not objectionable. The title of the section, however, is somewhat misleading and might better be called "COVERAGE FOR COST OF SERVICES PROVIDED BY NURSE MIDWIVES."

Section 3. The language suggests that maternity benefits are required to be provided under an expense incurred policy. Presently, federal law requires maternity benefits on group coverages where the group has more than 15 persons. This proposal would extend to individual policies and to smaller groups. We are opposed to an expansion of this concept because of cost. We believe that removal of this section will not impair the bill since it is really a repeat of Section 2 of the bill. This same comment applies to Section 4 and Section 5.

Section 6. This section in effect mandates maternity benefits for medical service corporations, of which there are two now in the State. The first is Delta Dental Plans which is a dental medical service corporation and the second is Fairbanks Physicians which is currently inoperative. Blue Cross is a hospital service corporation and would appear to be unaffected by this section due to repeated references to AS 21.87.120.

Section 7. This section is not objectionable but does not really affect anyone presently except for the Delta Dental Plan. AS 21.87.330(9) which defines "physician" as distinguished from "participant physicians" should be modified to include nurse midwife.

Section 8. This section is not objectionable.

Finally, the Commerce Committee of the House is presently considering House 882 which permits the Director of Insurance to minimum standards on various lines of insurance which can potentially resolve the problems that this bill appears to address. If all expense incurred policies had to include nurse midwives as physicians or participating physician then I think this bill would become a moot issue.

To summarize, we believe that a number of amendments should be made to this bill to make it a bill that can be supported by the Administration. These references are:

Page 1, line 14, remove the words "REQUIRED PROVISION FOR" and change the word "OF" between "COVERAGE" and "COST" to read "FOR."

Page 1, lines 22 through 29. Eliminate.

Page 2. Eliminate entire page.

Page 3, lines 1 through 3. Eliminate.

Page 3 between lines 3 and 4. Establish new section to read:

AS 21.84.590(6) is amended to read. (6) AS 21.42.290 and AS 21.42.347.

Page 3, line 4. Renumber the section as appropriate and retain the wording that appears on lines 5 through line 8.

Page 3 between lines 8 and 9. Add a new section to read:


AS 21.87.330(9) is amended to read. (9) "physician" [includes also] means a doctor, dentist, osteopath, optometrist, chiropractor, nurse midwife, surgeon, or other licensed health care practitioner.

Page 3, line 14. Add a new section to read:

AS 21.87340(15) is amended to read: (15) 21.42.345 and AS 21.42.347.

The above amendments would result in a bill acceptable to the Division of Insurance. If you have any additional questions, we would be happy to assist in answering them for you.

Very truly yours,

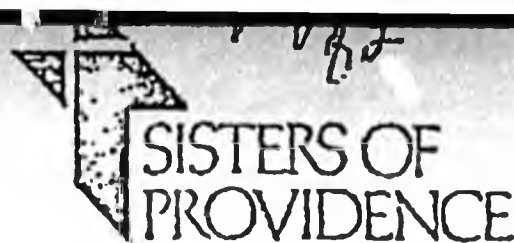


Donald P. Koch
Chief of Market Surveillance

DPK/kkk2/1

PROVIDENCE HOSPITAL

3700 PROVIDENCE DRIVE - POUCH 6604
ANCHORAGE, ALASKA 99502
PHONE: (907) 276-4511



SERVING IN THE WEST SINCE 1836

March 5, 1980

The Honorable Thelma Buchholdt
Pouch V
Juneau, Alaska 99811

Position Paper: H.B. 802 - "An Act relating to nurse midwives"

Dear Representative Buchholdt:

Providence Hospital cannot support passage of H.B. 802, "An Act relating to nurse midwives," because of the following reasons:

1. Licensure

To suggest that a hospital's licensure is dependent on permitting para-professionals such as nurse practitioner midwives to practice medicine is irresponsible and probably unconstitutional. The passing of this law would totally disregard the requirements of the medical staff by-laws, the quality assurance and the medical review processes, which are so important in maintaining quality patient care standards.

2. Malpractice Insurance

In the State of Alaska, where malpractice insurance has traditionally been difficult to obtain, requiring them to make available malpractice coverage to nurse practitioners, as primary admitters, would most likely, 1) make malpractice rates skyrocket, and 2) would probably send insurance companies running out of the state.

3. Types of Midwives

It is interesting to note that the bill specifically relates to certified nurse practitioner midwives -- and the traditional, and far more extensively trained certified nurse midwife commonly found in Europe and in a few places in the United States is left out.

The differences in training of these two categories is quite extensive. The nurse practitioner midwife goes to a program of a few months, whereas the Certified Nurse Midwife of the

Representative Thelma Buchholdt
Page 2
March 5, 1960

Page 2
18, 7

European model sometimes trains for a couple of years. This further demonstrates the special interest involved. They are certainly not the same, and cannot be grouped together in terms of training, abilities and experience.

4. Currently, under our medical by-laws and those of other hospitals, para-professionals are permitted to practice medicine only under the direction of the sponsoring physicians who monitor the privileges granted and quality of care delivered.

We also endorse the hiring of these practitioners (para-professionals), by hospitals, to deliver nursing care.

Thank you for the opportunity of expressing our position on this bill.

Sincerely,


Al H. Gamosso
Administrator

AMC/mm

- cc: Senator Glenn Hackney
Senator Mike Colletta
Senator Arliss Sturgulewski
Max Kersbergen
William Dann
Charles Rigden
Ron Hammett
Donald Deiders
Jack Brown
Alaskan Hospital Administrators
Advisory Board

* TELRCOPY INSTRUCTIONS: For Immediate Delivery to Committee

Copy to Rep. Buchholdt
Hemerson House HBSS Committee
Above Listed Senators

March 14, 1980

Representative Thelma Buchholdt
House Hess Committee
Pouch V
Juneau, Alaska 99811

To Legislator:

I would like to lend my support to House Bill 802. As a professional in women's health care, I support the concept of midwifery. Present medicine has evolved to treating pregnancy as an illness rather than as a natural process. A common characteristic of Alaskans is the desire to have control over all aspects of their lives. A Nurse Midwife can provide a cost-effective, personal, scientific, and safe birthing service. Nurses attending modern nurse midwife programs receive much more training in normal pregnancy and delivery than family practice physicians.

This bill can provide the needed impetus for using the nursing talent already residing in this state to a fuller extent.

Thank you for your time,
Kay Lindt R.N., N.P.
Susan Emory, r.n.

KK/mts

cc: Ramona Barnes
Mike Geirne
C.V. Chatterton
Vernon Helburt
Bill Miles
Joyce Munson, Vice Chair

Fairbanks Health Center
800 Airport Way
Fairbanks, Alaska
99701

March 11, 1980

Holly Debenham
SR. 20114A
Fairbanks, AK 99701

Dear Sir:

I am writing this letter in support of H. B. 802. I believe that our community could definitely benefit from having nurse practitioners at Fairbanks Memorial Hospital. The doctors would have more of their time to spend with other needful patients if nurse practitioners were allowed to practice (work) in the hospital.

Also the insurance coverage seems to be very important as most doctors, physicians etc have ample insurance coverage, also nurse midwives should be able to get this type of insurance.

I am very happy to see a bill of ^{this} sort finally coming through the legislature. It has all of my support.

Holly Debenham

RICHARD J. BABCOCK, M.D.

