

ALASKA LEGISLATURE COMMITTEE FILES, 2005-2006 8672

11672 HOUSE STATE AFFAIRS

**HB**

**278**

# Representative Mike Hawker

## Alaska State Legislature



### House Bill 278 Sponsor Statement

#### *Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 direct  
800 478-4950 toll free  
907 465-4979 fax

#### *Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

#### *Member:*

House Finance Committee  
Legislative Budget  
& Audit Committee

#### *House District 32:*

Eagle River  
Anchorage  
Rainbow  
Indian  
Bird  
Girdwood  
Portage  
Whittier  
Sunrise  
Hope

**"An Act relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska Municipal Bond Bank Authority or a subsidiary of the authority to assist state and municipal governmental employers by issuing bonds and other commercial paper to enable the governmental employers to prepay all or a portion of the governmental employers' shares of the unfunded accrued actuarial liabilities of retirement systems and authorizing governmental employers to contract with and to issue bonds, notes, or commercial paper to the authority or its subsidiary corporation for that purpose; and providing for an effective date."**

HB 278 authorizes the Alaska Municipal Bond Authority to consider issuing pension obligation bonds (POBs) at the request of the state or a municipal governmental employer. POBs are a proven and acceptable tool to manage pre-existing liabilities for state and local pensions. Bond market participants are receptive to POBs, including bond insurers, rating agencies and investors.

HB 278 expands the authority of the Alaska Municipal Bond Authority to support the state or a municipality that wishes to include POBs in their strategy to reduce the cost of meeting unfunded pension liabilities.

This bill does not authorize any debt instruments to be issued. The state or a municipality would need to take a separate specific action to utilize this new ability of the Municipal Bond Bank Authority.

Staff Contact: Juli Lucky 465-6587 Pat

rep.mike.hawker@legis.state.ak.us

SPONSOR STATEMENT AND FACT SHEET

# Representative Mike Hawker

## Alaska State Legislature



### Fact Sheet for House Bill 278

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Hope

**Short Title:** HB 278 Retirement System Bonds

**Current Version:** HB 278

**Staff Contact:** Juli Lucky or Pauly Swanson 465-4949

#### Summary:

- Authorizes the Alaska Municipal Bond Bank Authority to issue pension obligation bonds that assist state and municipal governmental employers to finance the payment of all or a portion of their actuarial pension liability.

#### Benefits:

- Properly planned and executed, pension obligation bonds (POBs) can lower the cost of funding the past service cost component of public pension liabilities.
- If the state wide unfunded past service liability were bonded, savings of approximately \$1.5 billion in present value dollars could be realized.
- This bill is needed to empower public entities with the ability to determine if POBs are an appropriate component of their fiscal strategy.

#### Background:

The combined total unfunded liability of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) is approaching \$6 billion. This liability includes unfunded pension and post-employment healthcare benefits.

POBs are a financing mechanism to minimize the cost funding pension obligations by borrowing at a lower rate of interest than the bond proceeds earn after being deposited in the pension fund. POBs must be carefully structured and may not be appropriate for all employers, however they should be an option for those public entities who wish to consider them.

Revised 5/2/2005

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To: Representative Paul Seaton, Chair  
House State Affairs Committee

From: Representative Mike Hawker *M*

Date: January 25, 2005

Re: House Bill 278 – proposed amendment

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The House State Affairs Committee requested that my office prepare an amendment to House Bill 278 to allow smaller communities to join together to take advantage of pension obligation bonds. Upon discussion with Legislative Legal Counsel, we learned that AS 29.35.010(13) authorizes municipalities to enter into cooperative agreements.

Sec. 29.35.010. General powers.

All municipalities have the following general powers, subject to other provisions of law:

(13) to enter into an agreement, including an agreement for cooperative or joint administration of any function or power with a municipality, the state, or the United States;

Therefore, it is their belief that we do not need additional permissive language in this statute to allow municipalities to enter into cooperative agreements for pension obligation bonds.

**Merrill Lynch Response to Question from  
House State Affairs Committee Hearing on January 17, 2006**

**Overview**

During the House State Affairs Committee hearing on Tuesday, January 17, 2006, a question was raised regarding the impact of pension obligation bonds on the 5% employer contribution rate growth cap that is currently in place for annual PERS contribution rates. As described in more detail below, Merrill Lynch believes that pension obligation bonds can be structured such that the effect of the current 5% cap on the growth in employer contribution rates for PERS remains in place. In fact, pension bond issuers have quite a bit of latitude in how they structure debt service repayment features, as we highlight in two Oregon examples below.

**Detailed Description**

In the pension obligation bond numbers that Merrill Lynch included and presented in the Thursday, January 12, 2006 House State Affairs Committee hearing, potential PERS savings were calculated by taking the difference between two cases:

- **No Action Case:** Total expected employer payments including the 5% growth cap assuming no pension obligation bonds were issued.
- **Pension Bond Case:** Total expected employer payments assuming pension obligation bonds were issued and the debt service from these bonds replace the expected past service rate payments that employers would have to pay if no bonds were issued.

In structuring the "Pension Bond Case", Merrill Lynch amortized the debt service such that the difference between the total expected employer contribution rates in the two cases listed above were approximately level over time. Therefore, because the "No Action Case" included the 5% growth cap in its total expected employer contribution rates and the "Pension Bond Case" was structured around the "No Action Case", both cases result in limited and gradual growth in expected employer contribution rates over the first few years.

In order to create this type of flexible and beneficial structure, issuers would have to defer bond debt service slightly such that payments would grow over time. This is not unusual for pension bond financings; in fact, we have included on the following page the debt service structures from two pension financings in Oregon which had growing debt service structures yet received solid A and AA category ratings from Moody's and Standard and Poor's (two of the largest and most respected bond rating agencies). That said, we would caution against deferring debt service too aggressively, and would recommend that pension bond issuers limit debt service growth to the expected employer payments growth that would have likely occurred had pension bonds not been issued.

**Conclusion**

Merrill Lynch believes that the debt service from pension obligation bonds can be structured such that the effect of the current 5% cap on the growth in employer PERS contribution rates remains in place. Issuers have latitude in how they structure pension bond debt service payments, and rating agencies have accepted growing debt service structures provided the growth is similar to expected employer payments had no pension bonds been issued. We would be happy to answer any questions regarding this memo or regarding the numbers that we provided to the House State Affairs Committee Hearing on Thursday, January 12, 2006.

**Examples of Pension Bond Financings with Deferred Debt Service Schedules**

<u>Period Ending</u>	<u>Oregon School Boards Association Series 2003 Rating: A1 / AA-</u>	<u>State of Oregon Series 2003 Rating: Aa3 / AA-</u>
6/30/2004	\$35,756,937	\$69,609,411
6/30/2005	34,187,709	118,764,872
6/30/2006	47,702,709	118,764,872
6/30/2007	49,772,709	120,819,872
6/30/2008	53,287,709	125,951,811
6/30/2009	55,537,709	131,305,329
6/30/2010	59,362,709	136,884,719
6/30/2011	61,792,709	142,704,344
6/30/2012	66,212,709	148,769,082
6/30/2013	69,352,709	155,090,876
6/30/2014	73,382,709	161,681,978
6/30/2015	76,792,709	168,555,022
6/30/2016	81,147,709	175,710,621
6/30/2017	84,857,709	183,188,600
6/30/2018	89,632,709	190,970,172
6/30/2019	93,677,709	199,086,967
6/30/2020	98,897,709	207,548,485
6/30/2021	103,292,709	216,370,191
6/30/2022	108,967,709	225,567,942
6/30/2023	113,722,709	235,152,696
6/30/2024	119,907,709	245,145,513
6/30/2025	125,052,932	255,567,300
6/30/2026	131,434,504	266,429,051
6/30/2027	136,684,252	277,749,421
6/30/2028	65,532,168	
Total:	\$2,035,949,973	\$4,277,398,147



