ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 6672

3220 HHESS HB 497 - HB 520

MEMORANDUM

TO: HOUSE HESS COMMITTEE MEMBERS
FROM: NANCY BENNETT, COMMITTEE STAFF
RE: TODAY'S AGENDA
DATE: MARCH 12, 1986

WE HAVE TWO BILLS SCHEDULED FOR TODAY

<u>HB 497 - RELATING TO CHILD CUSTODY, BIRTH CERTIFICATES</u>

We have a draft committee substitute for this bill which makes the following changes:

1. deletes section 1 relating to minor shoplifting
2. Expands current section 1 (25.20.060) to specify how the court will review child custody arrangements.
3. Adds a new section 2 which allows the court to order visitation by grandparents and others and specifies that child support may be ordered under any custody arrangement.

There are also two Gruenebrg amendments in your file. One relates to priority of calendaring for chilc custody cases and the other would allow the court to order home studies by Health and Social Services and other agencies.

<u>HB 641 - RELATING TO THE BOARD OF PHARMACY</u>

This is our sunset review hearing. The audit recommedns:

1. State registration of professionals with access to controlled substances duplicates DEA requirements and should be repealed.
2. The board should allow Occupational Licensing to perform administrative duties required by statute to improve documentation and file management.
3. AS 08.80.030(3), assigning the board authority to conduct investigations, is in conflict with statutory provisions requiring Occupational Licensing to perform these functions.
4. The Marijuana Therapeutic Research Program should be repealed because the board did not respond in a timely fashion.

HB 641 continues the board of Pharmacy, repeals the Marijuana Therapeutic Research Program and 08.80.030(3) and contains the generic drug language passed by this committee last year in HB 209.

We also have the following proposed <u>amendments</u>:

1. The Department of Law has prepared a series of amendments to repeal the controlled substances registration while placing enforcement functions within the Department of Public Safety. (audit recommendation #1)

2. The Board has an amendment allowing them to promulgate regulations governing pharmacy technicians. (We also have a copy of Washington state law on this issue)

3. The Proprietary Association, of Washington D.C. representing manufacturers of over the counter drugs, has contacted us and submitted a request to revise drug definitions to comply with FDA definitions. S[illegible] Stevenson of that organization will be testifying by tel[illegible]nference.

HOUSE
COMMITTEE REPORT

(7)
Date referred: 1/22/86

FURTHER REFERRALS: JUDICIARY

DATE: March 12, 1986

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee has considered HB 497

"An Act relating to a child's birth certificate, parental responsibilities for a child's actions, and child custody; and providing for an effective date."

and recommends:

[ ] do pass

[ ] do not pass

[ ] do pass with attached amendment(s)

[/] no recommendation

[✓] replace with CSHB 497 (HESS) [ ] same title [✓] new title

and recommends do pass

[ ] further referral to the ______ Committee

and attaches:
[ ] letter of intent
[ ] first fiscal note
[ ] new fiscal note
[ ] zero fiscal note

SIGNING DO PASS:

Mike Miller
Niles E. Kopanak
Katie Hurley

SIGNING OTHER RECOMMENDATIONS:

Reggie [illegible] no rec
David W. Thompson NO REC
Alyce Hanley No Rec
Robin L. Taylor NO Rec

Niles Kopanak Co-Chair
Chairman
Mike Miller
Co-Chair

Alaska Court System
State of Alaska
OFFICE OF ADMINISTRATIVE DIRECTOR

KARLA L. FORSYTHE
STAFF COUNSEL

303 K Street
Anchorage, Alaska 99501

(907) 264-8228

March 12, 1986

Rep. Max Gruenberg
House HESS Committee
P. O. Box V
Juneau AK 99811

Dear Rep. Gruenberg:

It is my understanding that you will be proposing an amendment to HB 497 which would provide for expedited calendaring of matters involving child custody upon the request of a party, to the extent allowed by law and court rule.

It is the position of the court system that case calendaring is within the rules of practice and procedure established by the supreme court under Article IV, section 15 of the Alaska Constitution. The court system opposes the adoption of legislation which sets calendaring priorities for the court. However, in recognition of your concern, the chief justice has asked the presiding judges to discuss the desirability of expedited calendaring in custody matters at their next meeting, scheduled for March 24, 1986.

If you have any questions about the court system's position, please let me know.

Sincerely,

Karla L. Forsythe

Karla L. Forsythe
Staff Counsel

KF/kl

cc: Chief Justice Rabinowitz
Arthur H. Snowden, II

Utermohle
3/11/86

Original sponsor: Rules/Governor

IN THE HOUSE BY THE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

CS FOR HOUSE BILL NO. 497 (HESS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to custody, support, visitation, and birth certificates of children."

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

* Section 1. AS 25.20.060(a) is amended to read:

(a) In a case involving [IF THERE IS A DISPUTE OVER] child custody, either parent may petition the superior court for resolution of the matter under AS 25.20.060 - 25.20.130. The court shall award custody on the basis of the best interests of the child in either a disputed or undisputed case. In determining the best interests of the child, the court shall examine the agreements between the parents regarding custody to ensure that the agreements are in the best interests of the child and that neither parent has been subjected to duress or coercion to accept the agreements. The court may approve agreements that are in writing and filed with the court or that are made orally on the record and subsequently set out in full in the court order or decree. If the court finds the custody agreement is not in the child's best interest, the court shall

(1) disapprove the agreement in whole or in part and set out the reasons for disapproval on the record or in a written decision;

(2) solicit all relevant information regarding [CONSIDER] all relevant factors including those factors enumerated in AS 25.24.-150(c); and

* Sec. 2. AS 25.20.060 is amended by adding new subsections to read:

(d) The court may award visitation to a grandparent or another person if visitation is in the best interest of the child.

(e) The court may award child support in an appropriate case, whether custody is sole or shared.

(f) In awarding custody, the court shall consider only those factors that directly affect the well-being of the child.

* Sec. 3. AS 25.20.100 is amended to read:

Sec. 25.20.100. [DENIAL OF] SHARED CHILD CUSTODY. If a parent or the guardian ad litem requests shared custody of a child and the court <u>awards or</u> denies the request, the reasons for the <u>award or</u> denial <u>must</u> [SHALL] be stated on the record<u>, including the court's reasoning on each of the factors enumerated in AS 25.24.150(c)</u>.

* Sec. 4. AS 18.50.160(f) is repealed.

Utermohle
3/11/86

Original sponsor: Rules/Governor

IN THE HOUSE

BY THE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

CS FOR HOUSE BILL NO. 497 (HESS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

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(2) solicit all relevant information regarding [CONSIDER] all relevant factors including those factors enumerated in AS 25.24.-150(c); and

(3) enter an appropri

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* Sec. 4. AS 18.50.160(f) is repealed.

SUPERIOR COURTS
DOMESTIC RELATIONS CASES
COMPOSITION OF FILINGS

FY 85

COURT	CASE TYPE					TOTAL
	DIVORCE	DISSOLUTION OF MARRIAGE	RECIPROCAL SUPPORT	DOMESTIC VIOLENCE	OTHER	
Anchorage	991	1694	1170	1082	76	5013
Barrow	7	13	15	54	3	92
Bethel	9	45	22	68	3	147
Fairbanks	331	629	193	351	61	1565
Juneau	108	253	87	137	44	629
Kenai	45	224	83	131	1	484
Ketchikan	71	131	60	73	5	340
Kodiak	50	63	20	50	6	189
Kotzebue	5	20	12	27	0	64
Nome	15	23	23	35	2	98
Palmer	77	228	85	164	24	578
Sitka	17	43	14	26	7	107
Valdez	8	14	8	22	1	53
Wrangell/ Petersburg	11	20	4	10	4	49
TOTAL	1745	3400	1796	2230	237	9408

BY JUDICIAL DISTRICT

First	207	447	165	246	60	1125
Second	27	56	50	116	5	254
Third	1171	2223	1366	1449	108	6317
Fourth	340	674	215	419	64	1712

FISCAL YEAR JULY 1 — JUNE 30

Utermohle

Version #1

A M E N D M E N T #1

Offered in the HOUSE By Gruenberg

TO: CSHB 497(HESS)

Page 2, following line 7, insert a new subsection to read:

"(g) The court may order the Department of Health and Social Services or another qualified agency or person to conduct a home study to assist the court in deciding custody and visitation issues."

3/11/86

Utermohle

A M E N D M E N T #2

Offered in the HOUSE By Gruenberg

TO: CSHB 497(HESS)

Page 2, following line 13, insert a new bill section to read:

"* Sec. 4. AS 25.20 is amended by adding a new section to read:

Sec. 25.20.125. PRIORITY. Upon request of a party to a proceeding involving child custody, the proceeding shall be given calendar priority to the extent allowed by law and court rules and shall be handled expeditiously."

Renumber remaining bill section accordingly.

3/11/86

RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

Signature of Camera Operator

7/25/89
Date

02-519 (REV 8/78)

HB
520

BILL SHEFFIELD
GOVERNOR

0\27

HB 519
+
HB 52

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

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

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting two bills that provide for improved state debt management. One relates to control of state-supported school debt, the other to lease-financing transactions by the various branches of government.

These two bills are each cornerstones of a comprehensive proposal designed to monitor and control more effectively the issuance of debt instruments that harbor substantial credit implications for the state. (Some citations in each bill are to provisions in the other bill. The two work together.) Alaska's remarkable wealth has facilitated tremendous economic growth in all areas of the state's economy and at all levels of government. Many of these worthy projects and programs have been funded directly by the state. In other instances, however, funding has been obtained through the issuance of debt instruments, either by the state or by local governments. Where government activities are funded through the issuance of debt, maintenance of a favorable credit rating for the state assumes critical importance. Simply stated, actions detrimental to the state's credit standing are injurious to the Alaska economy.

Unlike past years, we approach an era where the state's vast wealth is not, in and of itself, sufficient to support a favorable credit rating. In my discussions with representatives of the national financial community, the constant theme stated was the need for Alaska to demonstrate its ability to effectively manage its resources. One critical

CHEMISTRY

attribute of responsible state management is an effective debt management program.

Any discussion of maintenance of a favorable credit rating for the state must reflect the broad array of financial obligations encompassed within the term "state-supported debt." It is critical to bear in mind that state general obligation bonds are but one type of debt instrument that affects the state's credit standing. The financial community also looks to other recurring, long-term financial obligations which are paid from the general fund, such as those which arise under a lease-financing agreement. In a similar vein, the state's commitment to support school debt issued by municipalities is a type of long-term financial commitment with substantial credit implications.

Debt management concerns must further reflect the impact of excessive or improvident municipal debt issuance on the state's credit standing. I initially observe that responsible state debt management policies must necessarily include a degree of state supervision of municipal debt issuance. While I am, of course, cognizant and supportive of the prerogatives of local government, problems with municipal debt issuance inevitably burden the state as well. For that reason, I previously introduced a bill that relates directly to the issuance of municipal debt. Last session I proposed the establishment of a Municipal Financial Emergency Commission to assist municipalities that have defaulted in bonded indebtedness (HB 293). I am also proposing legislation that imposes reasonable limitations on a municipality's authority to issue general obligation debt. As noted in the transmittal letters accompanying each of those bills, responsible state management of municipal debt is necessary to assure the continued investment community support of and confidence in municipal and state debt issues.

The two bills attached to this letter today are intended to assure proper state oversight before the state enters into the type of recurring, long-term financial commitments that might have an impact on the state's credit standing. Where the state issues general obligation bonds, the constitutional requirement of voter approval offers an appropriate opportunity for the electorate and for elected officials to gauge any adverse effect that issuance of the debt may have on the state. Under present law, however, neither the statutory reimbursement formula for school debt nor the unrestricted authority to enter lease-financing agreements offers comparable mechanisms to assure that state credit implications are adequately addressed. As the decline of available revenues further exacerbates the sensitivity of the state's credit standing, it is of critical importance to assure that each project is viewed not only on its own merits but also with consideration of how the issuance of additional state-supported debt will affect broader state interests. I believe that these two bills offer a responsible way of meeting the needs of the state to obtain office facilities and of municipalities to provide necessary educational facilities -- a way that best preserves the state's favorable credit standing.

I.

The shorter bill implements the recommendations of the State Office Complex Financing Task Force, a body whose membership brought together the views of executive-branch officials, two legislators, and several members of the public with substantial financing expertise. The task force conducted extensive hearings to consider the most appropriate method to provide state office facilities in the most cost-efficient manner possible. After review of the available financing alternatives, the task force recommended the enactment of legislation to facilitate the acquisition of state office facilities through lease-financing agreements. The bill designates the Alaska State Housing Authority as the appropriate financing entity, but provides that when the authority issues debt for this purpose, it do so as the Alaska State Building Authority. The name change is intended to prevent confusion in national financing markets.