OBSTETRICS AND GYNECOLOGY

P. O. BOX 513

KETCHIKAN, ALASKA 99901

February 25, 1980

Dear Representative Gardiner:

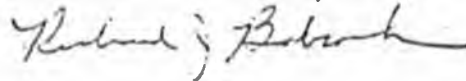
We would like to add our strong support to House Bill #82, "An Act Relating to Nurse Midwives." The practice of insurance companies in limiting payment arbitrarily to certain health providers while excluding others is grossly unfair to their patrons.

The Nurse Midwife is a well trained, highly skilled practitioner whose services deserve compensation the same as any other recognized member of the healing arts.

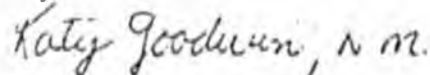
Your support of this measure is strongly urged.

Thank you.

Richard J. Babcock, M.D.



Katy Goodwin, N.M.



cc: Representatives: McKinnon
Rogers
Philips

pink

#####

TO: HOUSE MESS COMMITTEE AND SHANNON GARRETT A.A.

FM: GLENDA STRAUDE, P. O. BOX 91950, FBX AK 99708 PHONE - 479-7692

RE: HB 802

I STRONGLY SUPPORT HB 802, AN ACT RE TO NURSE MIDWIVES. I BELIEVE IT IS A GOOD STEP IN THE RIGHT DIRECTION. NURSE MIDWIFERY SHOULD BE RECOGNIZED AND COVERED BY HEALTH INSURANCE POLICIES AND SHOULD ALSO BE AFFORDED THE SAME INDEMNITY AFFORDED TO DOCTORS. THOUGH I DO SUPPORT THE BILL, I DO NOT FEEL THAT IT GOES FAR ENOUGH IN RECOGNIZING THAT BIRTHING IS A NATURAL EXPERIENCE AND NOT AN ILLNESS. I FEEL NURSE MIDWIVES SHOULD BE PERMITTED TO PRACTICE OUTSIDE THE HOSPITALS AND I DO NOT MEAN IN THE PARKING LOTS!

CAN BE CONTACTED DAYS.

FBX LJO/LJ

#####



ALASKA STATE HOSPITAL ASSOCIATION INC.

5401 CORDOVA STREET
PHONE: 277-1633

ANCHORAGE, ALASKA 99503

March 5, 1980

Thelma Bucholdt
Chairman - Health and Social
Services Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: H.B. 802
"An act relating to
nurse midwives"

Dear Representative Bucholdt:

The Alaska State Hospital Association representing seventeen institutional members who provide obstetrical care is extremely concerned over H.B. 802. While the intent, I am sure, was to make available to patients an alternative which would provide greater access to O.B. services at a possibly reduced cost, a number of considerations should be evaluated before proceeding with this proposal.

1. Sec. 18.20.055 Nurse Midwife Staff Privileges:

Criteria for the licensure of hospitals which is acceptable under present state and federal regulations does not require that para-professionals be accorded staff privileges in order to retain state licensure. To legislate such a requirement would be legally contestable, as it is contrary to accepted standards of safeguards provided under present licensing and hospital by-laws related to the admission of patients to hospitals. Such legislation would open the door to numerous medical paraprofessionals to mandate similar consideration.

Such action would circumvent the protection that all patients presently may expect from a licensed hospital, i.e. that a board (trustees), medical staff organization and a competent administration are responsible for assuring that minimal standards of training and licensing have been met by practicing staff. A nurse practitioner does not meet the level or training required for physicians, nor do they meet by-law standards for staff privileges.

2. The continued availability and/or additional cost of hospital mal-practice should such legislation be enacted leads one to question the prudence of such a proposal. One of the protections that patients and hospitals presently have is recourse for a financial settlement for adjudicated damages. The removal of that protection by a withdrawal of insurance coverage, or a significant increase in the cost of such coverage, due to the inclusion of paraprofessionals as attending staff is a serious concern for our members.

March 5, 1980

3. Limited investigation due to the shortness of notification of this proposal has identified that third party carriers are not presently able to assure any reduction in premium costs due to O.B. services provided by paraprofessionals. Lack of experience with this concept does not yet provide a historical base upon which to draw conclusions.

Although for the above stated reasons our association cannot support the proposed bill, let me hasten to add that under the appropriate medical direction and approved hospital standards of medical treatment, paraprofessionals can be effectively utilized in the hospital setting to deliver a sophisticated level of health care.

Thank you for this opportunity to express our concerns and recommendations on this proposal.

Sincerely,



Max Kersbergen
Executive Director

MK/lc

Fairbanks Memorial Hospital

1650 Cowles St.

FAIRBANKS, ALASKA 99701

OPERATED BY
LUTHERAN HOSPITALS AND HOMES SOCIETY
FARGO, NORTH DAKOTA 58102

March 12, 1980

Honorable Thelma Buchholdt
Pouch V
Juneau, Alaska 99811

Re: Position Paper - House Bill No. 802
An Act Relating to Nurse Midwives

Dear Representative Buchholdt:

Fairbanks Memorial Hospital recently submitted preliminary comments on House Bill 802, an act relating to nurse midwives. The Hospital has recently gone back and done more research on this bill and would like to submit the following position on House Bill 802.

Fairbanks Memorial Hospital cannot support House Bill 802 because of the following reasons:

1. The bill as it is currently written would let a nurse midwife work in the hospital without a physician's supervision. To my knowledge all hospitals in the state require nurse midwives, physicians assistants and other para-professionals to be directly supervised by a physician preceptor. If this bill passed, this would prevent nurse midwives from being required to have this physician supervision.
2. The bill as it currently stands grants a nurse midwife hospital privileges. At the current time no para-professional in any Alaska hospital to my knowledge is granted full privileges, but is rather granted an extension of their physician preceptor's privileges. This requires the para-professional to be supervised and to do only those procedures and exams the physician preceptor has privileges to perform.
3. Fairbanks Memorial Hospital does not believe that a hospital's license should be dependent upon any one para-professional group. We believe that if this bill was passed, other para-professionals would request similar status.

Representative Thelma Buchholdt

March 12, 1980

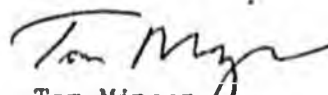
Page Two

4. As I am sure you are aware, there is a severe difference between certified nurse practitioner midwives and certified nurse midwives. A certified nurse practitioner midwife attends a specific midwife program only for a few months after she has gained the status of nurse practitioner while a certified nurse midwife has at least several years of training in order to become a certified nurse midwife. This bill directly addresses the least trained of the two categories.
5. Under Section 7.AS21.87.330 we feel that a nurse midwife should not be included under the definition of a participant physician.
6. As the hospital reads section 21.87.125 of the bill we interpret this to mean that all hospitals in the state and other medical service corporations will be required to hire nurse midwives and to have these services available even though some pre-paid plans might not address maternity care.

In closing, the Hospital cannot support this bill as it currently stands. It should be pointed out that Fairbanks Memorial is not objecting to nurse midwives since the hospital has provisions in our bylaws for nurse midwives, physicians assistants and other para-professionals to work in the hospital under the direct supervision of physicians. We are very much against any bill which indicates that a physician would not be supervising this individual.

Thank you for the opportunity to express our position on this bill.