**ALASKA MUNICIPAL LEAGUE**

**RESOLUTION #2006-02**

**A RESOLUTION URGING THE STATE TO PROVIDE FOR A  
STATUTORY MAXIMUM EMPLOYER CONTRIBUTION RATE AND  
ALLOW EMPLOYERS THE OPTION OF REFINANCING THEIR  
PERS/TRS DEBT**

**WHEREAS**, the State of Alaska created the Public Employees Retirement System (PERS) in 1962 to provide a retirement system for state and participating municipal employees; and

**WHEREAS**, many cities and boroughs have participated in PERS for many years; and

**WHEREAS**, the basic premise of a defined benefit pension plan is that employer and/or employee contributions are invested by the plan administrator in accord with sound actuarial principles so that adequate funds are available for retiree pensions and health care benefits; and

**WHEREAS**, the PERS system is seriously underfunded on a statewide basis; the plan's assets are roughly equal to only 70% of the projected plan expenses; and

**WHEREAS**, in response to the underfunding, PERS administrators have indicated that the employer PERS contribution rate will increase by 5% compounded annually every year for many years; and

**WHEREAS**, this past March, the Senate Finance Committee of the Alaska Legislature found the following reasons for PERS underfunding:

- Inaccurate assumptions
- Historical understatement of system liabilities
- Rising health costs
- 3-year "bear" market downturn
- Declining interest rates
- Unfavorable demographic changes
- Timing of the recognition of market losses
- Artificially low contribution rates in good times
- Legislation that has increased benefits
- Awarding of Post Pension Retirement Adjustments

**WHEREAS**, by passage of Senate Bill 141, the State has taken a significant step towards a long-term resolution of the statewide PERS shortfall; effective July 1, 2006, the existing defined benefit plan will become a defined contribution plan for employees hired on or after that

date; under a defined contribution plan the liability of the employer is limited to making contributions; and

**WHEREAS**, all municipalities and local taxpayers face eventual fiscal calamity as the employer rate increases by 5% of total salaries paid per year; and

**WHEREAS**, establishing a maximum employer PERS rate will enable municipalities to afford to continue to provide essential public services; and

**WHEREAS**, the State government has vastly superior revenue resources compared to municipal governments; and

**WHEREAS**, statutory changes to allow municipalities and the state to refinance the existing debt could potentially save several percentage points of interest charges each year.

**NOW, THEREFORE BE IT RESOLVED** that the Alaska Municipal League agrees to the following:

- To avoid penalizing local taxpayers and students, the PERS statutes should be amended to provide for a maximum employer contribution rate of 20%, with any amount above 20% to be paid by the State, as part of the changes to resolve the plan underfunding.
- That the State allow employers the option of refinancing their existing PERS/TRS debt in order to use financing methods that are available at a rate lower than 8.25%.

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 278  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Alaska Municipal Bond Bank Borrowing Authority RDU \_\_\_\_\_  
 Component Alaska Municipal Bond Bank  
 Sponsor \_\_\_\_\_ Component No. 121  
 Requester \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel	25.0					
Contractual	7,040.0	40.0	40.0	40.0	40.0	40.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>7,065.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
Bond Proceeds	7,000.0					
Bond Bank Investment Earnings	65.0	40.0	40.0	40.0	40.0	40.0
<b>TOTAL</b>	<b>7,065.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>

Estimate of any current year (FY2006) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The bill expands the ability of the Alaska Municipal Bond Bank Authority (Bond Bank) to borrow money for loans to communities to include prepaying unfunded accrued actuarial liabilities of the retirement system. The premise of undertaking this type of transaction is providing communities with an efficient means of borrowing to fund their unfunded liability (assumed to be growing at 8.25%). The difference between the cost of capital and 8.25% is assumed to provide financial relief to the community.

The fiscal note contemplates a transaction of considerable size, up to a billion dollars, occur in FY 2007. If there was a delay, seven million of the dollars of the cost would shift to the year a transaction did occur. It is possible that there would be additional transactions in subsequent years with similar costs.

Contractual costs include rating agency fees, financial advisor, bond counsel, printing, cusip service, underwriting, & other miscellaneous costs.

Prepared by: Deven Mitchell Phone 465-3750  
 Division: Alaska Municipal Bond Bank Authority Date/Time 1/5/06 12:00 AM  
Deven Mitchell Date \_\_\_\_\_  
 Agency: Alaska Municipal Bond Bank Authority

**Municipal Taxable Pension Financings  
2001-Present**

Sale Date	Issuer	Issue Description	Series	State	Par (\$mm)
12/21/05	Pomona City-California	Pension Obligation Ref Bonds	Series 2006 AR	CA	36.205
12/20/05	Clark-Pleasant Comm Sch Corp	GO Pension Bonds	Series of 2005	IN	4.000
12/15/05	Evansville-Vanderburgh Schl Bldg Corp	GO Pension Bonds	Series of 2005	IN	18.000
12/06/05	Bell Public Financing Authority	Pension Revenue Bonds	Series 2005	CA	9.225
11/22/05	Beaver Co-Pennsylvania	Taxable GO Pension Bonds	Series of 2005	PA	13.675
11/16/05	Brockton City-Massachusetts	General Obligation Bonds		MA	101.515
11/16/05	Solano Co-California	Pension Funding Bonds	Series 2005	CA	42.385
11/09/05	Duquesne City-Pennsylvania	General Obligation Pension Bonds	Series B of 2005	PA	5.845
11/08/05	Paducah City-Kentucky	GO Pension Tax Bonds	Series 2005	KY	6.160
11/01/05	Richmond City-California	Taxable Pension Funding Bonds	Series 2005	CA	114.995
10/27/05	Syracuse City-New York	Pension Obligation Bonds	Series 2005 D	NY	3.862
10/18/05	Dracut Town-Massachusetts	Pension Obligation Bonds		MA	2.175
10/01/05	Moraga-Orinda Fire Dt	Taxable Pension Obligation Bonds	Series 2005	CA	28.435
10/01/05	San Bernardino City-California	Taxable Pension Obligation Bonds		CA	50.401
09/14/05	Oregon Local Governments	Limited Tax Pension Obligations	Series 2005	OR	186.945
08/18/05	Inglewood City-California	Taxable Pension Oblig Bonds	2005 Series C	CA	6.135
08/18/05	Inglewood City-California	Pension Obligation Bonds	2005 Series A&B	CA	58.851
08/18/05	Miami Beach-Florida	Special Obligation Ref Bonds	Series 2005	FL	53.030
08/17/05	Oceanside City-California	Pension Obligation Bonds	Series 2005	CA	42.780
08/03/05	Erie Co (Tonawanda) SD	School Dt Pension Sys BANs	Series 2005	NY	1.210
08/02/05	New Castle City-Pennsylvania	General Obligation Bonds	Series of 2005	PA	7.990
07/21/05	Contra Costa Fire Protect Dt	Pension Obligation Bonds	Series 2005	CA	129.900
06/21/05	Riverside City-California	Pension Obligations Bonds	2005 Series A	CA	30.000
06/15/05	California Statewide Comm Dev Au	Pension Obligation Bonds	2005 Series A	CA	20.635
06/14/05	Huntington Park City-California	Pension Obligation Ref Bonds	2005 Series A	CA	23.050
06/14/05	Oregon School Boards Association	Limited Tax Pension Bonds	Series 2005 B	OR	10.080
06/10/05	Oregon Community College Dt	Ltd Tax Pension Obligations	Series 2005	OR	57.835
06/08/05	Oregon Community College Dt	Limited Tax Pension Oblg	Series 2005A	OR	458.440
06/01/05	Detroit City-Michigan	Certificates of Participation	Series 2005B	MI	800.000
05/25/05	Detroit City-Michigan	Certificates of Participation	Series 2005A	MI	640.000
04/14/05	Atlantic (Pleasantville) SD BOE	School Refunding Bonds	Series 2005	NJ	2.810
04/13/05	Fairfield City-California	Pension Obligation Ref Bonds	Series 2005 A2	CA	11.830
04/11/05	Guttenberg Town-New Jersey	Pension Refunding Bonds		NJ	0.755
03/24/05	Denver City and Co SD #1	Certificates of Participation	Series 2005 A	CO	86.045
03/08/05	Houston City-Texas	GO Pension Bonds	Series 2005	TX	57.165
03/08/05	Monmouth Co (Howell Twp) BOE	School Refunding Bonds	Series 2005	NJ	19.080
03/01/05	South Gate City-California	Pension Obligation Ref Bonds	Series 2005	CA	24.400
02/24/05	Lockport-New York	Pension System Bonds	2005 Series B	NY	1.055
02/10/05	Riverside Co-California	Pension Obligation Bonds	Series 2005A	CA	400.000
01/20/05	Fairfield City-California	Pension Obligation Ref Bonds	Series 2004A	CA	8.920
01/20/05	Fairfield City-California	Pension Obligation Ref Bonds	Series 2004B	CA	20.995
01/19/05	Dallas City-Texas	GO Pension Bonds	Series 2005 A,B,C	TX	393.348
12/17/04	Pike Co School Corp	GO Pension Bonds	Series 2004	IN	6.200
12/10/04	Southeast Dubois Co Sch Bldg Corp	GO Pension Bonds	Series of 2004	IN	4.590
12/09/04	Long Beach-New York	Pension System Bonds	2004 Series B	NY	0.695
12/07/04	Olean Town-New York	Pension Bonds	Series 2004	NY	0.571
12/07/04	Onondaga Co-New York	General Obligation Pension Bonds	Series 2004	NY	6.000
12/02/04	Dekalb Co (Dekalb) CUSD	GO Pension Bonds	Series of 2004	IN	6.150
12/02/04	Lake Central School Corp	GO Pension Bonds	Series 2004	IN	17.200
12/01/04	Bucks Co-Pennsylvania	General Obligation Bonds	Series of 2004	PA	85.230
12/01/04	Northeast Dubois Co Sch Bldg Corp	General Obligation Pension Bonds	Series of 2004	IN	4.405
11/30/04	Hamburg-New York	Pension Serial Bond		NY	0.164
11/23/04	Hanover Comm School Corp	GO Pension Bonds	Series 2004	IN	1.295
11/22/04	Hobart School City-Indiana	GO Pension Bonds	Series 2004	IN	2.680
11/19/04	Indiana Bond Bank	School Severance Funding Bonds	Series 8B	IN	70.540
11/18/04	North Adams School Corp	GO Pension Bonds	Series 2004	IN	6.965
11/17/04	Minneapolis City-Minnesota	GO Pension Bonds	Series 2004	MN	4.740
11/17/04	Minneapolis City-Minnesota	Pension Bonds	Series 2004	MN	24.970
11/10/04	Griffith Public Schools	GO Pension Bonds	Series of 2004	IN	5.050
10/28/04	Niagara Falls-New York	Pension System Refunding Bonds	2004 Series B	NY	0.635
10/27/04	San Diego Metro Transit Dev Bd	Taxable Pension Obligation Bonds	2004 Series B	CA	38.800