Sections 1, 6, 7 and 8 provide that the university and each branch of government, respectively, have legal authority to enter into lease-financing agreements with the Alaska State Housing Authority acting as the Alaska State Building Authority. The state has previously executed lease-financing agreements under existing lease authority, and these sections are thus intended to remove any ambiguities regarding the legal authority to enter into lease-financing agreements. The cost of building acquisition or development would be provided by the sale of revenue bonds by the Alaska State Building Authority. In all instances, a lease-financing agreement preserves legislative prerogatives through the requirement that lease payments be subject to annual appropriation.

While the bill recognizes the desirability of the lease-financing technique, the bill also imposes effective debt management controls. First, lease-financing agreements may only be executed with the Alaska State Building Authority, a limitation that ensures uniformity and continuity in the state's lease-financing programs.

More importantly, secs. 9 -- 16 expand the responsibilities of the state bond committee (AS 37.15) to ensure that the broader credit implications are adequately assessed before the state enters into a lease-financing agreement. Under sec. 15, for example, proposed AS 37.15.770 authorizes the state bond committee to review any proposed lease-financing in detail and to prohibit or condition the sale of the debt instruments if it is in the best interests of the state to do so.

I observe that sec. 8 of this bill is similar to legislation that I proposed last session in the wake of the controversy surrounding the Anchorage Office Complex. The bill proposed last session (HB 392 and the identical SB 293) provided for project-specific legislative approval before execution of a lease-financing agreement. In the transmittal letter accompanying the initial bill, dated April 19, 1985 (1985 H.J., p. 1001, and 1985 S.J., p. 856), I noted that the provision of project-specific legislative approval posed substantial constitutional problems. Both the constitutional doctrine of separation of powers and the constitutional prohibition against special and local legislation place in serious legal doubt any statutory requirement to seek project-specific approval. And public finance is the worst forum to interject such a substantial legal uncertainty. Accordingly, the present bill does not propose project-specific approval. To do so, in my view, would impermissibly intrude upon the constitutional prerogatives of future governors. Although I believe it inappropriate to require project-specific approval as a matter of law, I reaffirm my personal commitment to seek legislative approval before the executive branch enters into any lease-financing agreement.

II.

The longer of these two bills that I am transmitting makes several changes to the state's support of public school construction. Most notable of the significant changes proposed under this bill is a cap is placed upon the amount of municipal debt obligations for which the state will provide reimbursement. Municipalities issuing debt to finance school construction will pay the interest costs, while the state will pay the principal in equal payments up to an aggregate amount of $10,000,000 in any year for debt approved by local voters after March 31, 1986.

The state presently provides, in addition to its municipal grant program, three forms of aid for school construction. Under AS 14.11.010 all school districts may apply to the Department of Education for an appropriation for school construction projects for which the department may request, in order of priority, appropriations from the legislature. If an appropriation for a school construction project is made, the school district may, under AS 14.11.020, request the assumption of the state's responsibility to plan, design, and construct the particular project. The department provides for the assumption of the responsibility by executing a grant agreement with the school district.

AS 14.11.100 provides two additional forms of state aid for public school construction which are only available to municipal school districts. The state reimburses municipal debt service payments in varying percentages which, because of amendments made in ch. 78, SLA 1985, are at least 80 percent. The state also reimburses a municipality for at least 80 percent of its cash payments used for school construction. To receive reimbursement of either debt service or cash payments, the municipality must first quantify the need for the project and provide a description of the project and an estimate of its cost. The Department of Education reviews the project and its justification, and, when appropriate, grants its approval of the project and its estimated costs. The next step is approval of the municipality's voters to sell the bonds. If the local voters approve the sale of the bonds, the state will reimburse the costs of debt service by requesting money in each year's budget.

There are several weaknesses in the state's present programs of financing school construction.

First, there are inadequate procedures to ensure that the estimates of project costs are reasonable. Before 1982, the administration of the school construction grant program was shared by the Department of Education and the Department of Transportation and Public Facilities. Chapter 92, SLA 1982 transferred all responsibility for the state's construction grant program to the Department of Education. This same weakness exists under AS 14.11.100.

The second major failing is that there is no ceiling for the amount of money which the state will be requested to reimburse under AS 14.11.100. In the proposed FY 1987 state budget, approximately $106,000,000 in municipal debt service payments is requested to continue existing level of debt.

During the last session of this legislature, the percentage of reimbursement for debt service costs was increased to 80 percent, although allowable projects were limited to facilities necessary for increased enrollment or to correct health and safety problems. The result of last session's amendments to AS 14.11.100 has been an identification of required projects with approval of the projects closely followed by local bond elections. These recent municipal elections have authorized approximately $312,500,000 of new municipal debt for which local communities will seek reimbursement from the state for debt service costs. I anticipate, if all of this newly authorized debt is incurred in the near term, that the impact on the debt retirement program could be as much as an additional $45,000,000 in requested reimbursements in FY 1987. I intend to support this additional funding as soon as the amount is determined and necessary debt management legislation is passed.

I, of course, recognize that there are municipalities in the state which have experienced significant population increases, and which therefore need the construction of new schools. I believe that these existing needs should be met at the current levels of state support. However, the future of state revenues and the need for new schools are uncertain. Consequently, I believe that different approaches need to be applied to the way the state considers all school construction in the state.

With discipline and altered approaches to the school construction, I believe that the state and its municipalities can contain state-supported debt and still allow for adequate state support of school construction.

This bill changes procedures for reviewing and approving school projects.

Section 1 amends AS 14.08.151. These amendments are desirable to clarify the manner in which the state conveys title for school sites to regional education attendance areas.

Section 2 amends AS 14.11.010(b) by requiring the Department of Education to request cost estimates from the Department of Transportation and Public Facilities and to base its project approval upon that cost estimate. This same requirement is found in sec. 11 in amendments to AS 14.11.102, which relates to project approval for the debt retirement program. Section 14 contains new authority for DOT/PF to estimate construction costs for all school projects financed by appropriations and debt retirement. Included within that authority is the responsibility to establish design standards.

Section 3 of the bill amends AS 14.11.010(c) by adding new criteria, relating to population trends and the condition of facilities, which the Department of Education will consider when approving projects for appropriation. These amendments are also applicable to the debt retirement program under language found in sec. 11.

Section 4 proposes new language that will require school districts requesting state aid to inventory and inspect the schools in their districts and to revise that inventory on a yearly basis. The provisions of this section also require that school districts provide information relating to maintenance and operation costs. This information regarding existing school facilities will enable the state to better analyze new projects that the state will be asked to finance by appropriation or by debt reimbursement.

Sections 5 and 6 limit the state's reimbursement of school debt to principal only for approved projects financed by new municipal debt authorized by local voters after March 30, 1986. If the debt was authorized by local voters before April 1, 1986, the state's reimbursement continues as before. The state's reimbursement of cash payments by municipalities ends for payments made after June 30, 1986.

Section 7 amends AS 14.11.100(b) by offsetting the amount that the municipality receives for debt reimbursement by the amount of interest earned on the proceeds of bonds sold for a particular project. This amendment parallels existing law found in AS 14.11.100(k), which is repealed in sec. 16.

Sections 8, 9, and 10 contain a number of amendments to AS 14.11.100(h), (i), and (j), respectively, which are necessary to reflect the new class of reimbursement under the language proposed in AS 14.11.100(a)(6) in sec. 6 of the bill. Section 10 has a fiscal impact. It amends AS 14.11.100(j)(2) to allow refunding of bonds only in those situations where there is at least a five percent saving in debt service costs. It also amends AS 14.11.100(j)(3) by requiring that the principal on bonds be reimbursed in equal annual payments over a period of 10 years or a term set by the state bond committee.

Under sec. 12, the Department of Education will continue to allocate money to reimburse municipal debt. However, a cap on reimbursement is placed upon debt authorized by local voters after April 1, 1986. The department may only allocate money for the reimbursement of principal paid on new debt if the new payments, when combined with all other reimbursements under this class of debt, do not exceed the $10,000,000 or an amount set by the state bond committee. This mechanism will have two results. It puts a cap on state-supported debt, but, with discipline, it will enable municipalities to construct needed school projects in addition to those that are financed by bonds authorized by local voters before April 1, 1986.

Section 13 amends AS 14.11.135(3) by changing the definition of school construction costs. It excludes all financing costs for debt authorized by local voters after March 31, 1986.

Section 14 adds three new sections to AS 35.15. Under the proposed language, the Department of Transportation and Public Facilities will estimate the costs of all school construction projects under common design standards that it will develop.

Section 15 amends AS 37.15 to give the state bond committee the ability to manage state-supported school debt, which is accomplished under two different mechanisms. First, it may establish a higher or lower ceiling for allocations for reimbursement of new authorizations of school debt under AS 14.11.100(a)(6) (found in sec. 6), depending on the state's credit standing as well as on the needs for school construction. Second, it may control the term of the obligations to ensure that their maturity structure does not adversely affect the state's credit standing. While a 10-year term is allowed by the proposed provisions of AS 14.11.100(j)(2) (found in sec. 10), the committee is accorded the ability to set a different term when it is in the state's best interest.

It is our intent with the language in sec. 17 to develop a long range plan for the state's school construction through the end of the century. The necessary components of this plan would include projected enrollments under reasonable population projections, construction costs, design parameters, and financing techniques. It is our hope that, after the completion of the plan, a rational mechanism can be put in place to provide for the state's public school construction needs which is within the state's ability to pay.

III.

Continued economic prosperity for all sectors of the Alaska economy is in part inextricably tied to more rigorous state debt management. These two bills, as well as legislation relating to responsible limitation on municipal debt, promote more responsible state debt management. Alaska's credit standing is, of course, in part dependent on factors beyond our control. That the state cannot control all relevant factors is no excuse, however, for the inadequate management of those factors within our control. I believe that it is critical that the state become more sensitive to the long-term credit implications of each isolated funding decision. These two bills provide for responsible yet flexible state debt management, and I urge your prompt consideration and approval of these measures.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

CA
1/27

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: ______

REQUEST HB 520 - # 1

Bill/Resolution No.: 377-087-86
Title: An Act relating to Public School Construction

Sponsor: Governor
Requestor: Governor
Date of Request: January 24, 1986

FISCAL DETAIL

Agency Affected: Education
BRU: Education Finance - Support Services

Components: Facilities
Debt Retirement

EXPENDITURES/REVENUES : (Thousands of Dollars)

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

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

This bill will result in a net savings to the State. Because the savings will be associated with future school construction projects, the precise amount saved in any fiscal year is indeterminate.

Prepared by: Steve Hole
Division: Commissioner's Office
Phone: 2800
Date: 1/25/86

Approved by Commissioner: Harold Raynolds, Jr.
Date: 1/25/86
Agency: Education

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

pg 1 of 3

Revision Date :

HB 520 # 2

REQUEST

Bill/Resolution No. : 377-807-86

Title : An Act relating to public school construction

Sponsor : Governor

Requestor : Governor

Date of Request : January 24, 1986

FISCAL DETAIL

Agency Affected : Education

BRU : Education Finance - Support Services

Components : Facilities
Debt Retirement

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
DEBT SERVICES		55,000.0	10,000.0	10,000.0	10,000.0	10,000.0
REVENUE						

FUNDING : (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
GENERAL FUND		55,000.0	10,000.0	10,000.0	10,000.0	10,000.0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
FULL-TIME		-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Under the bill, the state will only reimburse the principal of bonds approved by local voters after March 31, 1986 and an absolute cap is placed on the amount of reimbursements that will be made in any year for that debt. The bill sets the limit at $10,000,000 or an amount established by the state bond committee.