Sincerely,



Tom Mingen
Administrator

TM/mw

Name	Address and Phone	Organization/Self	For/Against or Observing
1/ <u>Joe McKenna</u>		<u>Sponsor</u>	
2/ <u>Ms. Barbara Walker</u>	<u>P.O. Box 282 Auke Bay 789-0977</u>	<u>Alaska Nurses Association</u>	<u>For</u>
3/ <u>DON KOCH</u>	<u>POUCH D JUNEAU 465 2577</u>	<u>DIVISION OF INSURANCE</u>	<u>FOR CONCEPT IF AMENDED</u>
4/			
5/			
6/			
7/			
8/			
9/			
10/			
11/			
12/			
13/			

Name	Address and Phone	Organization/Self	For/Against or Observing
Joe McClain			
1/ ^{Behr} Hue Delia, introduce			
2/ Vernellia Randall-Phillips		D+SS (Dept H+SS)	
3/ Portia Portia Kaufman		D+SS ("") Gen. Health Clinic	
4/ Margret Crawford	(answer questions re' nurse)	nurse mid-wife practice	nurse mid-wife
5/ Don Don Koch		Div. of Insurance	
6/ Pam Bradley	Phls. 455-6152	herself	
7/ Betta Janson		herself	
8/			
9/			
10/			
11/			
12/			
13/			

POSITION PAPER

HOUSE BILL NO. 802

"An Act relating to nurse midwives."

HB. No. 802 requires that hospitals extend staff privileges to nurse midwives as a condition of licensure. The Bill also defines the coverage of nurse midwives' practice under health and disability insurance policies by requiring coverage by those policies that pay for maternity care. The Bill also requires a medical service corporation, hospital service corporation, and combined medical and hospital service corporation cover nurse midwife services under certain conditions. The Bill also amends the definition of "participating physician" to include a nurse midwife, and adds a new definition defining "nurse midwife" to the Alaska Statutes.

The Department of Health and Social Services will limit its comments to the areas of the practice of the nurse midwife and the requirements of hospitals to extend staff privileges to the midwife as a condition of State licensure. It is our understanding that the Department of Commerce and Economic Development, Division of Insurance, will be commenting separately on the sections dealing with mandatory insurance coverage.

Practice of Nurse Midwives

Nurse midwives have been a part of the American health care system for over fifty years. The practice of nurse midwifery, including the management of labor and delivery, is recognized in the laws of all states except Kansas, Michigan, and Wisconsin. The typical recent graduate of a nurse midwifery educational program has six years of professional nursing experience and a bachelor's degree in addition to nine months to two years of midwifery training. Upon successful completion of the course and a national certification examination, the nurse midwife is prepared to care for women's health needs, including normal childbirth and uncomplicated gynecological and family planning services.

The nurse midwife, according to Alaska law, collaborates with a physician. Nationally, nurse midwives are employed by hospitals, public health agencies, private physicians, the military, prepaid health plans, and birthing centers. Their practice, typically, extends beyond pregnancy and birth to include the post-partum care of the well woman and neonatal care of the infant. Health education is a vital component of the role of the nurse midwife.

The use of nurse midwives can offer greater availability of quality prenatal care, delivery, and post-natal care in medically underserved

areas. As a member of the health care team, the nurse midwife can provide professional care to the normal obstetrical or postpartum patient, thus freeing her collaborating physician to concentrate on patients with problems requiring his or her medical expertise. An expanded use of nurse midwives also can offer an alternative style of care to families at a special time in their lives. The desire of certain families for such an alternative may partially account for the apparent increase in home deliveries, a practice which involves a greater risk.

Requirement of Extension of Staff Privileges to Nurse Midwives as
a Condition of Hospital Licensure

The purpose of licensure, rules, regulations, and standards for hospitals is "...promoting safe and adequate treatment of individuals in the interest of public health, safety and welfare..." (AS 18.20.060).

Historically, the State's responsibility began as licensure and inspection of public facilities to look for fire, environmental health, and other standards for the condition of buildings. It then was extended into the area of professional standards requiring certain levels of competence and experience to have been reached by the staff providing care in the hospital. The strictest requirement for hospitals comes as a result of the need to be certified in order for the hospital to be eligible for Federal Medicare and Medicaid reimbursement. Nowhere in State Statute or regulation are hospitals required, as a condition of licensure, to extend staff privileges to professional groups (such as dentists) or paraprofessional groups (such as therapists). HB 802 would break with past precedence by requiring such an extension as a condition of hospital licensure to nurse midwives.

Department Position

The Department of Health and Social Services recognizes the valuable contribution that nurse midwives can make to the overall physical and emotional health of the family at time of pregnancy and delivery. We would encourage hospitals to provide staff privileges to well-qualified nurse midwives who meet the requirements of the Advanced Nurse Practitioner Guidelines issued by the Alaska Board of Nursing. However, the Department believes that the decision to use the services of nurse midwives or other qualified allied health personnel appropriately should rest with each individual hospital, its governing body and administrative staff, and not with the Department of Health and Social Services licensing authority.

Recommended by:

DF Tirador
Dean F. Tirador, M.D.
Director, Division
of Public Health

Date:

3/5/80

Joe Betit
Joe Betit, Acting Coordinator
Office of State Health
Planning & Development

Date:

3/5/80

Approved by:

Helen D. Beirne
Helen D. Beirne
Commissioner

Date:

3/5/80

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. House Bill No. 802
 Title "An Act relating to nurse midwives."
 Requested by Commissioner's Office Date 3/5/80

II. FISCAL DETAIL Department of Health and Social Services
 Agency Affected Department of Health and Social Services
 Program Category Affected Health/Division of Public Health
 BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES	0	0	0	0	0	0
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	0	0	0	0	0	0
400 COMMODITIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	0	0	0	0	0	0
700 GRANTS, CLAIMS, ETC.	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER (Specify Fund Source)	0	0	0	0	0	0

POSITIONS

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

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

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

Prepared by: M. Deaver Date: 3/5/80
 Division/Office: P.H. Admin. PR: 3090
 Department of Health & Social Services

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

there are about
5 nurse-midwives practicing
in the state

SB 4 - 1-21-81

1. Brian Rogers +
2. Don Kerk + - Dev. Insurance
doesn't mandate maternity benefits
3. + Deb. Barr & Lois Brydson - nursing
degree - 6 yrs - practice
plus 2 yrs
6 certified nurse - midwives
Ogden - Medicaid
collaborative relationship w/ M.P.
4. + Becky Bear - Family Center
want a birthing center in Juneau
low rise woman - NW standards
Seattle, Oregon & New York - such bills
and in country
now - 2 birth centers in Alaska affiliated
with hospitals -
5. + ~~Chris (Brydson)~~ Michael Thomas
Life Insurance Council

CS SB 4 (Finance)

- 1) conforms language to existing insurance statute
- 2) clarifies effective date (when a policy is re-negotiated)

SB 4
1/21/81

Brian - essentially same as HB 802 (1979)

Koch (Dir Dns) - bill doesn't mandate maternity benefit - but if provided must include midwives

Behr - (plus Ferguson + O'Brien) -
six certified in state now -

Bass + 2 -

- birthing center - deals with low-risk mothers
- doctor sees each patient once, now at supervision by nurse midwife.
- Home-like atmosphere, lower costs, attitude that birth normal event.
- 60+ births in year, share of home w/ day midwife or no help

Michael Thoma - Council on Life Insurance & HIPA
- favors concept but permits to avoid coverage.

S

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B



Alaska State Legislature

Senate

Committee on State Affairs

Chairman Vic Fischer

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business
February 20, 1980

SENATE STATE AFFAIRS COMMITTEE REPORT

ON

SB 13 "An Act making special appropriations for capital improvements for which general obligation bonds were approved by the voters at the 1980 general election; and providing for an effective date."

SB 21 "An Act making a special appropriation to the Alaska Permanent Fund; and providing for an effective date." (\$1,500,000,000)

SB 68 "An Act making a special appropriation to the Alaska Permanent Fund; and providing for an effective date." (\$1,800,000,000)

BILL SUMMARY

SB 13 This bill would use a general fund appropriation to pay for these capital improvements rather than issue General Obligation (G.O.) Bonds. The opportunity cost assumes the State would either invest its own money, if bonds would have been sold, or if spent on other projects, etc., that project has an implicit rate of return equal to what the State could have gotten by investment.