**Municipal Taxable Pension Financings  
2001-Present**

Sale Date	Issuer	Issue Description	Series	State	Par (\$mm)
10/21/04	Lackawanna-New York	Pension System Bonds	Series 2004	NY	0.680
10/21/04	San Diego Metro Transit Dev Bd	Taxable Pension Obligation Bonds	2004 Series A	CA	38.690
10/13/04	Sacramento Metro Fire Dt	Pension Funding Bonds	Series 2004 B&C	CA	32.069
10/13/04	Sacramento Metro Fire Dt	Pension Funding Bonds	Series 2004A	CA	37.930
10/13/04	Syracuse City-New York	Pension Obligation Bonds	Series 2004 G	NY	8.472
09/23/04	Fremont Community Schools	GO Pension Bonds	Series 2004	IN	3.600
09/15/04	Crown Point Comm School Corp	GO Pension Bonds	Series 2004	IN	12.000
09/14/04	Kankakee Valley School Corp	GO Pension Bonds	Series 2004	IN	6.500
08/31/04	South Knox School Bldg Corp	GO Pension Bonds	Series 2004	IN	1.760
08/24/04	New Albany-Floyd Consol Sch Corp	GO Pension Bonds	Series 2004	KS	14.000
08/23/04	Lake Ridge Schools Renov Corp	GO Pension Bonds	Series of 2004	IN	1.010
08/05/04	Erie Co (Tonawanda) SD	SD Pension System BANs	Series 2004	NY	1.210
07/27/04	Carroll Co-Maryland	Taxable Pension Funding Bonds	Series 2004	MD	12.800
07/13/04	Depew Village-New York	Pension Serial Bonds		NY	0.308
07/01/04	North Tonawanda City SD	SD Pension System Serial Bonds	Series 2004	NY	2.460
06/28/04	Pomona City-California	Pension Obligation Ref Bonds	Series AJ & AK	CA	38.000
06/28/04	San Diego Co-California	Pension Obligation Bonds	Series 2004 B1-B2	CA	147.825
06/24/04	Sacramento Co-California	Taxable Pension Funding Bonds	Series 2004 C-1,2,3	CA	426.131
06/23/04	San Bernardino Co-California	Pension Obligation Bonds	Series 2004 B-2	CA	30.000
06/23/04	San Bernardino Co-California	Pension Obligation Bonds	Series 2004 B-3	CA	30.000
06/23/04	San Bernardino Co-California	Pension Obligation Bonds	Series 2004 B-1, F	CA	89.825
06/23/04	San Bernardino Co-California	Pension Obligation Bonds	Series 2004 C	CA	125.000
06/22/04	Clinton Prairie Sch Bldg Corp	GO Pension Bonds	Series 2004	IN	3.950
06/22/04	San Diego Co-California	Pension Obligation Bonds	Series 2004A & C	CA	306.288
06/17/04	South Coast Air Quality Mgmt Dt	Pension Obligation Bonds	Series 2004	CA	47.030
06/17/04	Union City-California	Pension Obligation Bonds	Series 2004	CA	22.998
06/14/04	California Statewide Comm Dev Au	Pension Obligation Bonds	2004 Series A1 & A2	CA	197.084
06/10/04	Solano Co-California	Pension Funding Bonds	Series 2004A & B	CA	96.665
06/09/04	San Bernardino Co-California	Pension Obligation Bonds	Series 2004A	CA	189.070
06/04/04	Illinois Finance Authority	Revenue Bonds	Series 2004D	IL	3.545
05/18/04	Syracuse City-New York	Pension Obligation Bonds	Series 2004C	NY	2.039
05/17/04	MSD of Struben Co	Taxable GO Pension Bonds	Series 2004	IN	7.100
05/12/04	Dunmore Boro-Pennsylvania	GO Pension Funding Bonds	Series of 2004	PA	4.115
05/12/04	Oregon Local Governments	Pension Obligation Bonds	Series 2004	OR	126.260
05/05/04	Sayreville Borough-New Jersey	GO Pension Refunding Bonds	Series 2004	NJ	0.520
04/27/04	McNville Borough-New Jersey	Pension Refunding Bonds	Series 2004	NJ	0.915
04/06/04	Newark City Housing Auth	Spec Oblig Pension Ref Bonds	Series 2004	NJ	6.840
03/22/04	Fresno Co-California	Taxable Pension Obligation Bonds	2004 Series B	CA	75.000
03/17/04	Allentown-Pennsylvania	GO Refunding Bonds	Series of 2004	PA	58.800
03/10/04	Fresno Co-California	Taxable Pension Obligation Bonds	2004 Series A	CA	327.898
02/28/04	Kansas Development Fin Auth	Revenue Bonds	Series 2004C	KS	500.000
02/18/04	Middlesex Co-New Jersey	Pension Refunding Bonds	Series 2004	NJ	10.315
02/12/04	Pennington-New Jersey	General Obligation Bonds	Series 2004B	NJ	0.320
02/11/04	Oregon Community College Dt	Ltd Tax Pension Obligation Bonds	Series 2004	OR	96.710
02/06/04	Oregon School Boards Association	Ltd Tax Pension Obligations	Series 2004	OR	467.820
01/22/04	Long Beach-New York	Pension Sys Bonds	Series 2004	NY	0.695
12/30/03	Orleans Comm School Corp	GO Pension Bonds	Series 2003	IN	3.815
12/18/03	Milwaukee City Redev Auth	Pension Funding Bonds	2003 Series C & D	WI	15.719
12/18/03	Milwaukee City Redev Auth	Pension Funding Bonds	2003 Series C & D	WI	130.850
12/16/03	Calumet Co-Wisconsin	Taxable GO Promissory Notes		WI	1.400
12/12/03	Westchester Co-New York	Pension Bond Anticipation Notes	Series 2003B	NY	11.690
12/10/03	Wisconsin	Gen Fund Appropriation Bonds	Series 2003 B	WI	281.500
12/10/03	Wisconsin	Gen Fund Appropriation Bonds	Series 2003 A	WI	330.000
12/10/03	Wisconsin	Gen Fund Appropriation Bonds	Series 2003 B	WI	333.350
12/10/03	Wisconsin	Gen Fund Appropriation Bonds	Series 2003 A	WI	850.000
12/09/03	Shelbyville Central Schools	GO Pension Bonds	Series 2003	IN	6.500
12/04/03	Indiana Bond Bank	School Severance Funding Bonds	Series 5-A	IN	184.730
12/04/03	Rockville Comm School Bldg Corp	GO Pension Bonds	Series 2003	IN	0.650
12/04/03	Suffolk Co-New York	Pension Obligation Bonds	Series 2003	NY	22.955
10/30/03	Orlando Utilities Commission	Wtr & Electric Rev Pension Bonds	Series 2003T	FL	55.325
10/29/03	Metuchen-New Jersey	Pension Refunding Bonds	Series 2003	NJ	0.870