Prepared by : Jay Hoban
Phone : 3568

Division : Budget Review
Date : 1/25/86

Approved by Commissioner :
Date :

Agency : Office of Management and Budget

Distribution (by Agency preparing fiscal note) :

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

page ___ of ___

10/25/85

MEMORANDUM State of Alaska

TO The File

DATE January 17, 1986

HB 520 Pog 2 of 3
#2

FILE NO: 003

TELEPHONE NO 465-2800

FROM: Steve Hole

SUBJECT: FY-87 Debt Retirement

The current FY-87 Debt Retirement cost projection is $145,831,214. This is an increase of $1,345,316 over November, 1985, estimates, broken out as follows:

		Change
Kodiak		[186,995.6]
Juneau		129,266.82
Kenai		1,361,670.90
Dillingham		41,330.00
	Subtotal	$1,345,316.10

This estimate is based upon the most current data available from school districts as of 1/14/86.

cc: Jay Hogan

OFFICE OF MANAGEMENT & BUDGET
JAN 30 1986
BUDGET REVIEW

HB 520 #2
page 323

TOTAL APPROPRIATIONS : FY 82-86 (AUTHORIZED) AND FY 87 (PROPOSED)
($ Millions; Nominal Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
	/- - - - - -	- - - - - -	-(Authorized)-	- - - - - -	- - - - - -/	(Proposed)
Operating Agencies/1						
Unrestricted General Funds	$1,666.1	$1,841.6	$1,864.2	$2,015.5	$1,999.6	1,991.0
Other Funds	476.8	539.9	479.4	575.2	672.0	678.7
Total Operating Funds	2,142.9	2,381.5	2,343.6	2,590.7	2,671.6	2,669.7
Debt Service/2						
Unrestricted General Funds	142.5	199.8	272.4	264.5	268.6	261.3
Other Funds	1.8	2.0	2.0	5.6	5.6	10.2
Total Debt Service	144.3	201.8	274.4	270.1	274.2	271.5
Capital (Auth.)/3						
Unrestricted General Funds	1,164.9	470.1	778.4	1,241.9	471.1	349.2
Other Funds	72.4	239.7	398.5	192.1	431.7	307.4
Total Capital Funds	1,237.3	709.8	1,176.9	1,434.0	902.8	656.6
Loan Programs (Auth.)/4						
Unrestricted General Funds	471.8	337.0	171.9	140.0	79.6	63.6
Other Funds	1.0	1.0	20.4	0.9	0.2	19.3
Total Loan Funds	472.8	338.0	192.3	140.9	79.8	82.9
Total						
Unrestricted General Funds	3,445.3	2,848.5	3,086.9	3,661.9	2,818.9	2,665.1
Other Funds	552.0	782.6	900.3	773.8	1,109.5	1,015.6
Total Funds	$3,997.3	$3,631.1	$3,987.2	$4,435.7	$3,928.4	3,680.7
Extraordinary Items/5						
Unrestricted General Funds	1,167.0	708.3	300.0	510.0	(186.5)	0.0
Other Funds	0.0	41.0	198.9	155.1	403.8	272.9
Total Extraordinary Items	1,167.0	749.3	498.9	665.1	217.3	272.9
GRAND TOTAL						
Unrestricted General Funds	4,612.3	3,556.8	3,386.9	4,171.9	2,632.4	2,665.1
Other Funds	552.0	823.6	1,099.2	928.9	1,513.3	1,288.5
GRAND TOTAL	$5,164.3	$4,380.4	$4,486.1	$5,100.8	$4,145.7	$3,953.6

/1 Agency FY 82-84 operating totals from OMB adjusted base totals plus special and supplemental operating appropriations; FY 85 and FY 86 agency authorized totals from Alaska State Appropriations Digest.

/2 This line includes General Obligation and International Airport Bond payments, and Local School debt retirement appropriations.

/3 Session totals; OMB has adjusted some FY 79-84 figures to reflect repeals and reappropriations, as well as the definition of capital projects enacted in 1983 (AS 37.07.120(4)).

/4 Loan totals reflect new appropriations to various loan programs.

/5 Extraordinary Items include special, one-time appropriations such as General Fund deposits to the Permanent Fund, Permanent Fund dividend payments, State Income Tax refunds, legal settlements, special loan guarantee appropriations and appropriations to the Rainy Day Fund. The negative General Fund entry for FY 86 reflects statutory reductions to prior loan, capital and refund credit programs. (See 1985 Alaska State Appropriation Digest, p.5)

Table II-4

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

187

Revision Date: 1/27/86

REQUEST HB 520 # 3

Bill/Resolution No.: Proposed
Title: An Act Relating to Public School Construction

Sponsor: Rules Committee
Requestor: Governor
Date of Request: 1/21/86

FISCAL DETAIL

Agency Affected: DOT&PF and D.O.E.
BRU: Planning/Programming
Engineering and Operations Standards
Design and Construction
Components:

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	Ø	261.0	200.3	173.6	182.2	191.4
TRAVEL						
CONTRACTUAL	Ø	529.2	405.6	425.9	447.2	469.5
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	Ø					

CAPITAL	Ø	790.2	605.9	599.5	629.4	660.9

REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	Ø	790.2	605.9	599.5	629.4	660.9
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME	Ø	4	3	3	3	3
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

SEE ATTACHED ANALYSIS STATEMENT

Prepared by: Rod Wilson
Phone: 465-2951
Division: Engineering and Operations Standards
Date:

Approved by Commissioner:
Date:
Agency: Department of Transportation and Public Facilities

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

ANALYSIS STATEMENT RE:
An Act Relating To Public School Construction

FISCAL NOTE PREPARATION FOR:
Draft #11; January 21, 1986

HB 520 #3
247

Specific tasks required by the proposed legislation:
(Associated costs are reflected in the attached Table A)

(1) Creation of design standards for each geographic region [A.S. 35.15.230; AS 14.11.100(h)].

(2) Establish construction cost guidelines commensurate with the design standards for each geographic region [AS 35.15.210(a); AS 35.15.210(b) and (c)(3)].

(3) Development of an estimate for the costs of construction on each project as approved by D.O.E. [AS 14.11.010(b)(2); AS 14.11.102(b) and (3); AS 35.15.210(a); AS 35.15.220(a)].

(4) Make recommendation to the legislature by January 25, 1988 of a plan of school construction through the year 2001. (*Sec. 17)

Specific tasks assigned to D.O.E. that need involvement by DOT&PF: (As both these items will have a direct bearing on DOT&PF's performance as required under AS 35.15.210(b) and AS 35.15.220(c)).

(5) With respect to the school condition survey: DOT&PF should be involved in the process of formulating standards addressing facility condition, compliance with laws and regulations relating to health and safety, and building codes [14.11.102(a)].

(6) With respect to establishing required information or documentation: DOT&PF should be involved in the process of formulating minimum requirements for submittals involving (1) code related emergency requirements and (2) facilities that require repair or replacement... to meet... building codes. [AS 14.11.010(c)(2); AS 14.11.100(j)(4)(b)].

Assumptions made in the preparation of this analysis included:

(1) Based on information received from the Department of Education the number of applications received under the direct appropriation program in 1985 totaled approximately 100 and requests for debt retirement in 1985 numbered 250. These quantities have formed the basis of the expenditures as generated and assumes the number of requests in future years to be consistent with the 1985 numbers.

(2) The Department would have to rely heavily on outside consultants with only minimal staffing increases. In addition the majority of the staffing positions to be added would be of professional (registered) caliber.

(3) The review of applications shall continue at a uniform rate during the course of the year so as to make optimum use of staff personnel. High rates of application influx will be reviewed by consultants.

(4) Under Task #3 above, (i.e., construction costs estimates), it has been assumed that 85% of all projects would only require minor involvement. Whereas 15% of the projects would be large scale "new construction/major renovation" types of projects and require a more indepth (consultant oriented) analysis.

TABLE "A"

HB520 #3 - P. 3 of 7

	TASK	1987	1988	1989	1990	1991	1992	Pos Add/Yr
(1)(a)	Develop Dept. Regs, Guidelines and P&P's	[illegible]6,400						.5/86
(1)(b)	Establish Efficient Design Standards With Consultant	(115,840) 187,605						.75/[illegible]
(2)	Establish Construction Cost Standards	(27,100) 42,475						.25/86
(3)(a)	Cost Estimate Fo[illegible] Debt Retirement Proj[illegible]cts (100 projects/yr)	(99,725) 147,875	(104,710) 155,270	(109,950) 163,030	(115,440) 171,180	(121,220) 179,740	(127,280) 188,730	.75/86
(3)(b)	Cost Estimates For Direct Grant Projects (250 project/yr)	(286,540) 395,860	(300,870) 415,650	(315,910) 436,440	(331,710) 458,260	(348,290) 481,170	(365,700) 505,230	1.75/86
(4)	Development Long Range Construction Strategy		35,000					.5/87
	Consultant	(529,205)	(405,580)	(425,860)	(447,150)	(469,510)	(492,990)	
	TOTALS	790,215	605,920	599,470	629,440	660,910	693,960	

LEGEND: Parenthesis ( ) indicate consultant budget
All non parened figures represent total projected budgets

Dept. of Transportation & Public Facilities

Position Paper

For [signature]

BILL NO: (Proposed) HB520

APPROVED: R. J. Knapp
Commissioner

TITLE: An Act Relating to Public School Construction

DATE: 1/27/86

The Department supports the proposed bill and perceives its duties and responsibilities to consist of the following:

(1) Concerning the quality or extent of the construction for which the State of Alaska shall participate, the Department shall establish efficient "standards" of design and construction for each geographic region.

(2) Concerning the extent of allowable costs for which the State of Alaska shall participate, the Department shall establish construction cost guidelines commensurate with the "standards" for each geographic region.

(3) Shall provide an estimate of allowable construction costs for each project based on established standards and cost guidelines.

(4) Shall perform technical evaluations and where appropriate provide alternate means of construction which will adequately correct the deficiency.

(5) Shall in cooperation with the Department of Education jointly study, evaluate and prepare a plan of school construction through the year 2001.

The Department fully supports the goals of the bill. However it should be realized that our duties and responsibilities will only be attainable through adequate funding.

Consideration should be given to establishing a means for assessing the project budgets for the costs required to carry out the Department's responsibility under this bill. If this can be done, the flexibility required to adjust staff needs to the size of the program will be provided and the impact to the operating budget will be minimal.

For further information call Susan Fleischhauer at 465-3900.

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HB 520 #3

Table I

State Debt Service Burden
in $ Millions and as a % of Unrestricted Revenues 1/

	1		2		3		4	
Fiscal Year	Existing Debt Service and Lease Obligations		Existing School Debt Reimbursement		Total Existing Debt Service (1 & 2)		Existing Law	
86	$178	5.7%	$105	3.4%	$283	9.1%	$283	9.1%
87	168	6.2	109	4.0	277	10.2	319	11.7
88	161	7.1	100	4.4	261	11.5	324	14.2
89	150	7.1	109	5.1	259	12.2	325	15.3
90	135	6.8	90	4.5	225	11.3	287	14.4
91	110	5.7	78	4.0	188	9.7	247	12.8
92	82	4.4	72	3.8	154	8.2	212	11.4
93	73	3.8	63	3.3	136	7.1	191	9.9
94	44	2.3	56	3.0	100	5.3	151	8.0
95	32	1.7	47	2.5	79	4.2	128	6.8
96	28	1.5	33	1.8	61	3.3	107	5.8
97	24	1.3	16	.9	40	2.2	59	3.2
98	21	1.2	14	.8	35	2.0	42	2.4
99	16	1.2	14	1.1	30	2.3	37	2.8
00	9	.8	12	1.0	21	1.8	27	2.4

1/ Unrestricted revenues are January 1986 30th percentile estimates.

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HB 520 #3

Column Key

1. Debt service on State general obligation bonds, University of Alaska revenue bonds, ASHA lease revenue bonds, and lease payments on Seward Student Service Center and Correctional Center.
2. 80%, 90%, or 100% State reimbursement of debt service paid by municipalities on school debt outstanding as of December 31, 1985.
3. Total of columns 1 and 2.
4. Column 3 plus lease payments on Anchorage Court Building plus State reimbursement on $312.5 million of authorized but unissued school debt and $31.4 million of school debt to be authorized by the voters in January and March of 1986. Of this $343.9 million new school debt, $230.2 million is scheduled for issuance in FY 86. Reimbursement of school debt is 80% of current debt service payments on 10 year debt with level principal payments.

Prepared by: Department of Revenue
January 23, 1986

STATE OF ALASKA
DEPARTMENT OF REVENUE

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HB 520 #3

M E M O R A N D U M

TO: The Honorable Loren Lounsbury
Chairman
State Bond Committee

FROM: Tomas H. Boutin
Debt Manager
Treasury Division
Department of Revenue

DATE: December 27, 1985

RE: Debt Capacity

RECEIVED
DEC 1985
BUDGET REVIEW

The estimated capacity of the State to issue debt in the form of general obligation bonds and lease purchase financing has increased. Growth in expected near term unrestricted revenues as forecasted by the Department of Revenue and declining long term interest rates have raised estimated debt capacity over the level derived from the September revenue forecast. Debt capacity accorded by the December 1985 Department of Revenue forecast is shown below:

Fiscal Year	Mean Revenue Estimate	30th Percentile Estimate
1986	---	---
1987	---	---
1988	---	---
1989	---	---
1990	---	---
1991	83	---
1992	186	76
1993	128	71
1994	207	185
1995	116	75
1996	22	6
TOTAL	742	413

It is anticipated that lease purchase financing for as much as $85 million may be arranged for the Anchorage Court Building. This financing would eliminate State debt capacity through 1992 under the 30th percentile estimate and through 1991 under the mean forecast.