Assumptions:

- (1) A 12% earnings rate on invested funds or project.
- (2) An 8% interest rate on cost of debt.
- (3) If debt were issued it would be as follows (in millions)
FY'82-\$100, FY'83-\$150, FY'84-\$39, 712;
Total issued \$289,712.50.
- (4) Projects start/debt occurred at beginning of each period.
- (5) Not discounted for present value.

SB 21 This bill would make an appropriation from the general fund to the Alaska Permanent Fund in the amount \$1,500,000,000.

SB 68 This bill would make an appropriation from the general fund to the Alaska Permanent Fund in the amount \$1,800,000,000.

BACKGROUND

SB 13 The classical argument of economics can be made in the case of SB 13. When a government, any government needs to make capital outlays for needed projects and cash is not readily available, then that government issues bonds to pay for the capital. This is the normal way of building roads, schools, etc. What happens when there is a surplus of cash on hand? Do you still issue bonds or do you use the cash you have? A sound case for the concept behind SB 13 can be made. The State of Alaska, because of Prudhoe Bay, has a ready supply of cash. The choice then becomes whether or not the state

State Affairs

Page 2

through the Dept. of Revenue should issue general obligation bonds or use available cash. What is not obvious about paying cash for the November 1980 authorized but unissued G.O. bonds, is that there are over \$100 million Pre-1978 authorized but unissued bonds that need to be included in this general fund appropriation. (See statistics at end of summary.)

Another concept of classical economics is one of defeasance. Through a special defeasing [escrow] account, the state could create a monetary approach that would pay off the entire state debt. This account managed by a special bond counselor would invest in the taxable bond market [12% interest] while paying off the incurred debt in the tax-exempt bond market [8% interest]. The potential is there at the moment to erase Alaska's [\$720 million] with a cash account of [\$570 million]. One may ask why make the investments directly out of the general fund and not set up a special account. It has become clear that the Alaska Legislature has the ability to spend all the money before it no matter the amount. This special [escrow] account would set this money aside for a specific purpose: to pay the state debt.

With continuing pressure from our Washington delegation assuring us that the mood in the "lower 48" is becoming increasingly jealous of our resource wealth, this would be one way of "putting our house in order." We would be showing our responsiveness to the nation's financial community by giving a clear signal that we were doing "first things first." We pay off our debts before we borrow money for other purposes.

If we were to create this "defeasing escrow account," it would preclude us from going to the bond market for a period (minimum) of 18 months due to IRS regulations. That is why this concept goes hand in hand with substituting cash for all authorized but unissued general obligation bonds. The next time we would be eligible to go to the bond market would be (roughly) after the 1982 general election.

The Hammond Administration approves of the defeasing concept if, there are several if's, but the principal one being that it does not affect the \$1,500,000,000 contribution to the Alaska Permanent Fund (SB 68). If the money is just going to be spent to continue growth in state government then he would certainly favor defeasing.

Defeasance \$720 million of outstanding G.O. bonds	\$570 million
Cash out all authorized but unissued bonds	463 million
Delete FY'82 debt service	(128 million)
	<u>\$905 million</u>

SB 21 & 68 These bills have almost identical wording, the only difference being the actual dollar amount. Sen. Rodey's bill would transfer \$1,500,000,000 to the Alaska Permanent Fund; the Governor's bill would transfer \$1,800,000,000.

Governor Hammond believes that it is appropriate that Alaska set aside this amount this year of its oil wealth so that its earning can provide an increased income stream for the benefit of all Alaskans. The Legislature determined that dividends should be worth a minimal \$50 each. This contribution will provide sufficient earnings to meet that commitment without having to borrow from the general fund. Should the state not take such provisions, our legal case may

State Affairs

Page 3

be weakened.

The Permanent Fund Board of Trustees have not taken a stand on this and other issues concerning the "Fund's" plan for the future. Instead, they are planning a series of seminars to examine all alternatives and to establish long range as well as short-term planning for the Alaska Permanent Fund.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: January 22, 1981

TO: Honorable Al Adams
House of Representatives
Alaska State Legislature

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

Defease State G.O. Bonded Debt

The Department of Revenue estimates the total cost to defease all state G.O. bonds in FY 82 at \$905 million. This is made up of three items:

Defease \$720 million of outstanding G.O. bonds	\$570 million
Cash out all authorized but unissued bonds	463 million
Delete FY 82 debt service	<u>(128 million)</u>
	\$905 million

The \$570 million would be paid over to bond trustees to purchase securities whose term and value at maturity matched the \$720 million in bond maturities to be paid by the state. The AG does not believe authorizing legislation for this is necessary. However, there is no mention of such action in AS 37.15, the state bonding act, so it might be a good idea to have authorizing legislation.

The \$463 million in cash would be to fund the capital projects that would have been funded with bond proceeds. The state's bond counsel says there would be trouble with the IRS if we defeased outstanding bonds and then subsequently issued new bonds within a few years time.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: June 23, 1980

TO: Honorable Russ Meekins, Chairman
House Finance Committee

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJ: Refunding G.O. Debt

In the attached letter of April 7, 1980 from Bache Halsey, it is claimed that refunding the outstanding general obligation indebtedness of the state will result in savings in debt service on a present value basis. This does not appear to be the case.

If the refunding debt is issued at 8.5% as in the Bache projection, then the average rate of earnings on general or permanent fund investments should be around 11.5%.¹

If the debt service schedules for outstanding debt² and refunding debt are discounted at 11.5%, which more properly represents the alternative earnings rate on funds that would be used for debt service, i.e. their opportunity cost, the existing schedule of debt service has the lowest present value, i.e. least cost to the state.

-
1. See attached Table 1 and yield chart which indicate that the average interest differential over the past five years between municipal and corporate Aa bonds has been 3.05%.
 2. Bache's total for existing debt service of \$831 million appears to be total debt service for fiscal years 1981 through 2000 exclusive of the debt service on the 1979 Bond Series B. See attached schedule from the "official statement" for the 1979 sale.

Only if the discount rate is reduced to 10%, representing arbitrage earnings of only 1.5% between state G.O. debt and other market instruments, does the present value cost of the refunding debt service roughly equal the present value cost of existing debt service.

	<u>Present value of Debt Service (\$ millions)</u>	
	<u>@ 10%</u>	<u>@ 11.5%</u>
Existing	444.3	412.2
Refunding		
5 year maturity	443.9	427.4
8 year maturity	449.7	426.2

The point here is that as long as the state can earn arbitrage because of the lower tax-exempt rates on its bonds, the state profits by having more debt outstanding over a longer period of time. Shortening the state's debt structure is not of financial benefit.

If an improvement in the state's bond rating is desired by committing funds to pay off the bonds, the Nuveen approach described in the attached Memo of February 6, 1980 is a better alternative in that there is no shortening of the state's debt structure and thus no reduction in the arbitrage earnings that will accrue to the state.

attachments

MB:bf

Bache

Bache Halsey Stuart Shields Incorporated
Bache Plaza, 100 Gold Street
New York, N.Y. 10038 (212-791-3688)

Samuel L. Plaza
First Vice President

April 7, 1980

Mr. Peter A. Bushre
Deputy Commissioner of Revenue
State of Alaska
Department of Revenue
State Office Building
Juneau, Alaska

Re: Alaska Debt Reorganization

Dear Mr. Bushre:

Preparatory to making a detailed presentation to the State Bonding Commission relative to the above subject, we thought we should give you a summary of the two variations on the refunding program and some selected data on each.