**Municipal Taxable Pension Financings  
2001-Present**

Sale Date	Issuer	Issue Description	Series	State	Par (\$mm)
10/28/03	Oregon	GO Pension Bonds	Series 2003	OR	2083.960
10/10/03	Naugatuck Boro-Connecticut	GO Pension Bonds	Issue of 2003	CT	49.285
10/02/03	Franklin Borough-New Jersey	Pension Refunding Bonds		NJ	0.330
09/16/03	Danville Comm School Corp	GO Pension Bonds	Series 2003	IN	3.185
09/11/03	Lakewood Twp-New Jersey	Pension Obligation Ref Bonds	Series 2003	NJ	1.145
09/04/03	Clifton-New Jersey	Refunding Bonds	Series 2003	NJ	1.300
08/27/03	Kansas Development Fin Auth	Revenue Bonds	Series 2003 H	KS	40.250
08/21/03	Rochester-New York	GO Pension Bonds	Series 2003 I	NY	12.800
08/05/03	New Brunswick City-New Jersey	Pension Refunding Bonds	Series 2003	NJ	9.496
07/15/03	Sacramento Co-California	Pension Ref Cap Appreciatn Bonds	Series 2003 A & B	CA	152.321
07/14/03	Hamilton Twp (Mercer)-New Jersey	Pension Obligation Ref Bonds	Series 2003	NJ	5.595
07/09/03	Santa Rosa City-California	Pension Obligation Ref Bonds	Series 2003A	CA	20.500
07/09/03	Santa Rosa City-California	Pension Obligation Ref Bonds	Series 2003B	CA	30.170
06/26/03	San Luis Obispo Co-California	Pension Obligation Bonds	Series 2003	CA	137.194
06/25/03	Minneapolis City-Minnesota	General Obligation Pension Bonds	Series 2003	MN	36.000
06/17/03	Essex Co-New Jersey	GO Pension Refunding Bonds	Series 2003	NJ	54.665
06/16/03	Willingboro Twp-New Jersey	Refunding Bonds	Series 2003	NJ	0.525
06/12/03	Portland Community College Dist	Ltd Tax Pension Bonds	Series 2003	OR	119.995
06/05/03	Illinois	General Obligation Bonds	Series of 6/03	IL	10000.000
06/04/03	South Brunswick Twp-New Jersey	Pension Refunding Bonds		NJ	2.050
06/04/03	South Plainfield-New Jersey	GO Pension Ref Bonds	Series 2003	NJ	0.325
05/29/03	Warsaw Community Schools	GO Pension Bonds	Series 2003	IN	5.870
05/22/03	Monmouth Co-New Jersey	Pension Refunding Bonds	Series 2003B	NJ	17.210
05/15/03	Kern Co-California	Taxable Pension Oblig Ref Bonds	Series 2003B	CA	50.000
05/15/03	Kern Co-California	Taxable Pension Oblig Ref Bonds	Series 2003A	CA	238.177
05/13/03	Sonoma Co-California	Taxable Pension Obligation Bonds	Series 2003 A&B	CA	231.200
05/07/03	Marin Co-California	Taxable Pension Oblig Bonds	Series 2003	CA	112.805
04/29/03	Sussex Co-New Jersey	Pension Ref Bonds		NJ	3.900
04/28/03	North Brunswick Twp-New Jersey	Refunding Bonds	Series 2003	NJ	2.075
04/23/03	Contra Costa Co-California	Taxable Pension Obligation Bonds	Series 2003A	CA	322.710
04/10/03	Oregon Community College Dist	Ltd Tax Pension Obligations	Series 2003A&B	OR	153.582
04/09/03	East Orange City-New Jersey	GO Refunding Bonds	Series 2003	NJ	9.351
04/07/03	Englewood City-New Jersey	Pension Refunding Bonds	Series 2003	NJ	3.420
04/04/03	Oregon School Boards Association	Ltd Tax Pension Oblig Bonds	Series 2003	OR	927.080
04/03/03	Newark City-New Jersey	GO Refunding Bonds	Series 2003	NJ	40.747
03/31/03	Paterson-New Jersey	GO Refunding Bonds	Series 2003	NJ	13.045
03/27/03	Hamilton Twp (Mercer)-New Jersey	BANs	Pension Series 2003	NJ	5.535
03/24/03	Carteret Board of Education	Pension Refunding Bonds	Series 2003	NJ	2.450
03/24/03	Lyndhurst Board of Education	School Pension Refunding Bonds	Series 2003	NJ	2.030
03/24/03	Woodbridge Twp-New Jersey	Pension Refunding Bonds	Series 2003	NJ	4.785
03/17/03	Lodi-New Jersey	Pension Refunding Bonds	Series 2003	NJ	1.270
03/14/03	Gainesville City-Florida	Pension Obligation Rev Bonds	Series 2003A&B	FL	89.890
03/13/03	High Point Regional High SD	Refunding Bonds	Series 2003	NJ	1.945
03/13/03	Trenton City-New Jersey	GO Refunding Bonds	Series 2003A&B	NJ	42.936
03/10/03	Lakewood Twp SD	Refunding School Bonds	Series 2003	NJ	2.350
03/10/03	Lyndhurst Twp-New Jersey	Pension Refunding Bonds	Series 2003	NJ	1.765
03/10/03	Red Bank Regional High SD	Refunding School Bonds	Series 2003	NJ	1.600
03/10/03	Verona Township Board of Ed	Refunding School Bonds	Series 2003	NJ	1.540
03/07/03	New Jersey Economic Dev Auth	State Pension Funding Ref Bonds	Series 2003	NJ	375.000
03/03/03	Fort Lee Borough-New Jersey	Pension Refunding Bonds	Series 2003	NJ	4.230
02/28/03	Lawrence Twp SD	School Refunding Bonds	Series 2003	NJ	3.270
02/26/03	Lodi Board of Education	School Pension Ref Bonds	Series 2003	NJ	3.275
02/25/03	Passaic Co-New Jersey	Pension Refunding Bonds	Series 2003	NJ	6.560
02/19/03	Monmouth Co (Howell Twp) BOE	School Refunding Bonds	Series 2003	NJ	3.630
02/18/03	Bergenfield-New Jersey	Pension Refunding Bonds		NJ	1.310
02/13/03	Monroe Twp-New Jersey	Pension Refunding Bonds	Series 2003	NJ	1.145
02/12/03	Weehawken Twp-New Jersey	Pension Refunding Bonds	Series 2003	NJ	4.750
02/06/03	Bayonne City-New Jersey	GO Refunding Bonds	Series 2003	NJ	15.795
02/04/03	Brick Twp-New Jersey	Pension Refunding Bonds	Series 2003	NJ	4.650
02/03/03	Passaic-New Jersey	GO Pension Refunding Bonds	Series 2003	NJ	7.800
01/28/03	Jersey City-New Jersey	General Obligation Bonds	Series 2003	NJ	23.595