In addition to debt service on State general obligation bonds, debt service on Alaska State Housing Authority and University

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HB520 #3

of Alaska revenue bonds and lease payments on the Seward Student Service Center and the Spring Creek Correctional Center Certificates of Participation are included in the calculation of State debt capacity.

The rating agencies view lease financing obligations in the same light as general obligations of the State. A lease purchase obligation may take the form of either revenue bonds or certificates of participation. In either case State lease payments are the sole security for the obligations and the State's name is displayed prominently throughout the security. The fact that these lease payments are subject to annual appropriations precludes the obligations from being considered State debt under the constitution and requiring voter approval. Lease purchase obligations provide for the acquisition of the property by the lessee at the end of the lease. The term of the lease and purchase price are such that the lessee (State) is considered the owner of the property for federal tax purposes from the outset of the lease. This makes a portion of the lease payments considered tax-exempt interest under the federal income tax.

The above estimates of debt capacity are based on the December 1985 Department of Revenue revenue estimates. They adhere to the premise that debt service should not exceed 5% of the State's unrestricted revenue if the State is to maintain its credit rating.

Consideration of lease purchase financing complicates the analysis of debt capacity in that interest rates are likely to be higher but terms possibly longer than on general obligation debt. For simplicity's sake, and because these estimates serve as a general guideline, and because it is unknown how much future debt will be general obligation bonds as opposed to lease purchase financing, the estimates are made as if all future debt is general obligation debt -- an assumed 8% interest rate and 10 year maturity.

Attached Tables I, II, and III show the derivation of the above debt capacity estimates.

Attachments

cc: Mary Nordale
Eleanor Andrews
Ray Gillespie
Gordon Harrison
Jay Hogan
Terry Elder
Jon Rubini

HB520 #3

Government Finance Associates, Inc.

101 Carnegie Center, Princeton, New Jersey 08540
(609)452-1575
Corporate Headquarters

New York City Offices
Suite 1301
71 Broadway
New York, New York 10006
(212)909-5700

Northwest Offices
Suite 1200
1211 SW Fifth Avenue
Portland, Oregon 97204
(503)222-1405

December 6, 1985

DEC 1 . 1985

BUDGET REVIEW

The Honorable Bill Sheffield
Governor
State of Alaska
3rd Floor, Capitol
Pouch A
Juneau, AK 99811

Dear Governor Sheffield:

At the outset, I want to say that the trip you took to New York and Chicago to meet with representatives of the investment community, including the rating agencies, underwriters and other participants, was definitely a success. Since those meetings, we have heard positive comments both about the State's presentations and the desire for many of the representatives to maintain continuing dialogue with the chief financial and administrative officers of the State.

This week, we were informed by Anthony Arthur of Standard & Poor's Corporation that the rating agency is in the process of preparing a review on the rating it assigns to the State of Alaska. It is anticipated that this review will take several weeks to complete and will be distributed in appropriate publications by Standard & Poor's. It is not unusual for a rating agency to conduct this type of review subsequent to a briefing of the type presented by the State in November.

During conversations with Anthony Arthur, he requested that certain materials prepared prior to the presentation be updated so that they will have more current data on which to base their credit review. In particular, it will be necessary for the State to develop more recent information on the debt position of State agencies and the State itself. Members of the Department of Revenue are at present preparing that material. Most importantly in this respect, however, is the subject of school debt. For the first time, we expect the agency to include the proportionate share of local school debt paid by the State in determining the State's overall debt load. Apparently, the agency has not been aware of this school assistance program until recently, and based upon the method employed by the agency in handling local school debt paid by other states, we would anticipate the applicable portion to be added to the

HB520 #3

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1211 SW Fifth Avenue
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December 6, 1985

DEC 1 , 1985

BUDGET REVIEW

The Honorable Bill Sheffield
Governor
State of Alaska
3rd Floor, Capitol
Pouch A
Juneau, AK 99811

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Government Finance Associates, Inc.

HB 520 #3

overall debt liability of Alaska. Due to the fact that the agency will now be including such debt, we can expect Standard & Poor's to ask the following question regarding this matter. The agency will desire to know the policy that the State expects to employ to control the amount of local school debt that will be paid by the State. In fact, if you recall, at the New York luncheon, one analyst raised the issue by asking if the State had plans for controlling local debt issues in the future. In response to this possible inquiry by Standard & Poor's, you should know that in most circumstances in which other states pay a large portion of debt service for local school buildings, before the local issuer is authorized to sell the school debt, approval by the particular state education department is required, which department also receives certain affordability guidelines for the program by the chief financial officers of the individual state. Standard & Poor's would find it helpful to receive some specific discussion on this important point.

In conjunction with this analysis by Standard & Poor's, it will also review the State's proposed two-year debt management policy. Based on recent discussions with Standard & Poor's, we do not expect a definitive response by the agency on the policy until later in the month when all relevant members of the rating committee will be available for the review. It is important for the State to have a plan it can present to the agency for the implementation of this policy whether the implementation is expected to be an executive proclamation, legislation, or the adoption by the Administration of particular guidelines for the State and State agencies to follow.

There are at least two additional items which, I believe, deserve attention at this point: The status of the recommendations of the lease/purchase options for State office buildings and the establishment of the appropriate approach toward analyzing infrastructure financing by the State. With respect to the first matter, as was noted often during our various visits with the investment community, the lease/purchase approach, as proposed by the State Office Building Task Force, is a cost-effective and the preferred method of financing State office facilities. In the past, the issuance of certificates of participation on an ad hoc basis has not been conducive to a well-organized debt management program for financing such facilities. Because of the substantial debt management advantages of utilizing the methodology presented by the Task Force, a process for State implementation of those recommendations would be met with a favorable response by the rating agency during the course of its evaluation. In this respect, any such facilities that would generally fall within those requiring

HB520 #3

debt financing should be included immediately within the restrictions of the proposed structure in order for the State to indicate early and convincing adoption of the approach. It would also be helpful to make clear to the rating agency that the Sheffield Administration expects to make the implementation of the recommendations a significant part of the State's overall debt management operations.

Finally, the funding by the State of physical infrastructure requirements has been accomplished in two ways: The use of revenues for capital projects and the issuance of debt to raise proceeds for capital construction requirements. It would be helpful, from the credit analyst's perspective, to have a document which sets forth annually all payments for infrastructure financing by the State to be accomplished during the upcoming year. This information, consolidated into one document, would consist of three major parts. First, the document would present the amount of current revenues being applied to purchase or build long-term capital facilities. Second, the information would set forth the current debt service being paid for all capital facilities directly and indirectly by the State (i.e., general fund expenditures for lease/purchase facilities, general obligation payments, and debt service payments on local school debt). Third, the document would present the security issues to be sold during the current year through both general obligation bonds and related obligations (i.e., lease/purchase debt). Through this document, investors and credit analysts could determine, in a more simplified form, the State's commitment to capital financing of infrastructure requirements. Moreover, it would allow these persons to understand the overall credit of the State in a more comprehensive and persuasive manner.

Obviously, we will keep you informed about the progress of the review by Standard & Poor's on the State. If you have any questions or require any further clarification on the matters discussed in this letter, please do not hesitate to contact us. At present, I expect to be in Alaska in early January and would like the opportunity to meet with you then.

Best regards,

Chester

J. Chester Johnson

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date :

REQUEST HB 520 #4

Bill/Resolution No. :
Title : An Act relating to Public School Construction
Sponsor : Rules Committee at the request
Requestor : of the Governor
Date of Request : 1/27/86

FISCAL DETAIL

Agency Affected : Revenue
BRU : Treasury
Components : Operating

EXPENDITURES/REVENUES : (Thousands of Dollars)

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

CAPITAL						

REVENUE						

FUNDING : (Thousands of Dollars)

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

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Milt Barker
Division : Treasury
Phone : 465-2350
Date : 1/27/86

Approved by Commissioner : [signature]
Agency : Dept. of Revenue
Date : 1/27/86

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page ___ of ___

10/25/85

Bartle Wells Associates
Municipal Financing Consultants
1636 Bush Street
San Francisco 94109
415 775-3113

MEMO TO: Josefa E. Wortman, Chief Financial Officer
Fairbanks North Star Borough

FROM: Lora J. Stovall
Bartle Wells Associates

SUBJECT: Borough Bond Issuance Policies

DATE: February 14, 1986

In our service as the borough's financial advisor since 1976 we have made two primary recommendations:

- The borough's bonds should be sold competitively.
- The borough's bonds should be sold in series as funds are needed for construction.

This letter will elaborate on the reasons for our past recommendations, which we still believe are in the borough's best interest for its upcoming bond issues.

COMPETITIVE VS. NEGOTIATED SALE

As financial advisor we have analyzed the results of many bond sales and have concluded that, in the vast majority of cases, competitive sales mean lower interest rates than negotiated sales. As a case in point, the following scales (page 2) are from the same underwriter, during the same week, for bonds with the same rating from Moody's. Interestingly, the lower-priced competitive sale had a rating of BB (below investment grade) from Standard & Poor's, while the higher-interest negotiated issue was rated BBB by Standard & Poor's. The negotiated issue was larger but was not a particularly large issue.

Issue sizes also tend to be smaller with competitive sales, which further reduce costs. Discount allowances are controlled. Reserve requirements and capitalized interest can be carefully watched to provide the necessary security at lower funding levels. The sale, closing, and delivery process is simpler and faster because the issuer sets the terms and the underwriter's bid explicitly accepts those terms.

Negotiated sales have their place on issues which are complicated or have extenuating circumstances, such as high delinquency rates or debt levels, risky projects, and on issues such as refundings, mortgage revenue bonds, and variable-rate bonds.

	SALE NO. 1	SALE NO. 2
Sale date	10/15/84	10/10/84
Rating - S&P	BBB	BB+
Rating - Moody's	--	Baa
Maturities	1988-2010	1987-2005
Placement	Negotiated	Competitive
Number of bids	--	5
Interest rates:		
1987		12.00*
1988	9.00	12.00
1989	9.50	12.00
1990	10.00	12.00
1991	10.50	9.50
1992	10.70	9.70
1993	10.80	9.90
1994	10.90	10.00
1995	11.00	10.10
1996	11.10	10.20
1997	11.20	10.30
1998	11.20	10.40
1999	11.25	10.50
2000	11.25	10.60
2001	↑	10.60
2002	↑	10.75
2003	↑	10.75
2004	↑	10.75
2005	Term	10.75
2006	↓	
2007	↓	
2008	↓	
2009	↓	
2010	11.50	
Discount	$1,980,000 (4.5%)	$47,203 (1.97%)
Net interest cost	~11.4%	10.71934%
Bond Buyer index (revenue)	10.93%	10.93%

*Interest rates from bid submitted by second bidder. Winning bid had NIC=10.4888%, discount of 1.94%.

SALE OF BONDS IN SERIES

When Bartle Wells Associates was hired as the borough's financial advisor, the borough was selling bonds in series of $3 million. We initially recommended that the borough increase the size of its issues. Our initial sale of borough bonds was the $15.5 million Series K, sold in 1976. We managed the sale of four series of bonds for the borough for school construction from 1982 through 1984. Our recommendations for the sale of the borough's bonds have been based on the following critieria:

- Bond issues should be small enough to stimulate competition in underwriting.
- Bond issues should be large enough to be cost-effective.
- In a series of financings each issue should finance one to one-and-a-half years of construction.
- The final bond sale of a sequence should consist of only the amount of bonds necessary to complete the construction projects.

The borough's voters authorized $70.3 million in school bonds in 1982—$2 million for Two Rivers School, $50 million for three elementary schools (ultimately Pearl Creek, Badger Road, and Rosamund Weller Schools), and the North Pole Junior/Senior High School improvements—and $18.3 million for the North Pole High School and Junior High School remodeling. The bonds were sold in four series totaling $64 million:

Series	Amount	Sale Date	Net Interest Cost
L	$17,000,000	1/26/82	12.25%
M	20,000,000	7/22/82	11.30
N	20,000,000	5/19/83	9.38
O	7,000,000	4/26/84	8.23

Each issue was designed to produce the lowest net interest cost at the time of sale. $6.3 million of authorized bonds were not sold because the project costs were lower than originally estimated. With voter approval, these bonds have been reallocated to additional projects.