For calculation purposes, we have chosen an 8 1/2% rate and one bond issue dated June 1, 1980, with principal retirements beginning June 1, 1981, and a final maturity of June 1, 1988. The other issue will be dated the same but have its final maturity on June 1, 1985.

Total debt service on the outstanding bonds is \$863,523,203 and accrued debt service at June 1, 1980, will be \$32,338,362 (will have been paid) leaving a net of \$831,184,841 to be provided for by the escrowed proceeds of the refunding bonds plus the earnings of the escrowed funds.

The two refunding issues will comprise the following debt service schedules:

Mr. Peter A. Bushre
 Page 2
 April 7, 1980

Issue "A" - 8 1/2%

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
6.1981	\$ 43,910,000	\$ 40,424,300	\$ 84,334,300
6.1982	47,645,000	36,691,950	84,336,950
6.1983	51,690,000	32,642,125	84,332,125
6.1984	56,085,000	28,248,475	84,333,475
6.1985	60,855,000	23,481,250	84,336,250
6.1986	66,025,000	18,308,575	84,333,575
6.1987	71,640,000	12,696,450	84,336,450
6.1988	<u>77,730,000</u>	<u>6,607,050</u>	<u>84,337,050</u>
Totals	\$475,580,000	\$199,100,175	\$674,680,175

Gross Savings

Net Outstanding Debt Service	\$831,184,841
Refunding Bonds Debt Service	<u>674,680,175</u>
Gross Savings	\$156,504,666

Present Value Savings

Net Outstanding Debt Service Present Value @ 8.5%	\$488,608,900
Refunding Debt Service Present Value @ 8.5%	<u>-475,580,000</u>
Present Value of Difference	\$ 13,028,900

Mr. Peter A. Bushre
 Page 3
 April 7, 1980

Issue "B" - 8 1/2%

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
6.1981	\$ 77,895,000	\$ 39,233,875	\$117,128,875
6.1982	84,520,000	32,612,800	117,132,800
6.1983	91,705,000	25,428,600	117,133,600
6.1984	99,500,000	17,633,675	117,133,675
6.1985	<u>107,955,000</u>	<u>9,176,175</u>	<u>117, 31,175</u>
Totals	\$461,575,000	\$124,085,125	\$585,660,125

Gross Savings

Net Outstanding Debt Service	\$831,184,841
Refunding Bonds Debt Service	<u>585,660,125</u>
Gross Savings	\$245,524,716

Present Value Savings

Net Outstanding Debt Service Present Value @ 8.5%	\$488,608,900
Refunding Debt Service Present Value @ 8.5%	<u>-461,575,000</u>
Present Value of Difference	\$ 27,033,900

The "A" issue plan drains an extra \$167,894,416 over an eight-year period from the general funds of the State; this being over and above the existing debt service. In other words an additional average of \$21,000,000 per year is committed to debt service.

The "B" issue plan drains an extra \$266,017,994 over a five-year period from the State's general funds compared to outstanding debt service, or an average of in excess of \$53,000,000 annually. Obviously, this latter plan is more "dramatic" and also produces an extra \$14,000,000 in present value savings.

Mr. Peter A. Bushre

Page 4

April 7, 1980

The merits of both plans can be discussed in detail at a formal presentation. At that presentation to the State Bond Committee, in a form as suggested by Anselm Staack, the escrow investment income will be demonstrated to provide the necessary funds to fully extinguish the State's outstanding debt.

We look forward to hearing from you as to when we might return to Juneau for a formal presentation. At that time, we will be accompanied by representatives of Haynes & Miller, special counsel on the debt reorganization.

Sincerely,



SLP:lh

cc: Mr. Anselm Staack, Department of Revenue
Rep. Hugh Malone, House of Representatives
Mr. Jim Rhode, Rep. Malone's Aide
Rep. Russ Meekins, House of Representatives
Mr. Mike Doogan, Rep. Meekins' Aide

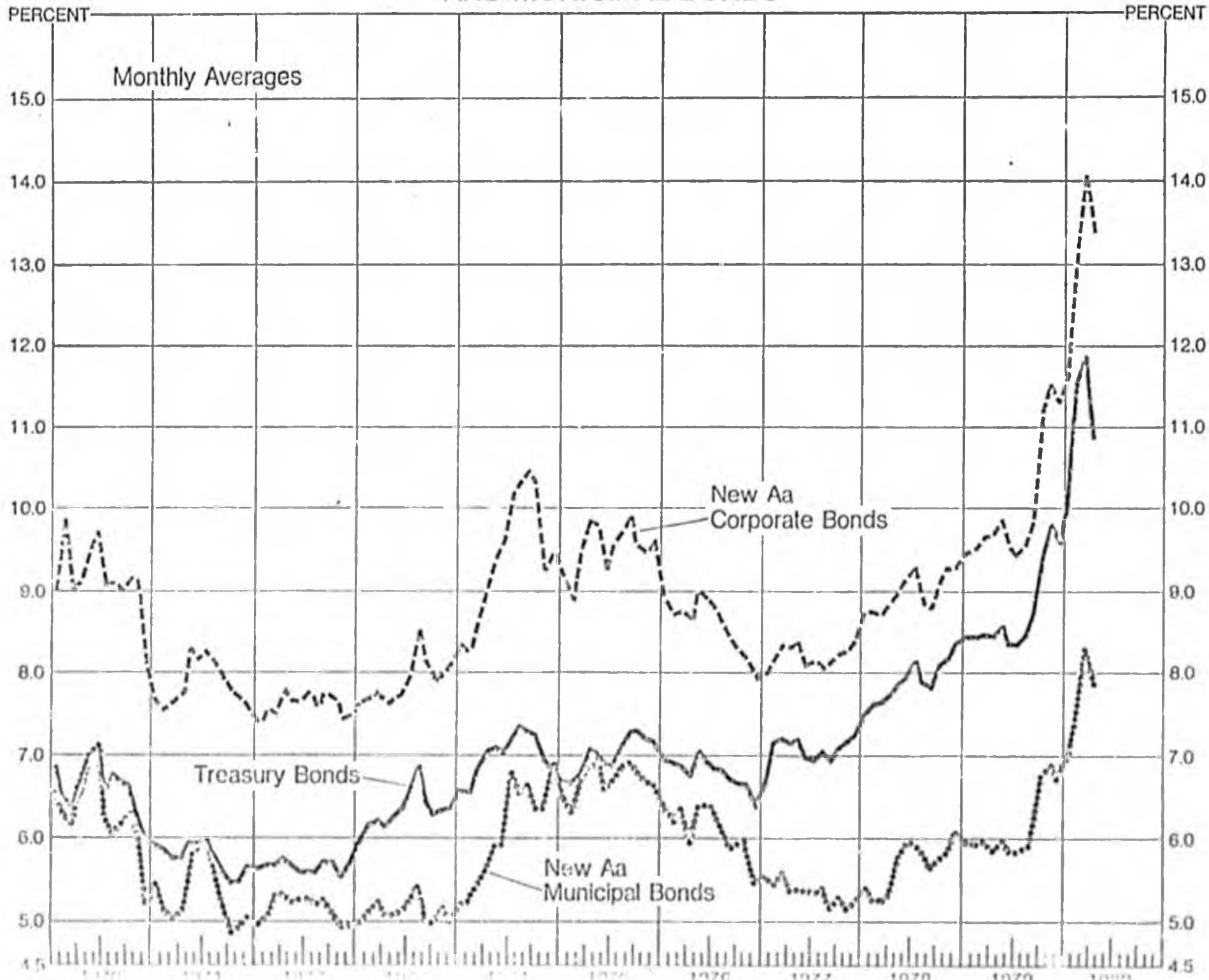
TABLE 1

INTEREST RATES ON BONDS
OF TWENTY YEAR OR GREATER MATURITIES

<u>YEAR</u>	<u>Aa CORPORATE</u>	<u>Aa MUNICIPALS</u>	<u>DIFFERENCE</u>
1979	9.77	6.00	3.77
1978	8.98	5.65	3.33
1977	8.20	5.34	2.86
1976	8.59	6.09	2.50
1975	9.51	6.70	2.81
		Five-year Average	3.05