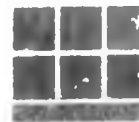
**Municipal Taxable Pension Financings  
2001-Present**

Sale Date	Issuer	Issue Description	Series	State	Par (\$mm)
01/27/03	Manchester Twp-New Jersey	Pension Refunding Bonds	Sereis 2003	NJ	1.795
01/24/03	Jackson Twp Board of Education	Taxable Refunding School Bonds	Series 2003	NJ	8.550
12/19/02	Garrett-Keyser-Butler Comm SD	GO Pension Bonds	Series 2002	IN	1.540
12/19/02	South Bend Comm School Corp	Taxable School Corp Pension BANs		IN	1.300
12/18/02	Spotswood Borough BOE	School Refunding Bonds	Series 2002	NJ	0.770
12/16/02	Matawan-Aberdeen Regional SD	School Refunding Bonds	Pension Series 2002	NJ	5.665
12/12/02	Mendocino Co-California	Taxable Pension Oblig Bonds	Series 2002	CA	91.945
12/11/02	Minneapolis City-Minnesota	GO Pension Bonds	Series 2002	MN	10.600
12/11/02	Minneapolis City-Minnesota	GO Pension Bonds	Series 2002	MN	25.000
12/03/02	Bartholomew Consol School Corp	GO Pension Bonds	Series 2002	IN	12.500
12/03/02	Wall Twp BOE	Refunding School Bonds	Series 2002	NJ	5.840
10/30/02	North Miami-Florida	Var Rte Dem Spec Oblig Ref Bonds	Series 2002	FL	14.735
10/25/02	Atlantic City Board of Education	Refunding School Bonds	Pension Series 2002	NJ	9.255
10/10/02	Oregon School Boards Association	Limited Tax Pension Obligations	Series 2002A&B	OR	774.663
09/19/02	Northeastern School Corp	GO Pension Bonds	Series 2002	IN	1.225
09/17/02	San Diego Co-California	Taxable Pension Obligation Bonds	Series 2002C	CA	100.000
09/17/02	San Diego Co-California	Taxable Pension Obligation Bonds	Series 2002A	CA	132.215
09/17/02	San Diego Co-California	Taxable Pension Obligation Bonds	Series 2002B	CA	505.125
09/10/02	West Haven City-Connecticut	General Obligation Pension Bonds		CT	67.305
09/08/02	Imperial Co-California	Taxable Pension Bonds	2002 Series A	CA	33.265
08/16/02	Frankton-Lapel Sch Bldg Corp	Taxable GO Pension Bonds	Series of 2002	IN	1.855
08/09/02	Long Beach City-California	Taxable Pension Oblig Ref Bonds	Series 2002 A	CA	43.950
08/09/02	Long Beach City-California	Taxable Pension Oblig Ref Bonds	Series 2002 A	CA	44.000
07/11/02	South Madison Comm School Corp	Taxable GO Pension Bonds	Series of 2002	IN	2.560
06/26/02	Woonsocket-Rhode Island	GO Pension Bonds		RI	90.000
05/10/02	Indiana Bond Bank	School Severance Fund Bonds	Series 1	IN	57.260
04/30/02	Franklin Comm School Corporation	Taxable GO Pension Bonds	Series 2002	IN	1.145
03/26/02	Tippecanoe School Corporation	GO Pension Bonds	Series 2002	IN	1.350
03/20/02	Marion Co-Oregon	Ltd Tax Pension Bonds	Series 2002A&B	OR	26.819
03/15/02	Oregon Local Governments	Ltd Tax Pension Oblig Bonds	Series 2002A&B	OR	228.615
03/13/02	Fresno Co-California	Pension Obligation Ref Bonds	Series 2002	CA	117.055
02/27/02	Corvallis-Oregon	Ltd Tax GO Bonds	2002 Series A	OR	23.913
01/23/02	Fresno-California	Taxable Pension Oblig Bonds	Series of 2002	CA	205.335
12/19/01	Monroe Co Comm School Bldg Corp	Retirement/Severance Bonds	Series 2001	IN	1.800
12/12/01	Lewiston City-Maine	GO Pension Bonds		ME	16.395
11/27/01	Rumford-Maine	GO Pension Bonds		ME	1.035
10/27/01	Manchester City-New Hampshire	Pension Obligation Bonds	Series 2001C	NH	20.810
10/17/01	Flockville Centre Vllg-New York	Pension System	Series 2001	NY	1.800
10/03/01	Oakland City-California	Taxable Pension Obligation Bonds	Series 2001	CA	195.639
07/18/01	Portland City-Maine	Multi-Modal Txbl GO Pension Bonds		ME	111.000
06/13/01	South Gate City-California	Taxable Certs of Participation	Series 2001	CA	8.500
06/05/01	Imperial Irrigation Dt	Taxable Pension Oblig Rev Bonds	Series 2001	CA	75.000
03/08/01	Contra Costa Co-California	Taxable Pension Obligations	Series 2001	CA	107.005
					<b>\$ 28,814.031</b>

# Pension Obligation Bonds

January 12, 2006

Mark Prussing, Vice President  
Lindsay Sovde, Vice President  
(206) 628-2882



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# What is a Pension Obligation Bond?

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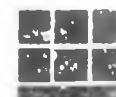
- A pension obligation bond is a financing used to defray unfunded pension costs.
- Pension systems measure assets on hand against the present value of projected liabilities over the long term.
- If liabilities exceed assets, the difference is known as the “Unfunded Accrued Actuarial Liability” or “UAAL.”
- With lagging investment returns, increases in healthcare costs, and actuarial revaluations, many public and private pension systems have found themselves significantly under-funded.



# What is a Pension Obligation Bond?

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- Repayment of the UAAL is amortized over a fixed period and built into payroll rates at a given interest rate, 8.25 percent in Alaska.
- Retirement system thereby becomes the “banker” for the shortfall, as employers repay the loan over the amortization period.
- Many jurisdictions have used Pension Obligation Bonds to refinance these “loans” at rates lower than the amortization rate.



# Why Might Pension Obligation Bonds be Useful in Alaska

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- According to the recently released 2004 valuation, assuming above-average growth in population:
  - PERS rates rise to **32% of payroll** beginning in 2011, and do not decline until 2029.
  - TRS rates rise to **50% of payroll** in 2011 and continue increasing to 56% by 2028 before declining.
- Properly structured pension obligation bonds can be an effective tool for immediately reducing payroll rates and producing long term savings for jurisdictions.
- In Oregon, jurisdictions are projected to save over \$1.3 billion from use of this technique.

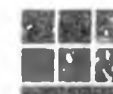
# Alaska Pension System \*

	Alaska	
	<u>PERS</u>	<u>TRS</u>
Asset base	\$ 8.2 billion	\$ 3.9 billion
Covered Employees	69,135	21,220
Average employer rate	16.77% <sup>(1)</sup>	21.00% <sup>(2)</sup>
Funded ratio	72.00%	64.00%
UAAL as of 2004 valuation	\$ 3.4 billion	\$2.3 billion

\*As of June 30, 2004.

(1) Effective for Fiscal Year 2006, Actuarially computed at 25.63%.

(2) Effective for Fiscal Year 2006, Actuarially computed at 38.85%.



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# The Arbitrage Issue

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Issuing a pension bond is not like refinancing your mortgage...