The question borough staff has raised is: which is the most cost-effective technique—to sell bonds in series as we have advised, or to sell the full bond authorization promptly following voter approval and invest the proceeds until the funds are spent for construction. We have analyzed the actual results of the four series of bonds sold from 1982 to 1984 against the hypothetical results had the full authorizations been sold earlier. The hypothetical sale of the full authorizations is based on the maturity schedule design and interest rates bid on the actual sales closest to the bond authorization date. Proceeds from all sales are assumed to have been invested at the bond interest rate (zero arbitrage). Actual reinvestment rates during the period would have varied over time and over the term of the investment, with some higher than the bond rate and some lower. The results of our analysis are summarized below. The supporting calculations follow this letter.

<u>Actual Bond Sales</u>	
Total principal	$ 64,000,000
Total interest	60,496,375
Estimated earnings	(2,721,700)
Net cost	$121,774,675
Average net interest cost	10.0565%
<u>Bonds Sold as Authorized</u>	
Total principal	$ 70,300,000
Total interest	65,239,875
Estimated earnings	(6,845,400)
Net cost	$128,694,475
Average net interest cost	10.723%
Net savings	$ 6,652,100

The net savings to the borough (and to the state, through the reimbursement program) was more than $6.6 million. Interest rates were declining in the period from 1982 through 1984, as demonstrated in the net interest costs on the borough's bond issues. Reinvestment rates also declined. This is shown in the significantly lower estimated earnings for the actual sales than for the hypothetical sales. Had interest rates risen during the period shown, the net costs to the borough and state of the hypothetical sales would have been relatively higher. We believe the most significant savings was in the borough's ability, through staging its bond sales to match construction results to date, to complete its projects while selling $3.6 million less than its total authorization of bonds. These bonds were subsequently reallocated, with voter approval, to other projects.

We believe that bonds are authorized by the voters for specific purposes and that bond proceeds, including earnings from the investment of those proceeds, should be used for those purposes and are not general funds of the borough. Furthermore, federal tax law is designed to prevent "overissuance" of bonds, i.e., to restrict the issuance of tax-exempt bonds to the amount necessary to construct specific projects within a three-year period, with allowances for the costs of borrowing, including bond reserve funds, capitalized interest, and issuance expenses. An estimate of anticipated earnings from the investment of bond proceeds is very commonly used to reduce the size of the bond issue to prevent overissuance.

LJS:mt
R49-A

FAIRBANKS NORTH STAR BOROUGH

ACTUAL DEBT SERVICE

Series	Principal	Interest	Total
L	$17,000,000	$15,618,750	$ 32,618,750
M	20,000,000	19,096,500	39,096,500
N	20,000,000	23,640,225	43,640,225
O	7,000,000	2,140,900	9,140,900
Totals	$64,000,000	$60,496,375	$124,496,375

Total bond years	574,500
Net interest, combined issues (total interest ÷ total bond years)	10.5303%

ESTIMATED INTEREST EARNINGS

Series	Average Balance*	Investment Term	Rate	Earnings
L	$ 8,500,000	6 mo.	12.25%	$ 520,625
M	10,000,000	1 yr.	11.30	1,130,000
N	10,000,000	1 yr.	9.38	938,000
O	3,500,000	6 mo.	8.23	144,025
				$2,721,700

*Assumes equal drawdown of principal over investment term shown; average balance equals half of principal amount.

FAIRBANKS NORTH STAR BOROUGH

HYPOTHETICAL DEBT SERVICE

Series L-1: Principal amount $52,000,000
Dated 2/1/82
Maturing 2/1/85 through 2/1/94
Equal annual principal payments of $5,200,000
Interest rates:

1984-90	12.00%
1991	12.25%
1992-94	12.50%

Net interest cost 12.25%

Series M-1: Principal amount $18,300,000
Dated 8/1/82
Maturing 8/1/85 through 8/1/94
Graduated principal payments
Interest rates:

1985-93	11.25%
1994	11.50%

Net interest cost 11.30%

Series	Principal	Interest	Total
[illegible]	$52,000,000	$47,775,000	$ 99,775,000
[illegible]	18,300,000	17,464,875	35,764,875
Totals	$70,300,000	$65,239,875	$135,539,875

Total bond years	544,[illegible]50
Net interest, combined issues (total interest ÷ total bond years)	11.9805%

ESTIMATED INTEREST EARNINGS

Series	Average Balance*	Investment Term	Rate	Earnings
L-1	$26,000,000	18 mo.	12.25%	$4,777,500
M-1	9,150,000	2 yr.	11.30	2,067,900
				$6,845,400

*Assumes equal drawdown of principal over investment term shown; average balance equals half of principal amount.

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Debt Service Schedule

Fiscal Year		Payments	Reimbursement	Net Cost to Boro.
FY 85	06/30/85	12751825	12235373	<516452>
FY 86	06/30/86	14418275	13559005	<859270>
FY 87	06/30/87	14284645	13558437	<[illegible]>

SECTIONAL HB 520

Section 1.

Language deals with State's interests in school property.

Section 2.

Tells DOE what to do with district project requests. Adds requirement that DOE request cost estimate from DOT.

Section 3.

Criteria for priorities. Adds to existing ranking criteria the following: 1. demographic consideration; 2. condition of existing facilities.

Section 4.

Requires districts to provide inventory of existing facilities with their project requests.

Section 5.

Grandfather clause on 80% of total cost.

Section 6.

New provisions to replace 80% system. For all projects after April 1, 1986 reimburses only principal on a two year delay. No cash payments.

Section 7.

Off-set provision. Commissioner excludes from the total cost of construction all state and federal funds included except those provided in this section and AS 43.50.140.

Section 8.

Changes responsibilities for development of design standards from DOE to DOT/PF.

Section 9.

Extends limitations of bond procedures and defines terms for the reimbursement section (Section 6). Defines when indebtedness occurs for Sections 4 and 5.

Section 10.

Municipality must include project cost on ballot for bonding. No bond refinancing unless a 5% increase.

Repayment schedule of 10 years unless a different term is determined by the bond committee.

Section 11.

Adds to existing project evaluation requirements. DOT to provide cost estimate ranking of the project. Criteria for rejecting project requests.

Section 12.

Requires request for funds for debt service retirement be submitted by October 15 of previous fiscal year. Project request comes to DOE for review and approval under criteria. Approval only according to ranking and only if within the cap.

Section 13.

Excludes from definition of allowable costs of construction anything related to interest or project financing.

Section 14.

Requires DOT/PF to prepare cost estimates for any project seeking state aid, either debt retirement or appropriation. Requires DOT adopt design standards.

Section 15.

Sets out scope of authority of bond committee with respect to state debt.

Section 16.

Repeals existing interest language.

Section 17.

School condition and needs survey. DOE and DOT will evaluate requirements for construction and submit to legislature by January 25, 1988.

Section 18.

Effective date July 1, 1986.

DEBT MANAGEMENT PLAN

Without firm control of public debt the credit rating of all debt issuers in Alaska could be in jeopardy. Right now the State has an AA rating, the highest it's ever had, and all issuers within the State are rated as investment grade. But as oil prices decline, the share of revenues devoted to debt service will become an increasingly heavier burden. The State of Alaska cannot control the price of oil. What we can and must control is the amount of public debt.

Proper stewardship of public debt in Alaska can be accomplished through enactment of legislation covering four distinct needs. Taken separately, each of the four bills brings reasonableness to a different aspect of public debt. But viewed as a whole, this legislation provides a plan for comprehensive debt management for the first time. It assures that all State-supported debt, which is any debt paid from the State general fund, is subject to the control of the State Bond Committee. It is this total of State supported debt which the rating agencies look to in establishing the State's credit rating.

The first bill, House Bill 293, provides for orderly financial management in the event of a default by a municipality of its debt obligations. This legislation protects both issuers of public debt in Alaska and creditors.

House Bill No. 519 provides for the lease financing of public buildings through the Alaska State Housing Authority, acting as the Alaska State Building Authority. The bill gives the State Bond Committee control over issuance of this debt as well as debt of the University of Alaska.

House Bill No. 520 gives the State Bond Committee control over the total amount and maturity of municipal school debt to be reimbursed by the State. The investment community needs to see some control on this fast-growing part of State supported debt.

The fourth bill, House Bill No. 521 places a limit on the issuance of general obligation debt by municipalities. Even with this limit some municipalites in Alaska will have some of the highest debt ratios in the United States. This legislation does not limit the ability to issue revenue bonds.

KENAI BOROUGH SCHOOL DISTRICT

POSITION REGARDING DEBT MANAGEMENT

Much discussion regarding debt management or debt containment has emerged from the governor's office in recent months. At the outset, let it be known that we support sound fiscal management and debt retirement provisions.

However, HB 520 would not only "contain" future school construction; it would seriously curtail the provision for adequate facilities for Alaskan students.

The following concerns with various provisions of HB 520 are listed:

Section 14.11.010 would require ranking of projects, prioritizing those that service the "best interest of the state." The total concept of prioritization must carefully be defined within the context of agreed upon criteria. This statement in section 2, "rank each project in the order of priority that serves the best interests of the state," appears to fly in the face of what is in the best of the student or the local community.

Section 14.11.010. This section describes involvement of the Department of Transportation in the debt retirement process and is the first of several indicators of the bureaucratic nightmare that will occur if all of the provisions of HB 520 are enacted.

Section 14.11.030. This section relates to a school condition survey. It is apparent that the paperwork shuffle will be eminent if this provision is enacted. It is difficult to determine the logic in the process which would analyze the condition of a building in one community of a school district, which in turn will determine whether a new facility should be built in another community of the same district, perhaps 250 miles away.

Section 14.11.100. This section sets the reimbursement rate for debt retirement at 80% for those bonds authorized between June 30, 1983 and April 1, 1986. There is no reference to the special provision set forth in state statute providing for 90% reimbursement on the $6,600,000 portion of bond issues passed in 1984. This needs correction.

Section 14.11.100 (a) 6. This is a section which changes the state reimbursement in several ways. Only principal will be reimbursed for bonds authorized after March 31, 1986, which effectively lowers the state share from the current 80%. This is highly unacceptable when twenty one of the state's school districts will continue to receive 100% reimbursement for school construction.

Section 14.11.100 (b). This section contains a subsection which reduces any reimbursement by the state for the interest earnings on unspent bond proceeds. The argument set forth is that since the state is providing 80% reimbursement, the state should receive the interest earnings. Although there is validity in this argument, the incentive for a municipality to manage a vigorous investment program and receive [illegible] economic gain from their effort is detrimental.

Section 14.11.100 (j). This section establishes that the present value of any proposed refunding bond may not be greater than 95% of the present value of the annual debt service on the original issue. This section is further changed substantially in that bond amortization period is set at ten years or some other period that may established by the state bond committee. It appears that this provision will limit the flexibility necessary to obtain the most favorable rates and conditions in a changing bond market. The state bond committee can set the amortization periods to the best advantage of the state without regard to interest costs to the local municipality. This is unrealistic.

Section 37.15.790 establishes that the state bond committee will decide at what level the state will reimburse local municipalities for debt service. It does not seem appropriate that a committee, presumably appointed by the governor, should have far reaching authority to possibly cause defaults on existing bond issues.

In summation, HB 520 imposes a tremendous bureaucratic boondoggle to even gain tentative approval for a bond issue project. It removes almost all local control in the entire process from design to debt retirement. It essentially eliminates the state reimbursement of school construction as it currently exists. At the whim of a state bond committee, a municipality could be forced to pay all costs associated with the project at any time during the life of the issue. Even when reimbursement is made it appears that it will be at a substantially reduced level from the current 80%.

The following recommendations are set forth in an attempt to provide constructive options:

1. Appropriate the sufficient funds to the Department of Education to allow DOE to secure the appropriate staff to manage school construction and debt retirement in a more efficient manner, if this is deemed necessary. This provision would eliminate dual or triple agency involvement related to the process of school construction and debt retirement.

2. If certain limitations from HB 520 are imposed, provisions should be established which will allow districts whose eligible projects do not receive necessary priority bonding in a given year at the prevailing reimbursement rate (80%) to proceed with bonding, but subject to a reduced debt retirement participation by the state at a rate of 50%.

bj

MEMORANDUM

State of Alaska

TO: The Honorable Ben Grussendorf
Speaker of the House

Steve Hale

FROM: Harold Raynolds, Jr.
Commissioner of Education

DATE: February 7, 1986

FILE NO: 006.3(1)

TELEPHONE NO: 465-2800

SUBJECT: New Debt Retirement Regulations

Attached is a copy of the new Debt Retirement Regulations relating to Chapter 78, SLA 1985 as passed by the State Board of Education on December 3, 1985.

cc: Members of the House

02-001A(Rev. 10/79)

4 AAC 31.060 is amended by adding new subsections to read:

(j) The cost of planning, design, and construction of a facility will be approved for debt retirement under AS 14.11.100 if

(1) it can be verified by the department that the enrollment of a district or an attendance area within a district will reach design capacity within two years;

(2) the situation cannot be reasonably relieved by adjusting the boundaries of the attendance areas and transporting the children to nearby schools; and

(3) it can be demonstrated by commonly accepted demographic techniques, logically applied, that the new facility will reach and sustain design capacity within five years after the anticipated occupancy date.