Source: November 1979 Treasury Bulletin

AVERAGE YIELDS OF LONG-TERM TREASURY, CORPORATE, AND MUNICIPAL BONDS



AVERAGE YIELDS OF LONG-TERM BONDS

TREASURY BOND

DEBT SERVICE REQUIREMENTS

The annual debt service requirements on all outstanding State of Alaska general obligation bonds are shown below, together with the estimated annual debt service requirements on the State of Alaska 1979 Bonds, Series B, assuming interest at 6%.

Fiscal Year Ending June 30	Debt Service on Outstanding Bonds			1979 Bonds Series B			Estimated Debt Service Total
	Principal	Interest	Total	Principal	Interest	Total	
1979	\$ 25,710,000	\$ 33,177,202	\$ 58,887,202	\$ —	\$ —	\$ —	\$ 58,887,202
1980	38,780,000	33,825,273	72,605,273	6,000,000	3,600,000	9,600,000	82,205,273
1981	37,045,000	31,604,607	68,649,607	6,000,000	3,240,000	9,240,000	77,889,607
1982	40,265,000	29,432,781	69,697,781	6,000,000	2,880,000	8,880,000	78,577,781
1983	40,500,000	27,147,922	67,647,922	6,000,000	2,520,000	8,520,000	76,167,922
1984	40,945,000	24,894,165	65,839,165	6,000,000	2,160,000	8,160,000	73,999,165
1985	40,830,000	22,624,860	63,454,860	6,000,000	1,800,000	7,800,000	71,254,860
1986	42,235,000	20,340,763	62,575,763	6,000,000	1,440,000	7,440,000	70,015,763
1987	41,350,000	18,071,221	59,421,221	6,000,000	1,080,000	7,080,000	66,501,221
1988	41,665,000	15,815,505	57,480,505	6,000,000	720,000	6,720,000	64,200,505
1989	36,717,000	13,509,721	50,226,721	6,000,000	360,000	6,360,000	56,586,721
1990	22,550,000	11,581,590	40,131,590	-0-	-0-	-0-	40,131,590
1991	28,989,000	9,958,430	38,947,430	-0-	-0-	-0-	38,947,430
1992	28,849,000	8,303,425	38,152,425	-0-	-0-	-0-	38,152,425
1993	25,663,000	6,656,967	31,719,967	-0-	-0-	-0-	31,719,967
1994	20,599,000	5,219,975	25,817,975	-0-	-0-	-0-	25,817,975
1995	19,096,000	3,937,625	23,033,625	-0-	-0-	-0-	23,033,625
1996	18,610,000	2,964,412	21,474,412	-0-	-0-	-0-	21,474,412
1997	14,665,000	1,800,419	16,465,419	-0-	-0-	-0-	16,465,419
1998	13,380,000	1,038,194	14,418,194	-0-	-0-	-0-	14,418,194
1999	8,640,000	368,931	9,008,931	-0-	-0-	-0-	9,008,931
2000	2,531,000	69,081	2,600,081	-0-	-0-	-0-	2,600,081
Total	<u>\$636,213,000</u>	<u>\$377,263,089</u>	<u>\$1,013,476,089</u>	<u>\$20,000,000</u>	<u>\$19,800,000</u>	<u>\$39,800,000</u>	<u>\$1,053,276,089</u>

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Hon. Leo Schaeffer
House Finance Committee

DATE: February 6, 1980

FROM: Milt Larker ^{MB}
Fiscal Analyst

SUBJ: Paying off State Bonds

Outstanding state general obligation bonds of \$670,503,000 could be paid off with an appropriation of \$546 million according to item 2 of the attached letter from John Nuveen & Co., the state's financial advisor.

The prefunding approach suggested by Nuveen would not cost the state any lost interest as would paying off the bonds immediately. In other words, the state hangs on to its cash, invests it at taxable rates, say 10%, while continuing to pay off bonds at only 6% or so, thus earning a net of 4% interest which it would not earn if the bonds were simply paid off.

Yet, the prefunding approach does assure bondholders of being paid off. This has two effects. One, existing bonds would immediately get improved ratings; the state would not benefit on this account but the bondholders would as there would be an immediate increase in the value of their bonds should they wish to sell them. Sterling Gallagher of Nuveen & Co. has suggested the state try to capture some of the increase in bond prices that would occur by making the prefunding contingent on bondholders turning in their existing bonds in exchange for new bonds with a lesser coupon or interest rate. We could split the difference of the price increase with them.

The second effect of prefunding would be to improve the ratings for any future bonds the state issues. Here, the state would get the full benefit of the effect. However, as the attached tables indicate the maximum reduction in the interest rates would normally be no more than thirty basis points or .3%. This is based on the state going from its present A1 or A+ rating to Aaa. On \$100 million of bonds with an average 5 year maturity, this would thus save the state at most \$1,950,000 in interest costs over the life of the bonds.

Sterling Gallagher has also suggested that prefunding only the later maturities of the bonds could have the same effect on the interest cost to the state of future bond issues. In other words, the state's revenues on Prudhoe Bay production in the near-term would provide maximum security for bonds while prefunding

Hon. Leo Schaeffer
February 6, 1980
Page Two

would serve the same function after Prudhoe begins to decline. Mr. Gallagher estimates only \$100 million in prefunding would be required to prefund the tail end of outstanding state GOB's.

If you wish to seriously consider an appropriation for prefunding, we should request a legal opinion from state bond counsel as to whether such prefunding would cause any IRS arbitrage problems. In other words, the guarantee fund established by prefunding could result in the IRS finding that the prefunded bonds are arbitrage bonds and taking away the federal income tax exemption allowed on interest received by the bondholders. This would have no direct cost to the state, but the bondholders would undoubtedly prefer that prefunding not be done in that case.

In the attached letter from Orrick, Herrington, the state's bond counsel, a preliminary judgment is made that "establishment of the fund (prefunding account) probably could not affect the tax status of interest on bonds issued before the fund is established".

MB:kw

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POLICH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
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Hon. Leo Schaeffer

February 6, 1980

Page Two

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In the attached letter from Orrick, Herrington, the state's bond counsel, a preliminary judgment is made that "establishment of the fund (prefunding account) probably could not affect the tax status of interest on bonds issued before the fund is established".

MB:kw

January 21, 1980

Milt Barker
Fiscal Analyst
Alaska State Legislature
Budget and Audit Committee
Finance Division
Pouch WF - State Capitol
Juneau, Alaska 99811

Dear Milt:

This letter responds to the questions posed in your letter of January 2 regarding policies affecting management of the State's debt.

1. Should the State bond or pay cash for future capital improvements?

In today's tax-exempt market, Alaska can borrow funds at interest rates ranging from 6.20% to 7.1% depending on maturities. Currently, the State can invest surplus revenues in a variety of high quality money market instruments at yields of 10 to 13% or more. So long as Alaska continues to pursue a policy of prudent growth in its outstanding indebtedness, it can and should continue to benefit from the favorable interest rate differential that exists between the rate at which it borrows and the rate at which it can invest. The credit standing of the State is not so much affected by the means chosen to finance capital improvements as it would be by the magnitude of capital improvement programs in relation to the State's long-term sources of revenue.