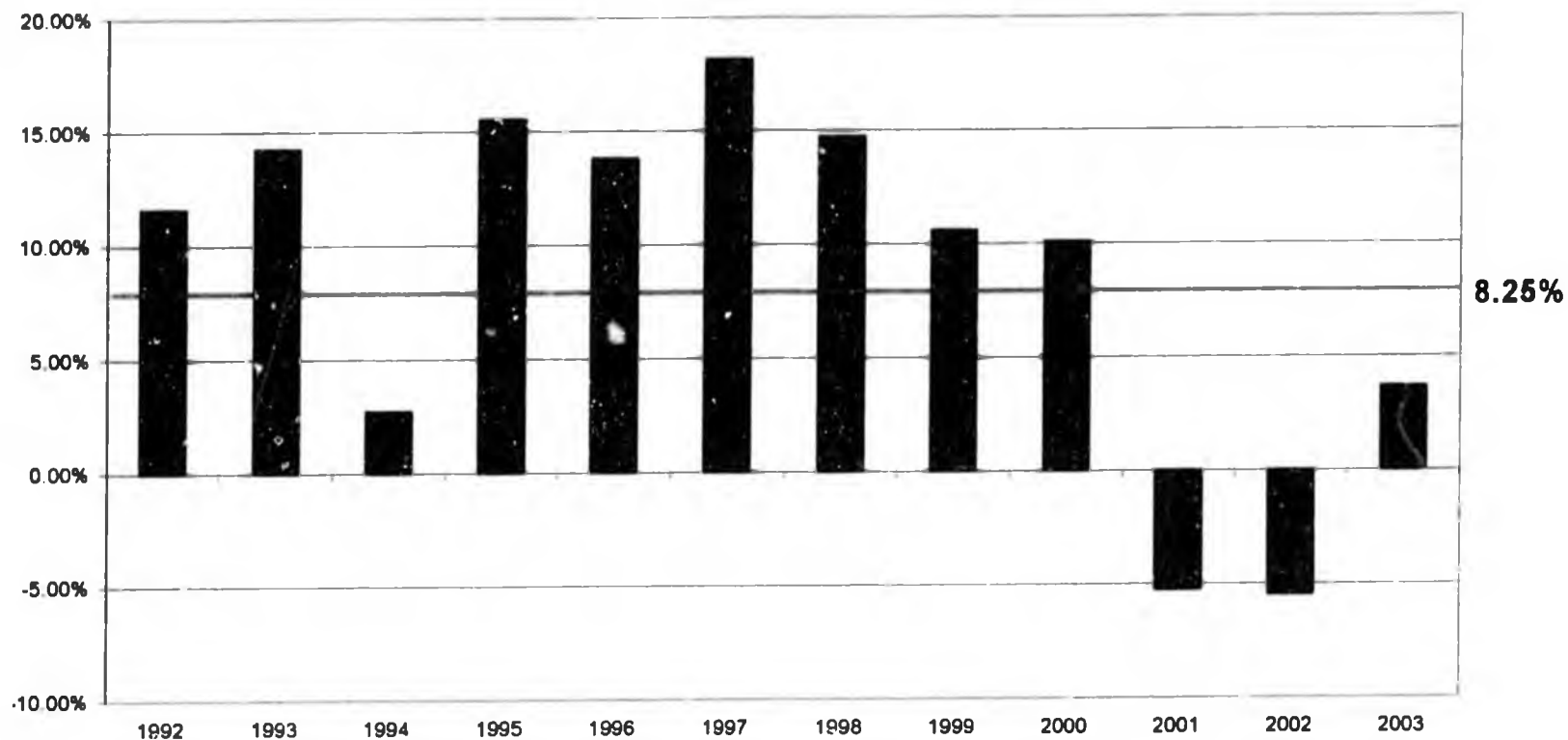
- Success from borrowing depends on the market returning more than the cost of the bond.
  - For Alaska borrowers, if investment returns equal 8.25% over 25 year period over the life of the bonds, costs will be reduced as estimated.
  - If investment returns are greater than 8.25%, cost reductions will be greater than projected.
  - If investment returns are less than 8.25% cost reductions will be positive, but less than projected.
  - If investment returns are less than the interest rate on the bonds, borrowers will be worse off than if they had done nothing.



# Alaska PERS

## Alaska Public Retirement System

### *History of Investment Results*



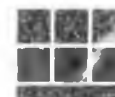
# Bonding a Popular Tool

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Many jurisdictions throughout the country have chosen to finance PERS liabilities with bonds.

Oregon example:

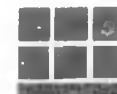
- A total of 133 school districts, cities, counties and the State have issued \$5.4 billion of pension bonds in Oregon.
- Savings projected at \$1.3 billion overall, assuming an 8.00% rate of return.
- Original statutory authority provided to local governments and school districts in 2001 for issuance of “full faith and credit obligations.”
- School Districts also granted authority to enter into intercept agreement with the State, whereby operating funds were additionally pledged. This approach resulted in “State” credit rating.
- State Constitutional amendment approved by voters in 2003 authorizing the State to issue GO bonds for its share of the liability. Voter approval margin was 55.25%.



# Oregon Process

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- Bond proceeds are placed in a “lump sum account” for benefit of employer. Earnings and losses directly accrue to that account.
- Lump sum account is used to provide prepayment credit on payroll rates charged to jurisdictions.
- Although bonds have to be sold on taxable basis, interest rates for most borrowings have been well under 6%.
- Oregon State Treasury regression analysis conducted in July 2003 projected probability of positive arbitrage in PERS refinancing at nearly 90%.



## Recent Returns – Oregon Lump Sum Accounts

Issuer	Par	TIC	Total Return	Annualized
Series 2002 A&B - Local Governments	\$ 238 m	7.00%	43.04%	11.74% <sup>(1)</sup>
Series 2002 - School Districts	\$ 775 m	5.60%	59.01%	19.14%
Series 2003 - Schools, Community Colleges	\$ 1,080 m	5.73%	51.88%	20.08%
Series 2004 - Schools, Community Colleges	\$ 400 m	5.49%	23.51%	13.44%
Series 2004- Local Governments	\$ 126 m	6.11%	24.28%	16.19%

(1) As of November 30, 2005

# Lessons Learned

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1. Payment to PERS does NOT guarantee UAAL will be paid off in full.

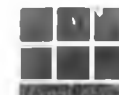
## 2. Changes in size of UAAL

- Judicial, legislative, regulatory or investment activities can cause future changes to UAAL. Further increases would continue to be responsibility of jurisdiction.
  - Reductions: Lump sum payment would put jurisdiction in surplus. Funds will not be returned to jurisdiction, but surplus is used to reduce payroll rates further.
  - Increases: Lump sum payment would defray total deficit. UAAL would not be as high as would otherwise be the case.

In any case, arbitrage risks remain the same for existing lump sum payment.

## 3. Structure of the financing matters

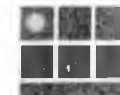
- Inappropriate to use unrealistic assumptions about rates of return.
- Amortization structure of bonds should match amortization of UAAL that PERS system uses.
- Not prudent to have back weighted structured where all savings are produced in early years.



# Lessons Learned

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4. The “housekeeping issues” are often the most critical
  - Adequate protection and proper accounting of lump deposits are critical.
  - Statutes and regulations needed to ensure that the employers making the deposit are the ones getting the credit, and that credit is for appropriate amount.
5. Bond Related Considerations
  - Bonds are not likely to be subject to early redemption.
  - Rating agencies will scrutinize structure carefully to ensure payment of liability is not further deferred.
  - Changes “soft” liability to “hard” liability, which may put some limitations on financial flexibility.
6. Variations in payroll growth are not immediately reflected in debt structure
  - Under current structure, if payroll declines, payments to PERS decline.
  - Using bonds, if payroll declines, payments on the bonds do not change.



# Alaska Legislative Considerations

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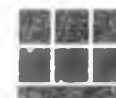
Goal: Give all jurisdictions, at their discretion, meaningful access to capital markets for the purpose of financing pension liabilities.

## 1. Access

- Express authorization for all types of jurisdictions to issue obligations for this purpose either individually or through another entity.
- Authorization for individual jurisdictions to pool together through another entity (either state entity such as Bond Bank and/or pool created with a Trustee).