(k) A request for debt retirement under AS 14.11.100

(1) must contain

(A) documented evidence, acceptable to the department, supporting enrollment projections that are based upon the average survival method or an equivalent methodology offering equal validity; and

(B) other demographic information prepared by the district, municipality, the Department of Community and Regional Affairs, the Department of Transportation and Public Facilities, and Department of Labor, the Department of Revenue, or other state or federal agencies that have have prepared demographic information on the attendance area; and

(2) may include any additional information supporting the enrollment projection, including economic and social conditions affecting local growth patterns, school and preschool census, and business or industrial forecasts indicating increased population growth.

(l) Notwithstanding the provisions of subsections (j) and (k) of this section, the cost of planning, design, and construction for a new facility, or the repair, rehabilitation, or remodeling of an existing facility will be approved for debt retirement under AS 14.11.100 if at least one of the following conditions exists, and the means selected by the district to cure the condition is the most cost effective method:

(1) a condition that is in violation of one or more of the nationally recognized building codes, fire codes, health or safety codes, or state or federal statutes or regulations and the condition is verified by a means acceptable to the department; or

(2) a condition that if unabated, may require that the facility cease being used to provide the educational program or in support of the educational program. (Eff. 3/1/78, Reg. 65; am 2/24/83, Reg. 85; am 12/2/83, Reg. 88; am 9/12/85, Reg. 96; am / /86, Reg.)

Authority: AS 14.07.020
AS 14.07.060
AS 14.11.010
AS 14.11.020
AS 14.11.100
AS 14.11.102
AS 14.11.132

4 AAC 31 is amended by adding a new section to read:

4 AAC 31.061. CRITERIA FOR AMOUNTS ALLOWED FOR DEBT RETIREMENT.

(a) A facility will be approved for debt retirement under AS 14.11.100; the project meets the requirements established in 4 AAC 31.060 (j)--(l) and the requirements of this section.

(b) A facility to house and support the education program must meet the following criteria:

(1) the facility was planned in accordance with the appropriate guides listed in 4 AAC 31.020;

(2) nonassignable space may not exceed 25 percent of the total space, except that the department will, in its discretion, grant a variance of up to 35 percent of total space in small schools in remote areas if it can be demonstrated that the variance is in the best interest of the state and the district; and

(3) assignable space must be used for educational purposes for at least 75 percent of the scheduled school day.

(c) The department will, in its discretion, deny a request for debt retirement under AS 14.11.100 or limit its approval to the costs for that portion of a facility which complies with the provisions of this section.

(d) The costs of planning, design, or construction of an otherwise approved facility are not eligible for debt retirement if they are incurred for or arise out of

(1) costs of change orders, contract amendments, contractor's claims, or other modifications that enlarge the scope of a project, or that increase the total cost of the project budget above an amount which is the lesser of the amount approved by the voters at the bond election, the amount approved by the department, or the initial contract amount except for unavoidable or unforeseeable circumstances that are not the result of imprudent management; or

(2) the cost of repairing or replacing items not essential to operation of the physical plant or not normally scheduled for routine maintenance or replacement.
(Eff. / / , Reg.)

Authority: AS 14.07.060
AS 14.11.100
AS 14.11.132

4 AAC 31 is amended by adding a new section to read:

4 AAC 31.062. APPROVALS, ALLOCATIONS, DISALLOWANCE OF COSTS, AUDITS AND APPEALS.

(a) A project approved for debt retirement under AS 04.11.100 is subject to review and approval for site selection and acquisition under 4 AAC 31.025, and the construction plans are subject to review and approval under the provisions of 4 AAC 31.030 and 4 AAC 36.040.

(b) A school district may, until October 15 of each year, submit to the department a request for an allocation of money for bond payments eligible for debt retirement under AS 14.11.100 for the following fiscal year, as provided in 4 AAC 31.060(e). Failure to submit a request for an allocation by October 15 will result in the denial of an allocation of money for an otherwise eligibile facility regardless of whether allocations had been made for previous years. Reimbursement under AS 04.11.100 for cash payments will be based on an audited report submitted under 4 AAC 31.060(d) during the preceding fiscal year.

(c) The department will in its discretion, deny, or limit the reimbursement for costs associated with a facility's construction if the facility fails to meet the requirements of 4 AAC 31.020 or
4 AAC 31.061 or if, upon audit, the costs are excessive.

(d) All projects approved for debt retirement which cost more than $300,000 are subject to audit. This audit must be performed by the district's auditor and submitted on forms prescribed by the department. Nothing in this subsection precludes the department from auditing a project at any time.

(e) If the department denies or limits reimbursement of costs, the district may appeal the decision in accordance with the provisions of 4 AAC 40.020 4 AAC 40.050. (Eff. / / / Reg.)

Authority: AS 14.07.060
AS 14.11.100
AS 14.11.132

4 AAC 31 is amended by adding a new section to read:

4 AAC 31.063. USE OF INTEREST EARNED ON BOND PROCEEDS.

(a) Interest on proceeds of bonds approved by municipal voters before July 1, 1985 and sold after January 1, 1986, and all bonds approved by municipal voters after July 1,1985, for which debt retirement under AS 14.11.100 is sought may only be used to

(1) pay the costs of the project;

(2) pay accrued interest on the bond issue;

(3) redeem all or part of the bonds; or

(4) pay the costs of the bond sale.

(b) If the money earned as interest on the proceeds of bonds is used to pay the costs of the project, other than costs of change orders, contract amendments, contractor's claims, or other modifications necessary because of unavoidable or unforeseeable circumstances that are not the result of imprudent management, as determined by the commissioner, then the amount which is allowed for debt retirement will be reduced by that amount.

(c) If the money earned as interest on the proceeds of bonds is used to pay accrued interest, redeem all or part of the bonds, or pay the costs of the bond sale, then the amount which is allowed for debt retirement will be reduced by that amount.

(d) The accounts in which the proceeds of bonds are placed are subject to audit under 4 AAC 31.062 and the district shall report, on forms prescribed by the department, the use to which the money is put. (Eff. / / , Reg.)

Authority: AS 14.07.060
AS 14.11.100
AS 14.11.132

4 AAC 31.060(e) is amended to read:

(e) A request for an allocation for debt retirement under AS 14.11.100 must be submitted on a form prescribed by the commissioner, and must be received by the department not later than October 15 of the fiscal year preceding the fiscal year in which reimbursement will be sought. A school district's claim must contain at least the following:

(1) bond sale date or proposed bond sale date;

(2) bond redemption schedule;

(3) education facility portion of the bond;

(4) department's project approval number;

(5) debt payment schedule or estimated debt service schedule; and

(6) certification as to accuracy of claim by a bonded official of the municipality. (Eff. 3/1/78, Reg. 65; am 2/24/83, Reg. 85; am 12/2/83, Reg. 88; am 9/12/85, Reg. 96; am / / , Reg.)

Authority: AS 14.07.020
AS 14.07.060
AS 14.11.010
AS 14.11.020
AS 14.11.100
AS 14.11.102
AS 14.11.132

4 AAC 31.090 is amended by adding a new paragraph to read:

4 AAC 31.090. DEFINITIONS

(10) "facility" means for the purposes of debt retirement under AS 14.11.100,

(A) the buildings and grounds needed to house and support the educational program; or

(B) the buildings and grounds needed to provide a centralized support service which is required to effect an efficient and cost-effective operation of the district's education program.

(Eff. 3/1/78, Reg. 65; am 6/9/83, Reg. 86; am 12/2/83, Reg. 88; am 9/12/85, Reg. 96)

Authority: AS 14.07.020
AS 14.07.060
AS 14.11.010
AS 14.11.020
AS 14.11.100
AS 14.11.132

KENAI PENINSULA BOROUGH

BOX 850 · SOLDOTNA, ALASKA 99669
PHONE 262-4441

STAN THOMPSON
MAYOR

MEMORANDUM

TO: LeRoy H. Barton, Jr., Director of Finance

FROM: Ross A. Kinney, Assistant Director of Finance
Lawrence A. Semmens, Treasury Manager

DATE: February 5, 1986

SUBJECT: HB520

This bill is obviously an attempt by the Governor to limit the local municipality in its ability to construct schools. The limits placed are numerous and effective.

Additional time will be taken with the school construction application process because under the bill the Department of Transportation and Public Facilities will be involved. The Department of Education would request a cost estimate from the Dept. of Transportation and Public Facilities. No time frame is specified for a response, so it could significantly impact the processing time. The DOT estimate of construction cost would be the basis for any reimbursement made by the State. This estimate would consider the architects estimate but would undoubtedly differ, generally indicating a lower cost than the architects estimate. The Department of Education would still determine if the project is viable, and in the best interest of the State. All projects would be ranked with priority given to those that serve the best interest of the State. It would seem that this could lead to a lot of political interference in the school construction process.

The components of the cost determination for school construction are specifically stated. It appears that items like the Kenai High auditorium and the Homer High swimming pool would not be totally allowable under this bill. The question is will there be a retroactive adjustment to the allowable construction cost of these types of projects begun after July 1, 1982? It also appears that there will not be any allowable costs incurred under a contract after the contract has been released. This terminology is unintelligible. The phrase "after the contract has been released could mean after the contract has been let to a contractor. In which case no change orders would be allowed. Or it could mean after the contractor has completed the work and the Borough has released the contractor.

The reimbursement of debt service on school construction is changed substantially. The 90% reimbursement on debt issued by KPB in 1984 would be downgraded to 80%. For any debt authorized after March 31, 1986 the reimbursement will only be on the principal paid rather than the principal plus interest. The reimbursement will be made with a 2 year lag, which means lost interest earnings for the municipality. The interest on the last five bond issues made by the Borough averaged 41.5% of the total debt service amount. Therefore, the effective reimbursement rate proposed by this bill is 46.8% of the total debt service. Also, the State will not reimburse on any costs associated with financing the project, such as bond counsel fees, brokers fees ect. Only principal will be reimbursed and that principal amount will be determined by the DOT estimate. The amount of any reimbursement will be reduced by any interest earnings on unspent bond proceeds. This is the same as the regulations which were promulgated by the Dept. of Education, and which will be in force soon if the legislature does not repeal them. Either the new bill or the regulation would severely impact the taxpayers of the Kenai Peninsula Borough and would further reduce the actual percentage reimbursement by the State. In the case of the Boroughs latest issue the interest earnings would be about $8 million. The principal which the state would reimburse on an issue of this size would be about $60,460,000 or 40.6% of the total debt service. This is assuming the funds were appropriated by the legislature. It is not appropriate for the State to obtain the full benefit of the interest earnings on the bond proceeds when the do not reimburse on the total proceeds, nor do they enter into the risk of issuing the bonds. Also it is not clear that interest earnings on unspent bond proceeds from previous issues would not be deducted from the reimbursement.

The State will not reimburse municipalities for cash payments made for school construction after July 1, 1986. This effectively precludes municipalities from building even when they don't have to sell bonds for the project. Currently the state reimburses municipalities 80% of cash payments on approved projects. This deletion of this provision may be an oversight as this would just be a reimbursement of principal

Debt issuance will be further controlled by the tate through the bond committee. This committee determines the terms of a bond issue by arbitrarily setting the repayment period. This provision will severely impact the flexibility that is necessary to obtain the most favorable terms and rates in a bond issue. The committee will also set the level of State reimbursement. Currently the bill provides that the State appropriate $10 million to fund the debt retirement program for debt issued after March 31, 1986. The committee can change this amount, apparently raise it or lower it. Therefore the predictability of state revenues will be further degraded, making budgeting extremely difficult.

Refunding bonds would only be allowable if the net present value of the refunding issue debt service is not greater than 95% of the existing debt service. This would preclude refunding in the case where the present value test is not met, but for another reason the bonds should be refunded. This would include a change in the ability to pay when debt service is high. A refunding in this situation could make the debt service lower, thereby easing the immediate tax burden, while admittedly costing more in the long run.

In summary this bill is a tremendous bureaucratic nightmare of studies and requests to even get tentative approval of a school construction project. It essentially eliminates State reimbursement of school debt, as it now exists. At the whim of an appointed bond committee, the terms of bond indentures can be //2// adversely affected, the State reimbursement can be changed and a municipality could be forced into default--if it is in the best interests of the State. Even when reimbursement is made it will be at a substantially reduced level. It will not in any way cover the costs of school construction. Significantly the local municipality will be in a much worse position to project State revenues, which will make budgeting very imprecise. Taxes will go up not only to cover the additional costs, but also to mitigate the uncertainty of State revenues.