2. Could retirement of all or part of Alaska's outstanding indebtedness improve its credit rating?

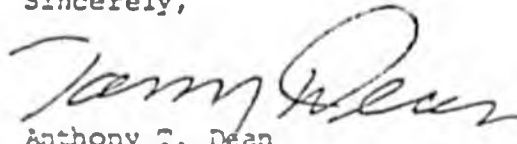
Alaska's outstanding general obligation debt of approximately \$670-million could be prefunded by the creation of a special investment account, the principal and interest of which would be used exclusively to meet interest and principal payments on the debt. A deposit of \$546-million to be invested in appropriate U.S. Government Securities at today's market yields would generate sufficient cash to meet principal and interest on the \$670-million outstanding general obligation debt. This deposit is \$124-million less than the cost of simply paying off the debt. Whether the State prefunds the debt or

Milt Barker
January 21, 1980
Page Three

those to be derived from a prefunding of the State's general obligation debt. In addition, the credit standing and debt capacity of local governments in Alaska would be substantially improved. During my visit to Juneau this week, we will assemble the data necessary to provide a preliminary estimate of the cost and potential financial advantage to be derived from a prefunding of the outstanding school debt.

I look forward to an opportunity to meet with you later this week.

Sincerely,



Anthony T. Dean
Assistant Vice President

ATD:lw

DIFFERENCES BETWEEN ANNUAL AVERAGES OF YIELDS ON 20-YEAR,
GENERAL OBLIGATION BONDS, BY RATING
(Basis Points)

Year	Differential Between Grades		
	Aa minus Aaa	A minus Aaa	Baa minus Aaa
1945	25	58	79
1950	19	54	75
1955	14	47	96
1956	21	50	99
1957	22	65	105
1958	22	59	92
1959	14	50	81
1960	16	51	82
1961	14	34	61
1962	11	25	52
1963	8	20	43
1964	7	19	42
1965	7	19	40
1966	9	25	49
1967	10	26	55
1968	10	31	63
1969	13	37	62
1970	26	47	63
1971	28	53	67
1972	15	34	52

Source: Moody's Series; Annual average of monthly differences.

TABLE 4

INTEREST COST DIFFERENTIALS AMONG RATING CLASSES
(Basis Points)

Differential Between Grades	Study (Period)		
	Phelps ¹ (1947-48)	Kessel ² (1956-67)	Petersen ³ (1964-1971)
Aaa-Aa	21	15	13
Aa-A	33	21	19
A-Baa	33	25	30
Baa-Ba	—	—	35
Item			
Aaa-Baa	67	61	62

¹Charlotte DeMotte Phelps, "The Impact of Tightening Credit on Municipal Capital Expenditures in the United States," *Yale Economic Essays*, vol. 1 (Fall 1961), p. 300. In Phelps's equation, interest cost differentials between rating classes vary in proportion to the Federal Government's long-term bond rate. The figures above were calculated upon the assumption that the long-term bond rate was 3 percent.

²Reuben A. Kessel, "A Study of the Effects of Competition in the Tax-Exempt Bond Market," *Journal of Political Economy* (Sept. 1971). Instead of using the net interest cost of the issue as the dependent variable in his equation, Kessel used the difference between the twenty-year floating yield and White's Yield of 100. Standard & Poor's ratings were used instead of Moody's. Kessel's data sample included more than 600 bond issues that appeared between 1956 and 1967, with virtually complete coverage of competitively offered issues that were larger than \$1,000,000.

³John E. Petersen, "A Note on the Determinants of Municipal Bond Net Interest Costs" (unpublished), 1972. See summary of study at end of this chapter.

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE

COUNSELORS AND ATTORNEYS AT LAW

ELEVENTH FLOOR

600 MONTGOMERY STREET

SAN FRANCISCO, CALIFORNIA 94111

TELEPHONE (415) 392-1122

CABLE "ORRICK"
TELEX 34-0973

ERIC SUTCLIFFE
WALTER G. OLSON
WILLIAM G. HARRIS
JAMES E. ROBERTS
JAMES M. BENNETT
C. RICHARD WALKER
JAMES F. CRAFTS, JR.
JAMES S. HAYNES
RICHARD C. BALLADIN
RICHARD J. LUCAS
CARLO S. FOWLER
DONALD A. BLICHTER
PAUL J. WEBBER
JAMES R. MADISON
WILLIAM C. RUSSELL, JR.
WILLIAM L. MORGENTHAU
THOMAS R. SHEARER, JR.
GARRETT W. WOLFE, JR.
RALPH C. WALKER

H. PETER LILJEVA
WILLIAM E. DODD
ROBERT J. GOLDSTEIN
W. REECE BADER
PAUL J. BAE
MARTHELLEN B. CATTANI
WILLIAM L. RILEY
E. THOMAS UNTERMAN
EDWARD B. ROGIER
JACK E. FERGUSON
ALVIN W. FARROW III
JACK B. OWENS
WILLIAM F. ALDERMAN
RICHARD E. V. HARRIS
G. EDWARDS
RAYMOND G. ELLIS
STEVEN A. BRICE
JOHN F. BECAL

October 30, 1979

Mr. J. H. Hogan
Director
Legislative Finance Division
State of Alaska
Pouch WF, State Capitol
Juneau, Alaska 99811

Dear Mr. Hogan:

In response to the questions in your letter of October 15:

1. This question will need considerably more elaboration before I can answer it with any reasonable assurance. I am not sure whether the suggested fund is to be used to guaranty debt service on general obligation bonds of the State or debt service on general obligation bonds of local governments in the State. I do not know the source of the moneys to be put into the fund, but I assume that those moneys will not come from any proceeds of bonds. On that basis, I do not think that a proper interpretation of the Internal Revenue Code would result in any arbitrage yield restrictions on the fund, because the applicable Code provision relates to the use of the proceeds of bonds.

However, the Internal Revenue Service has stretched and distorted the term "proceeds" in the Treasury Regulations and rulings thereunder. The result appears to be that, if the State deposits moneys from any source into a fund to be used to pay the debt service on general obligation bonds of the State or on general obligation bonds of local governments, or which fund is pledged as security for any such debt service, the Internal Revenue Service would consider the fund to be "proceeds" subject to arbitrage yield restrictions. This is indicated by Rev. Rul. 78-302 and Rev. Rul. 78-348, a copy of which is enclosed.

Even on this basis, the establishment of the fund probably could not affect the tax status of interest on bonds issued before the fund is established or before it was expected

Mr. J. H. Hogan
State of Alaska
October 30, 1979
Page Two

to be established. Moreover, if the amount in the fund considered allocable to bonds hereafter issued, together with any other amounts chargeable under arbitrage rules to the "minor portion" of the proceeds of those bonds which is not subject to arbitrage limitations, do not aggregate more than 15% of the face amount of those bonds, the investment of the fund should not be subject to arbitrage yield restrictions.

The foregoing is all subject to further qualifications and complexities, but I think there is no point in pursuing them here. If you can give me a complete description of the workings of the proposed fund, I will try to give you a more definitive answer as to the federal income tax results. If there is any special need or desire for such a fund, I might suggest requesting a ruling from the Internal Revenue Service as to their treatment of the specific facts, and possibly an appeal from that ruling to the Tax Court in the quite possible event that we consider the ruling to be contrary to the law.