## 2. “Meaningful” Access

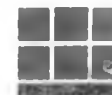
- Without additional credit support, some jurisdictions may not be able to enter market on a subject-to-appropriation basis at a competitive rate.
- Forms of additional credit support
  - Intercept of State funding - particularly useful for school districts
  - Bond reserves
  - Bond insurance
  - Voter approval of constitutional amendment allowing use of general obligation bonds



## HB 278 – Comments

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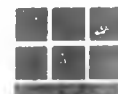
- One part of a broad solution.
- The nature of the obligation between local entities and the Bond Bank will need to be defined.
- Would like the bill expanded to cover broader intercept authority, particularly for schools. (Pension obligation financing provides an opportunity to increase funds available for education.)
- Would like to see additional flexibility for jurisdictions to group together through pools organized by trustee.
- Entire solution will require legislative, administrative and, potentially, constitutional changes.



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# Pension Bonds in Alaska: Potential Savings

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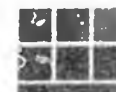


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# Types of Obligations

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- Savings would be maximized if general obligation (GO) bonds could be issued. This would not be possible without an amendment to the State Constitution
- Appropriation-backed obligations still provide substantial savings for highly rated entities.
- Taxable.
- Non-callable.
- Opportunity to issue obligations dependent on current debt market conditions – as interest rates rise, pension obligation financing becomes less attractive.



## Example: City & Borough of Juneau

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### Assumptions

- Investment rate of return = 8.25%
- Annual payroll growth rate = 5.50% (\*)
- Past service amortization:
  - Fixed 25 years, effective June 30, 2002. (\*\*)

\*City and Borough of Juneau – Notes to audited financial statements

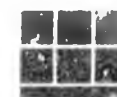
\*\*State of Alaska PERS Actuarial Valuation Report as of June 30, 2002 (Page 5)

## Summary of Results

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- Assumes payoff of 100% 6/30/04 PERS UAAL for the City and Borough of Juneau, brought forward to March 1, 2006.

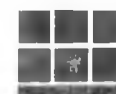
Dated Date	3/1/2006
Delivery Date	3/1/2006
Obligations Par Amount	\$ 75,675,000
True Interest Cost	6.06%
Aggregate Savings	\$ 23,758,921
Average Annual Savings	\$ 1,079,951
Net PV Savings	\$ 14,881,383
Percentage Savings of Refunding Obligations	19.82%



# Contact Information

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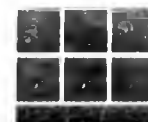
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*file w/paul bill packet*  
*HB 278*

# Pension Obligation Bonds System wide Analysis

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Mark Prussing, Vice President  
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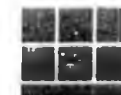
SEATTLE-NORTHWEST  
SECURITIES CORPORATION

# Pension Obligation Bonds

## Alaska PERS system wide refinancing analysis

- A refinancing of the \$3.4 billion PERS UAAL could result in net present value savings of over \$1 billion
  - This translates into a system wide rate reduction of approximately 15.50%
  - Results in a net PERS rate savings of approximately 3.07%

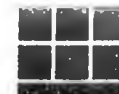
	FY07	FY08	FY09	FY10
Total PERS Rate	21.77%	21.77%	21.77%	21.77%
Less: Projected Rate Credit	(15.50%)	(15.50%)	(15.50%)	(15.50%)
Plus: Debt Cost	12.36%	12.43%	12.43%	12.43%
Net PERS Rate	18.63%	18.70%	18.70%	18.70%
Net Savings in PERS Rate	3.14%	3.07%	3.07%	3.07%
Net Cashflow Savings	\$51,161,811	\$51,944,574	\$53,987,342	\$56,147,686



# Assumptions

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- UAAL brought forward from 6/30/04 to 7/1/06 UAAL lump sum payment date
- 5.75% true interest cost (TIC, borrowing rate)
- 25-year fixed amortization
- 4% salary growth rate
- 8.25% UAL borrowing cost
- Level percentage of payroll savings structure
- Assumes elimination of 5% rate cap



# Sensitivity Analysis

Municipality of Anchorage  
Annual Savings from Pension Bond assuming 6.00% TIC

	12% Earnings	8.25% Earnings	4% Earnings
FY 2006	1,010,489	1,010,489	1,010,489
FY 2007	1,253,934	1,253,934	1,253,934
FY 2008	3,485,268	2,411,768	1,210,862
FY 2009	5,643,081	3,633,284	1,469,585
FY 2010	7,367,117	4,286,983	1,095,336
FY 2011	8,817,906	4,518,049	229,458
FY 2012	10,453,550	4,767,566	(691,042)
FY 2013	12,289,353	5,031,950	(1,674,081)
FY 2014	14,342,643	5,307,542	(2,727,933)
FY 2015	16,645,143	5,602,709	(3,849,155)
FY 2016	19,213,120	5,907,672	(5,052,801)
FY 2017	22,085,008	6,231,726	(6,335,242)
FY 2018	25,294,943	6,576,264	(7,701,209)
FY 2019	28,877,504	6,938,849	(9,159,824)
FY 2020	32,873,972	7,318,513	(10,719,433)
FY 2021	37,338,780	7,720,777	(12,382,825)
FY 2022	42,331,475	8,147,261	(14,158,035)
FY 2023	47,921,048	8,595,699	(16,059,136)
FY 2024	54,202,457	9,067,403	(18,100,552)
FY 2025	61,317,948	9,565,593	(20,303,418)
FY 2026	69,529,677	10,090,417	(22,716,807)
FY 2027	79,683,185	10,649,279	(25,504,160)
<b>Total Savings</b>	<b>601,977,602</b>	<b>134,633,727</b>	<b>(170,865,990)</b>
<b>Present Value Savings</b>	<b>258,474,528</b>	<b>71,393,516</b>	<b>(56,730,895)</b>

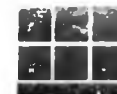


SEATTLE-NORTHWEST  
SECURITIES CORPORATION

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SEATTLE-NORTHWEST  
SECURITIES CORPORATION



Presentation to:

**Alaska School Districts and  
Municipal Governments  
Re: TRS and PERS Liability Refinancing**

March 2005



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Global Markets & Investment Banking Group



## Presentation to Alaska School Districts and Municipal Governments - TRS and PERS Liability Refinancing

### Table of Contents

1. Executive Summary
2. Overview of Potential Savings from Pension Financing
3. Risks of Pension Bond Financings...A Historical Perspective
4. Pension Financing Structures
5. Work Plan

As a multi-service broker-dealer, MLPF&S, works with and maintains accounts for, numerous individuals and entities, some of which may have a past or present relationship with who this may concern. In order to both identify and avoid the perception of an existing or potential conflict of interest, we wish to inform you that MLPF&S has worked together on various projects with persons or entities that may currently or previously have a relationship with who this may concern as Financial Advisor, Swaps Financial Advisor, Asset Manager, or other capacity. MLPF&S may have a current or previous relationship with such persons or entities, which may include working together on financings, and structurings in which they have been compensated for their services, as well as participating with them in, or acting as sponsor of, industry related conferences. In addition, they and their principals may have maintained brokerage and money management accounts with MLPF&S. If you would inform us of individuals or entities which work (or have worked) with you as service provider in any capacity, we would be happy to inform you as to whether MLPF&S has any relationship with them and, upon your request, provide any information you wish regarding such relationship with them.



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## 1. Executive Summary



## Executive Summary

- **House and Senate Hearings:** Over the past month, policymakers have discussed numerous potential solutions to PERS/TRS underfunding. Pension financing is one of many solutions that policymakers have expressed a desire to explore.
- **Growing Local Interest:** Many local entities and school districts are attracted to pension financing solutions. For instance, the Alaska Municipal League recently recommended that the State "consider the creation of a State and Local Retirement Pension Bond Corporation to finance the PERS/TRS \$5 Billion past liability with low interest bonds. Estimated bond rates of 5.5 to 6% could save an estimated over \$100 million/year on the PERS/TRS unfunded liability currently at 8.25%."
- **High Potential Savings:** With interest rates at today's low levels, the potential savings from a pension financing continue to be very attractive (see section 2).
- **Detailed Risk Assessment:** Regarding risk, history shows that in almost all cases (other than two years in the depth of the stock market crash of 1929-1930), returns of a 70% equity / 30% fixed income portfolio (similar to TRS' current investment allocation) over 20 years would have exceeded today's assumed pension bond rate (see section 3). *Note that past performance does not guarantee future results.*
- **Solid Legal Framework:** Most U.S. jurisdictions have used G.O. bonds to execute these financings, but such a method is not permitted by the Alaska constitution. Merrill Lynch has designed a structure that permits bond financing to occur within a conventional and solid legal framework (see section 4).
- **Next Steps:** We discuss potential next steps in section 5.