The bill is totally unacceptable to the Kenai Peninsula Borough and should be strenuously objected to.

KENAI PENINSULA BOROUGH

BOX 850 • SOLDOTNA, ALASKA 99669
PHONE 262-4441

STAN THOMPSON
MAYOR

MEMORANDUM

TO: LeRoy H. Barton, Jr., Director of Finance

FROM: Ross Kinney, Assistant Director of Finance
Larry Semmens, Treasury Manager

DATE: February 4, 1986

SUBJECT: HB520

The bill is obviously an attempt by the Governor to limit the local municipality in its ability to construct schools. The limits placed are numerous and effective. We will list those items which we feel are of particular interest to the Kenai Peninsula Borough.

14.11.010(b)1 currently requires ranking of projects prioritizing those that serve the best interest of the state. This is likely to lead to disputes when only the highest priorities are allocated funds.

14.11.010(b)2 adds a new department for determining how much a project should cost. This may slow down the process of determining allowable costs of a school project. There is no time set for the State to respond to a school district request.

14.11.100(a)(5)(A)sets the reimbursement rate at 80% for bonds authorized between June 30, 1983 and April 1, 1986. This does not say up to 80%. Further, and more importantly, this section ignores and deletes the special provision providing for 90% reimbursement on the 6,600,000 portion of the 1984 bond issue.

14.11.100(a)(5)(B) eliminates reimbursements for cash payments for all cash payments made after July 1, 1986.

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14.11.100(b) has a new subsection 3. which reduces any reimbursement by the State by the interest earnings on unspent bond proceeds. This is the same as the Dept. of Education regulations which will go into effect this year absent any repeal by the Legislature. It will cost the Kenai Peninsula Borough about $7.5 million in the remainder of FY86 and FY87 if the regulation is not repealed. Note that this section 3 does not limit the interest reduction to only interest on bonds authorized after the effective date of the legislation. There is a question as to whether interest earnings on unspent bond proceeds from previous issues would be subtracted from the State reimbursements.

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14.11.100(j) adds that the project must be approved by the substantially changed section 14.11.102. and establishes that the present value of any proposed refunding bond must not be greater than 95% of the present value of the annual debt service on the original issue. This section is also changed substantially in that the bond amortization period is set at ten years or some other period that may be established by the state bond committee. This will surely limit the flexibility necessary to obtain the most favorable rates and conditions in a changing bond market. The Bond Committee can set the amortization periods to the best advantage of the state without regard to the interest cost to the local municipality.

14.11.102 is substantially changed. The effect is to severely limit local control of when and what kind of schools can be built. This new section should be carefully reviewed by the school district personnel. They have made a response to similar restrictions which were promulgated by regulations which, I believe, were subsequently scuttled by the Dept. of Education. This section seems even more restrictive than the previous regulations. Basically the state would have full control of school construction, from the design stage to the debt repayment stage.

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14.11.135 states that the cost of financing a project does not constitute "costs of construction." This means that any cost of issuing bonds including the interest on bonded indebtedness will be paid by the local municipality without reimbursement from the State.

35.15.210 is all new. It seems to reiterate that a department will prepare an estimate for the cost of a school project. It is assumed that the department referred to is the Dept. of Transportation and Public Facilities. It could be clearer. In any event this estimate is unnecessary as the architect hired by the local municipality will make an estimate of the cost. This architect should have at least as much expertise as this department to make an estimate. The reimbursement that the State may make would be using the dept. estimate rather that the estimate prepared by the architect. The dept. estimate is very likely to be less than the architect's.

37.15.790 establishes a that a bond committee will decide at what level the state will reimburse local municipalities for debt service. It does not seem appropriate that a committee, presumably appointed by the Governor, should have the far reaching authority to possibly cause defaults on existing bond issues.

In summary this bill is a tremendous bureaucratic nightmare of studies to even get tentative approval of a project. It removes almost all local control in the entire process from design to debt repayment. It essentially eliminates State reimbursement of school construction, as it now exists. At the whim of a committee a municipality could be forced to pay all costs associated with a project at any time during the life of the issue. Even when reimbursement is made it will be at a substantially reduced level. It will not in any way cover the costs of school construction. Significantly, the local municipality will be in a much worse position to project state revenues, which will make budgeting very imprecise. Taxes will not only be increased to cover the additional costs, but also to mitigate the uncertainty of state revenues.

An analysis should be undertaken to determine the funding level required under the State revenue sharing program resulting from increased local effort required to fund school construction. As local effort (taxes) is a major component of the revenue sharing formula, the distribution of revenue sharing will change dramatically. In addition reductions in State revenue from the 20 mill oil tax will result as local municipalities increase their mill rates to cover increased costs of school construction.

ACSA

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •
326 Fourth St., Suite #211 Juneau, Alaska 99801 586-9702

an organization of Alaskan School Administrators

February 19, 1986

The Honorable Max Gruenberg
Alaska House of Representatives
Pouch V
Juneau, Ak 99811

Dear Representative Gruenberg:

On February 6, 1986, the school superintendents met in Anchorage and drafted the following position on H.B. 520.

The Alaska Association of School Administrators and the Alaska Council of School Administrators support the legislators and Governor's Office in developing containment language to protect the States liability on debt incurred by school districts bonding. We have, however, some concerns about the present bill.

Line 26, page 1: We feel that the inclusion of D.O.T. in the process will increase the bureaucratic nightmare and run the cost of the project up. Seeing that D.O.T. must add staff to meet the new demands of taking over a new political area we favor keep all the functions in D.O.E. (It is our opinion D.O.E. would not need to add near the staff that D.O.T. seems to want.) Our past experience with D.O.T. has been one nightmare after another.

Line 23, page 2: While this may be a commendable idea it is next to impossible to make these comparisons in a practical manner. For instance, how do you compare Kake Elementary School with Lake Otis Elementary School in Anchorage? It will be either a high cost item or a law that does not get enforced.

Line 2, page 4: This, in effect, does away with cash payments to districts for emergency situations. It will place a hardship on small school districts who will now have to carry an emergency fund in the budget to cover a lost boiler or major roof damage. This will mean they will have to use General Fund money for this purposed. (It is our understanding this is a $2-3 million dollar item each year.)

Line 8, page 4: This would reduce the bond payments to the principal only, therefore, changing the true payment to 65% or less instead of the present 80% of the present law. We do not support this change.

Line 13, page 5: We want D.O.T. out of the bill.

Line 20, page 5: We want D.O.T. out of the bill.

Line 16, page 6: It is our understanding that this is not workable because there is no way to know the rate until you actually sell the bonds. (D.O.E. staff has a better handle on this problem. Jim Tozier)

Line 23, page 8: We do not favor 10,000,000 cap, but can support item (B) as the way to set the limit by the Bond Committee. The fixed cap could limit bonds for the next 5-10 years so we would prefer that the Bond Committee set the amount each year.

Line 18, page 9: We do not like the new language as it further reduces the payment to districts bringing the total cost to the State closer to 50% reimbursement when you consider the interest would no longer be available to school districts.

Final note: We would favor language in the bill that would require school districts to pay a a true 20% at the local level and the State to pay a true 80% of the approved project. Cut out the battles over who gets the interest earned, cost of financing, fees and expenses of trustees, bond counsel, etc. All the cost of the project should be laid out in advance so the 80-20 ratios or 75-25 ratio or whatever can be a true figure.

Sincerely,

Don MacKinnon

Donald L. MacKinnon
Executive Director

DLM:clc

Enclosure

Alaska State Legislature
House of Representatives
COMMITTEE ON HEALTH, EDUCATION
AND SOCIAL SERVICES

OFFICIAL BUSINESS

POUC
JUNEAU, AK 99
465-37

MEMORANDUM

TO: HESS COMMITTEE MEMBERS

FROM: REP. NIILO KOPONEN

DATE: MARCH 11, 1986

RE: PROPOSED CHANGES TO HB 520

PROPOSED COMMITTEE CHANGES IN HB 520

Sec. 1, part (d), line 20 - The word "shall" is changed to "may" in case the Department wishes to hold on to the facility for some future educational use. It may very well be that the REA facilities built by the State will not be operated as school purposes when the number of students drops below the number necessary to carry on a given program. This is especially true of secondary school facilities in isolated communities. However, demographic changes do occur and it may be necessary to reopen a facility after the lapse of some years. In the meantime, these facilities may be used for some other community purpose, but should not be surrendered.

Sec. 2 - The sections under AS 14.11.010 (b) were renumbered and reference to the Department of Transportation and Public Facilities deleted. The Department of Education, however, is given authority to request technical assistance and comment from other state agencies regarding the construction of schools.

Page 3, line 15 - add the word "uniform manner as required by the Department" (of education). This will require that maintenance and operation costs of schools throughout the state will be kept in comparable accounts and a realistic estimate of the variation costs due to climate, school design, etc. can be made.

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CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

Alaska State Legislature

House of Representatives

COMMITTEE ON HEALTH, EDUCATION
AND SOCIAL SERVICES

OFFICIAL BUSINESS

POUCH V
JUNEAU, AK 99811
465-3759

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The change on line 13 inserting the Department of Transportation and Public Facilities, as proposed in the original bill, has been rejected and design standards left with the Department of Education. This does not, of course, prohibit the Department from seeking the assistance of another department or agency of the State government, or prohibit the administration from ordering such assistance when it is deemed necessary.

The same comment applies to the change on line 20 on the same page and on lines 12 and 13 on page 7. The latter change specifies that the Department shall develop such technical assistance which may be provided by other state agencies and in the amount needed, etc.

The reference to DOTPF on lines 6 and 7 on page 8 have been removed. The change was made in the yearly allocation for the retirement of principle on line 26 on page 8. $100,000 principle will allow for the retirement, over a ten-year period, of $100,000 in bonds. The Legislature retains the right to increase or decrease by amendment that sum. Such action would have to be taken with due consideration for the fiscal position of the State. The Bond Committee in line 26 is limited to a lesser amount in that the authority of the Legislature to appropriate should not be infringed upon but that in case of emergency the Bond Committee should have the ability to limit expenditures between sessions should that become necessary. I note that the Governor has some authority in that area currently. In any case, the Bond Committee is principally an advisory agency and will be expected to make recommendations to the Legislature as to the actual years allocation.

A concern stated by both municipalities and school districts as to the effect of school debt on municipal debt limits. We have added a section clarifying this position so that the amount of the municipal debt subject to reimbursement by the State will not be counted under any municipal debt limit, if such a debt limit is passed as seems likely. This could also be put into a letter of intent, as can the following section.

It is felt that the school district should be able to use cash payments to acquire or construct schools or associated facilities. Associated facilities could, in fact, mean a wing of a building or other necessary parts of the program. It could include a swimming pool or other facilities outlawed under the proposed Sec. 8 of this current bill, i.e. "residential space, hockey rinks, planetariums, or other facilities for single purposes". Cash payment could also be used to reduce the overall amount that needs to be bonded for. The proposal also allows municipalities to authorize school debt that would not be reimbursed by the State and which would fall under the municipal debt limit if there was one and would also permit lease purchase from the Alaska State Building Authority and permitting the acceptance of gifts, surplus property and the like.

No reference was made to the Alaska School Fund, which is a dedicated fund set up by Congress primarily to fund construction of public schools in the period following the Second World War. I would recommend examination of this source and possibilities for increasing the income from the tobacco tax and other sources.

ASSOCIATION OF ALASKA SCHOOL BOARDS
326 Fourth St., Suite 510 • Juneau, Alaska 99801 • (907) 586-1083

MEMORANDUM

TO: House Health, Education and Social Services Committee

FROM: The Association of Alaska School Boards

DATE: February 24, 1986

SUBJECT: H.B. 520 Analysis and position.

Because this bill is a fairly complex one, the Association will attempt to give an analysis of the bill section by section and dovetail in the position of the Association on the section.

H.B. 520

Sec. one

We are told that this section merely provides that if an REAA or municipal school facility or the land the school sits on ceases to be used for school purposes, then the state, municipality, or other prior owner shall have authority to reclaim and dispose of the facility in the manner prescribed by law or the property reverts back to the previous owner as is prescribed in reversion documents already in existence.

RECOMMENDATION: The Association would have no problems with this section if this is all it does.

Sec. two

This section provides for D.O.T.P.F. to provide a "second opinion" as to the cost of the facility being proposed for bonding purposes.

RECOMMENDATION: The Association has great difficulty with this notion, as it appears that all this shakes out to be is a gubernatorial discontent with D.O.E. over last year's approval of so many bond issues for reimbursement purposes. More specifically, it provides the basis for reimbursement. If D.O.T. estimates come in less than the architect's estimate, then the payments are less to municipalities.