In any event, I am somewhat mystified as to the purpose of or need for the proposed fund, particularly if it is to relate to general obligation bonds of the State.

2. The issuance of bonds by the State in the presence of a "massive general fund surplus" should not result in taxability of the interest on the bonds, and it surely would not. This conclusion appears to be supported by Rev. Rul. 78-302 (enclosed). However, your phrasing of the question in terms of "a possible arbitrage problem with the IRS" prompts me to note that the IRS has gone so far in its pursuit of "arbitrage" that I would not be entirely surprised at anything that organization might contend.

In connection with all of the foregoing, I urge you and others in the State government to support the bill sponsored by the Municipal Finance Officers Association and about to be introduced in Congress to cure problems like these and to prevent further excesses.

Sincerely yours,

C. Richard Walker

Enclosure

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

M E M O R A N D U M

DATE: January 18, 1980

TO: Honorable Terry Gardiner, Speaker
Alaska State House of Representatives

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJ: Bonding Policy

This Memo is in response to a number of questions you posed regarding bonding and capital projects, some of which were addressed by Jay Hogan in his November 14, 1979 Memo to you (attached). The remaining questions and my comments follow.

1. WHAT ARE THE PRO'S AND CON'S OF PAYING CASH OR BONDING FOR CAPITAL IMPROVEMENTS?

Pragmatism and Equity

Most state and municipal governments most of the time do not have the luxury of this choice; borrowing is often the only pragmatic and equitable way of funding capital improvements.

Most governments which would attempt to fund major capital spending for the first time by cash would be compelled to raise taxes, always a decidedly unpopular move, or perhaps reduce operating expenditures. Certainly the question presumes that if Alaska were to pay cash it would do so from the large surpluses it is enjoying, rather than a tax increase or budget reductions. So, unless a decision is made to pay over the entire surplus to all Alaskans, the option of cash for capital projects would be viable.

Conceivably, a government could pay cash by taking a rather small additional tax bite each year and accumulating it until sufficient funds were available. However, this means postponing the project until the cash is in hand, whereas borrowing permits immediate enjoyment of the project's benefits.

Taxing
for
Cash

Accumu-
lating
Cash
Project
Delay

This attraction of borrowing is not merely a desire for early realization of project benefits but may involve pragmatic considerations as well; certain types of projects such as schools may be needed now but not necessarily twenty years from now. Fortunately for Alaska, paying cash need not mean delay.

It is not unknown for governments to accumulate cash for projects. Where project cost is relatively small paying cash will not result in a large tax bite or undue delay as, for example, when Juneau financed its swimming pool and ski area from sales tax surcharges. Or cash can be an option if politically acceptable ways of generating relatively large cash flows can be found, as Texas has in using royalty proceeds for university construction.

Of course, Texas' method involves a non-tax source of funds. It could be argued that even without its large surplus, Alaska is obligated to pay cash for a sizable amount of projects because of a situation similar to Texas'. That is, AS 37.05.-157 creates a "reserve for capital outlay" account in the general fund while AS 37.05.158 creates a "reserve for energy facilities development" account which are to receive respective allocations of 25% and 5% of mineral bonuses, rentals and royalties. This would be respectively \$268.4 million and \$53.6 million for FY 81 at a minimum based on current oil prices, and could arguably be increased since no funding of capital projects has been designated as coming from these two accounts since their inception on October 15, 1978.

Equity considerations normally favor bonding, the more so that bond payments are scheduled over the life of the project so that those who enjoy its benefits are the ones to pay for the project. If a government were to pay cash for a capital improvement program that varied significantly in amount from year to year, those arriving just after major improvements were made would be getting a free ride, while those leaving just after would be paying for something for nothing.

As well as for transiency, there is an intergenerational equity problem, since older persons may pay for but not live to enjoy the benefits of a cash-funded capital improvement, while many younger persons not yet paying taxes will nevertheless be around to enjoy the benefits.

To the extent capital budgets were constant in real terms, there would be no equity problems. Also, the equity considerations for transients would tend to be ameliorated if other governments were funding capital improvement programs with cash.

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Arbitrage

Turning to financial considerations though, bonding is to be preferred to paying cash because of interest arbitrage. That is, instead of paying cash, the state could invest its surplus at taxable market rates of interest and use these invested funds and earnings to pay off bonds issued at lower rates of tax-exempt interest, and pocket the difference in interest rates.

Table 1 shows that the average spread in interest rates between Aa rated long-term corporate and municipal bonds averaged 2.5% to 3.77% during the last five years, with a recent differential of 4.46% for October 1979. Chart 1 traces these rates back to 1969.

As Table 2 shows, rates for ten year maturities which typify Alaskan issues are about .5% lower than the twenty year maturities.¹

Also, Alaskan bonds are rated A1 by Moody's and A+ by Standard and Poor's, thus selling at about .1% higher than the Aa bonds. All told, this means a spread in rates between 3% and 5% between Alaskan bonds and the market. The attached December 31, 1979 letter from John Nuveen & Co., the state's financial advisor, corroborates this information.

A 3% minimum spread or 4% average spread would mean the state could earn respectively \$19.2 million or \$26.4 million in interest arbitrage over the life of \$100 million in bonds issued with a five year average maturity. Presumably, active portfolio management can improve arbitrage earnings beyond the average spread.

The amount of arbitrage could also be increased by issuing bonds with longer maturities. A longer payback means we hang onto our cash longer and pocket the difference in earnings longer; it means greater outstanding bonded indebtedness in total.

¹This lesser rate for shorter maturities is partially a reduction in risk premium, since a lender's funds are not exposed as long, as well as a reduction in the liquidity premium that is largely due to the greater presence of banks in the short-term municipals market. Banks have to balance short-term liabilities (checking and passbook savings) with short-term assets.

As mentioned previously, there is normally an interest penalty of .5% for twenty year maturities in comparison with ten year maturities. In Alaska's case, the penalty would be even greater because our credit is really based on the somewhat shorter period of prolific Prudhoe production. Assuming that the amount of indebtedness projected to be outstanding in the post-Prudhoe period is not so large as to make a bond unmarketable, the potential arbitrage on a \$100 million issue with an average life of ten years would be \$28.8 million or \$43.2 million respectively for spreads of only 2% minimum or 3% on average. Certainly, there has to be room for some lengthening of Alaska maturities, either in new issues or in refinancing of old ones, based on the doubling of world oil prices in the last six months and the decontrol of Prudhoe oil which began January 1980 -- if there is also restraint in spending decisions in relation to the revenues that will be available, sufficiently so to impress the bond market.

Effects on Spending

In fact, the postulated arbitrage gains may be completely hypothetical depending on the effects bonding has on spending and investment decisions of the state.

It may be argued that the bonding method assures greater political consensus, if not restraint, on the projects to be undertaken since referendums are required. Some feel that capital spending is greater under the bonding process than through appropriations because of the need to regionally balance bond proposals to assure voter approval. In the last three general elections, four out of thirty bond propositions have failed, counting the new capital bond issue.

A possible greater inducement to increased spending through the bonding process is the amount of cash that is freed up. Instead of being invested and earning arbitrage it may be appropriated as well, for operating budgets if not capital -- if not in the current session, then the next. On the other hand, cash for capital projects has as one of its main attractions the attribute of being a brake on the operating budget, if not the capital budget. In the case of capital, cash for projects would preserve unused debt capacity that could be "banked" for use in future sessions. Also, an enunciated policy of cash for projects may seem to be an implied endorsement of spending all the cash on capital projects.

The choice of the method of financing may not be the most critical factor affecting the level of expenditures. Financing choices cannot substitute for policy determinations as to what the expenditure level should be nor for a good capital and