While the association is not in the business of defending D.O.E., it should be pointed out here that the powers of D.O.E. are restricted, in this case, to approving bond proposals of how the proposal meets space quidelines. DOE does not have the power to reject bond proposals otherwise.

In essence, D.O.T. gets to say, "This is what we think the building could be built for", and that will be a limit on reimbursement.

It should also be noted there that, in all probability, a district would have to have a fully developed set of plans for a facility in order for D.O.T. to do what this section would require. This means that the project has to be far along in design and totally out of sequence in the normal development of a project...even under the prospects of this bill.

Sec. three

This section requires in statute some additional data that shall be required of school districts when applying for bond approval. In reality this information is somewhat included in the six year capital improvement plans required of districts now.

RECOMMENDATION: The Association would suggest that the D.O.E. regs requiring data prevail.

Sec. four

This section would require that districts do a facility condition survey.

RECOMMENDATION: The Association would endorse this notion but for a different reason. My reasoning centers around the fact that districts should have a comprehensive survey of this type in order to facilitate the insuring of these facilities. It sounds like good business management. Three significant exceptions are noted below.

The Anchorage School District has informed the Association that D.O.T.P.F. is currently doing a condition survey of all state facilities there. Their estimate to complete the entire state project was $7,000,000.00 and they spent something like $5,000,000.00 alone to do Anchorage.

The point of this testimony is to speak to the cost of such a project and to caution that the scope of this project could get out of hand. Requiring architects and engineers to annually get involved in this might prove expensive.

Part (b) of this section seems a bit like "Mafia" style regulation. In that the state is essentially backing out of its significant commitment to school construction, then it should also back out of its apparent significant intent to regulate what municipalities do with their own money.

Part (d) of this section of the bill appears to be impractical. It possibly might end up to be a bureaucratic nightmare. This section requires that the conditions of the districts schools be compared to those of all other districts when making project application decisions.

AASB still endorses the basic notion of a condition survey with the cautions noted here.

Sec. five

This section cuts off 80% reimbursement payments on April 1, 1986 and eliminates any further reimbursement of any kind on cash payments for capital improvements after July 1, 1986.

RECOMMENDATION: All this hinges on what will replace the reimbursement provisions. The significant provision here is the elimination of the cash payments. The philosophy of the responsibility of the state versus the responsibility of the municipalities has to enter into this issue. If the state feels any responsibility at all for providing school facilities on a shared basis with municipalities, then I would expect that cash payments by municipalities are just as valid as bonds. If we are talking sound fiscal management, cash payments are equally valid. The only argument against reimbursing cash payments would be the "ability to pay" argument and that notion does not seem to prevail here. Possibly cash payments approved and prioritized in a similar manner in which bonded projects are going to be approved would be appropriate. It should also be observed that the total amount of money available is so small that addition of the cash projects would have minimal impact. AASB is not supporting unlimited eligibility for reimbursements for cash payments.

Sec. six

This section establishes that municipalities would be entitled to state reimbursement of 100% of PRINCIPAL payments made on bonds used for school construction. It also provides for a TWO YEAR time lag on reimbursement payments.

RECOMMENDATION: The Association sees great difficulty in the use of principal payments only as a vehicle for writing legislation. The attempt here is to cause municipalities to be more frugal in their bond issue construction. While the Association has no difficulty with the philosophy, we feel the mechanism won't work. We would recommend a combination of principal and interest, even if the combination causes a reduction in the ultimate percentage of state participation.

We also see no need for a two year time lag. This notion is strictly for the convenience of state and is significantly detrimental to municipalities. In essence, the gain to the state is not sufficient to warrant the harm done to municipalities. Municipalities will have to raise taxes for the first two years in order to make the bond payments. The state puts up a weak audit related argument as to the need for the two year time lag.

Sec. seven

This section would require that the state deduct from payments any interest that may accrue as a result of investment of bond proceeds. The state, in the current law impacted by this section, retains all of the cigarette tax money already.

RECOMMENDATION: The notion that the state should retain the interest started when the state was paying 90% and then 80% of both interest and principal on bond payments. The state had a valid claim, under those conditions, that the municipalities were essentially getting facilities at no cost to the municipalities by being allowed to keep the interest and using it to make payments. Now with the state participation being reduced to principal and this bill containing other limiting factors, AASB loses enthusiasm for support for this portion of the bill. AASB feels that the state loses its claim on interest earnings when it disclaimed responsibility for interest payments. This provision will also be a disincentive to wise investment of bond proceeds if municipalities cannot use interest to offset their increased fiscal burden.

In addition, bond council will generally note that interest earnings on bond proceeds investment is a hedge against over-issuing.

Sec. eight

This section provides D.O.T. control over determining what can be built in relation to swimming pools and other athletic facilities.

RECOMMENDATION: The language in the law is bad to begin with. To further complicate things by getting D.O.T. involved is not a solution to the problem in our view. AASB would support an honest attempt to legislate some sort of building standard for state financial participation. Nothing, however, has approached this mode as yet...either in the current statute or in the proposed H.B. 520.

Sec. nine

This is purely a mechanical section to amend the statute to provide for the change enacted in section six (100% of principal provision).

Sec. ten

This section requires that the project has to be approved before the project can go to the voters in order to be eligible for state reimbursement.

There is some approval language placing limits on refunding of bonds. AML bond council has great difficulty with this language.

RECOMMENDATION: If we are to get state money, we suspect that we need to jump through the state hoop of getting the project approved prior to going to the voters. Too, we need to let the voters know if state money is available on the project.

It should be pointed out here again, however, that technical language in this bill may require significant capital outlay just to get the project designed sufficiently to make application. AASB sees technical flaws in the process.

On the issue of refinancing, why should the state be interested in this if the municipalities are on the hook for the interest. We also need to know why a lesser amount (than 5%) savings on a refinance plan is not sufficient reason for doing so. AASB admits limited knowledge of refinancing procedures.

Language that requires ten year bond issues with "approximately equal" payments is, first of all, restrictive and infringing upon the municipalities rights to structure the issue and second, impractical. Bond issues just are not structured that way.

The use of a bond committee is considered by some as suspect. This gives considerable power to three people (three commissioners, appointed by the Governor, we are told). AASB will recommend on the bond committee later in this position paper.

Sec. eleven

This section is going to be a significant item of discussion. It deals with establishing criteria for approval of projects. Significant points are:

D.O.T. standards to be developed. (D.O.T. gets more say on what can be built.)

A rank ordering of projects that "serve the best interests of the state."

D.O E. gets much more authority to disapprove projects.

D.O.E. can reduce the scope of the project request based upon cost estimates made by D.O.T.

RECOMMENDATION: D.O.T. should not be permitted to establish cost. The notion that D.O.T. ought to establish geographic standards is impractical. Who should determine the "best interests of the state" and what is the criteria?

If there is a much more structured approval process, then why the overkill on the scope of project issue? If the approval process works and the reimbursement structure is based upon actual municipal payments, it seems that sufficient safeguards are already in place through other provisions of this bill.

AASB's position is in support of strengthening criteria for approval of state participation in providing school facilities. We would prefer to see that provision in D.O.E.

Sec. twelve

This section essentially provides for a ten million dollar annual cap on state authorizations. (Would realistically provide for about twenty million dollars worth of projects.) This provision also authorizes the bond committee to manipulate that number.

The old authorizations would remain in place and not be impacted by the "cap" of ten million.

RECOMMENDATION: AASB thinks the cap idea is essential. We doubt that ten million, in the text that it is presented here, is realistic. We also doubt the validity of the bond committee being the best avenue for flexibility.

It should be noted here that this provision only caps one of three avenues by which school facilities are funded. The other two are grants and budgetary appropriations. If the state wants to get down to a ten million dollar annual contribution to this endeavor, then there are alternatives that would make more sense.

Sec. thirteen

This section adds exclusionary language that cuts out costs of preparing bond issues from the repayment schedule.

RECOMMENDATION: This seems arbitrary and petty. There appear to be legitimate costs to a project here that the state does not want to recognize. The added question as to the eligibility of design preparation costs here make this package reduce the state share to go well below fifty percent.

Sec. fourteen

This section puts into title 35 (D.O.T.) all the enabling language that is necessary for D.O.T. to "do its thing" as spoken to in other parts of the bill.

RECOMMENDATION: D.O.T. need not be involved in the approval process of school construction. This has been tried in the past and D.O.T. administrative charges to the projects exceeded ten percent, according to district reports. This caused legislation some years ago to allow districts to manage their own construction projects.

Sec. fifteen

This section gives the power to the state bond committee to set any level or no level of state participation in bond redemption.

RECOMMENDATION: Nothing short of legislative guarantees should be acceptable. This provision gives the Governor total control over the process and makes all other provisions of the bill meaningless.

Sec. sixteen

This section repeals language of last year (S.B. 51) that provided that interest on bond investments shall be used for project expenses. It allows another section of this bill to prevail wherein the interest accrual is offset in the state payment schedule. (Unfortunately, D.O.E. regulations places an offset deduction to payments.)

RECOMMENDATION: AASB feels that, in light of the lack of participation on the state's part regarding interest payments, how the municipality uses the interest ought to remain as is currently in statute; it must be applied to the project. AASB further recommends rescinding D.O.E. regulations which deduct from municipal payments an amount equal to the interest earnings.

To leave this practice in place under H.B. 520 would leave municipalities with little, if any, incentive to invest prudently.

Sec. seventeen

This section requires that D.O.E. and D.O.T. study school construction needs through the year 2001 and report their findings to the legislature.

RECOMMENDATION: AASB supports this provision.

KENAI PENINSULA BOROUGH

BOX 850 • SOLDOTNA, ALASKA 99669
PHONE 262-4441

STAN THOMPSON
MAYOR

MEMORANDUM

TO: LeRoy H. Barton, Jr., Director of Finance

FROM: Ross Kinney, Assistant Director of Finance
Larry Semmens, Treasury Manager

DATE: February 4, 1986

SUBJECT: HB520

The bill is obviously an attempt by the Governor to limit the local municipality in its ability to construct schools. The limits placed are numerous and effective. We will list those items which we feel are of particular interest to the Kenai Peninsula Borough.

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14.11.102 is substantially changed. The effect is to severely limit local control of when and what kind of schools can be built. This new section should be carefully reviewed by the school district personnel. They have made a response to similar restrictions which were promulgated by regulations which, I believe, were subsequently scuttled by the Dept. of Education. This section seems even more restrictive than the previous regulations. Basically the state would have full control of school construction, from the design stage to the debt repayment stage.

14.11.103 is an entirely new section which would require municipalities to request a specific amount to be reimbursed by October 15 of each year. The request can only be made for approved and ranked projects as per 14.11.102. This seems to be somewhat unnecessary since the State has copies of all amortization schedules of existing debt. Perhaps this should state that requests should be made for new debt issued in the preceding fiscal year for reimbursement the following year. However, remember that there is a two year lag for debt after April 1 1986. This is not a difficult provision to comply with, it does seem that the intent may be to deny any late reques...

14.11.135 states that the cost of financing a project does not constitute "costs of construction." This means that any cost of issuing bonds including the interest on bonded indebtedness will be paid by the local municipality without reimbursement from the State.

35.15.210 is all new. It seems to reiterate that a department will prepare an estimate for the cost of a school project. It is assumed that the department referred to is the Dept. of Transportation and Public Facilities. It could be clearer. In any event this estimate is unnecessary as the architect hired by the local municipality will make an estimate of the cost. This architect should have at least as much expertise as this department to make an estimate. The reimbursement that the State may make would be using the dept. estimate rather that the estimate prepared by the architect. The dept. estimate is very likely to be less than the architect's.

37.15.790 establishes a that a bond committee will decide at what level the state will reimburse local municipalities for debt service. It does not seem appropriate that a committee, presumably appointed by the Governor, should have the far reaching authority to possibly cause defaults on existing bond issues.

In summary this bill is a tremendous bureaucratic nightmare of studies to even get tentative approval of a project. It removes almost all local control in the entire process from design to debt repayment. It essentially eliminates State reimbursement of school construction, as it now exists. At the whim of a committee a municipality could be forced to pay all costs associated with a project at any time during the life of the issue. Even when reimbursement is made it will be at a substantially reduced level. It will not in any way cover the costs of school construction. Significantly, the local municipality will be in a much worse position to project state revenues, which will make budgeting very imprecise. Taxes will not only be increased to cover the additional costs, but also to mitigate the uncertainty of state revenues.

An analysis should be undertaken to determine the funding level required under the State revenue sharing program resulting from increased local effort required to fund school construction. As local effort (taxes) is a major component of the revenue sharing