## Executive Summary

### Merrill Lynch Commitment to the State of Alaska

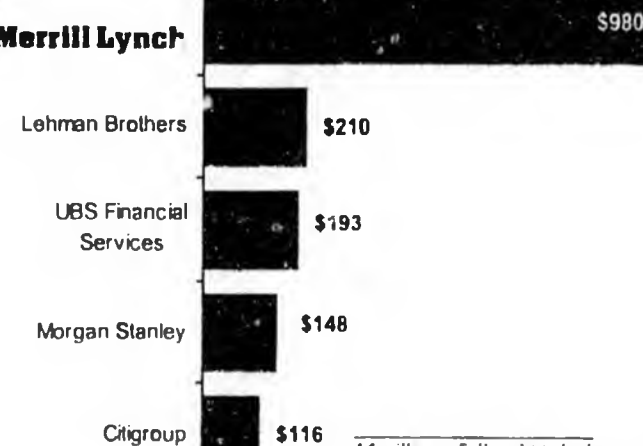
#### Merrill Lynch Alaska Retail Presence

- Merrill Lynch has maintained a corporate presence in the State of Alaska since 1976
- 2 retail offices located in Anchorage and Juneau
- Merrill Lynch employs 45 Alaska residents
- 25 Financial Advisors managing nearly 24,000 accounts for retail clients
- \$1.8 billion in retail assets and \$146 million in municipal bonds
- Merrill Lynch is ranked 2nd among the 7 largest retail firms in the sale of municipal bonds to Alaska retail investors with a 24.8% market share (McLagan Survey First Half 2003)



#### Alaska Competitive Underwriting Rankings (1990-Present)

 **Merrill Lynch**



\* \$ millions. Full credit to lead manager & excludes short-term, private placement and non-profit issues. Source: Securities Data Co



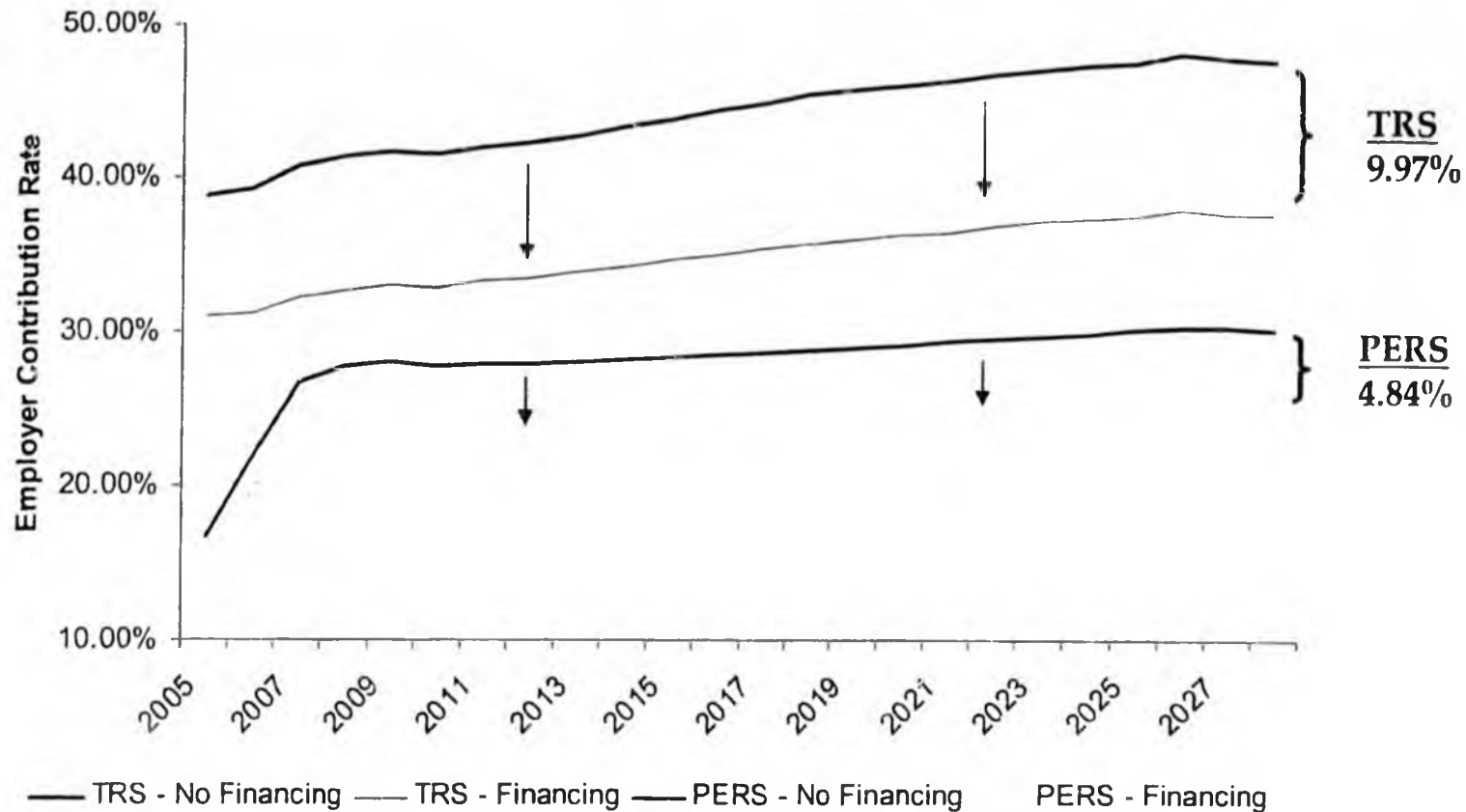


## 2. Overview of Potential Savings from Pension Financing



## Overview of Potential Savings from Pension Financing Potential Employer Contribution Rate Impact\*

Pension financing could drop employer contribution rates for local municipalities and school districts significantly and immediately.



\* Please see page 8 of this presentation for important disclosure on our calculation of the numbers on this page.



## Overview of Potential Savings from Pension Financing TRS Analysis

**If TRS' Unfunded Accrued Actuarial Liability (UAAL) were refinanced with a bond issue, the financing would show projected PV savings of about \$731 million of the \$2 billion UAAL.\*\***

EMPLOYER SIZE		POTENTIAL SAVINGS FROM PENSION BOND SOLUTION								
2005 TRS Employer Salary	% of Total 2005 TRS Salaries	2007				2028				Total 2005 - 2028 Employer Payment PV Savings*
		Actuarial Estimate of Employer Contrib Rate	Employer Contrib Rate w/ Pension Bonds	Decline in Employer Contrib Rate	Decline in Employer Payment	Actuarial Estimate of Employer Contrib Rate	Employer Contrib Rate w/ Pension Bonds	Decline in Employer Contrib Rate	Decline in Employer Payment	
\$5,000,000	0.87%	40.75%	32.27%	8.48%	\$446,966	47.62%	37.65%	9.97%	\$1,251,284	\$6,382,001
\$10,000,000	1.74%	40.75%	32.27%	8.48%	\$893,933	47.62%	37.65%	9.97%	\$2,502,567	\$12,764,002
\$25,000,000	4.36%	40.75%	32.27%	8.48%	\$2,234,832	47.62%	37.65%	9.97%	\$6,256,418	\$31,910,004
\$50,000,000	8.72%	40.75%	32.27%	8.48%	\$4,469,665	47.62%	37.65%	9.97%	\$12,512,837	\$63,820,008
\$100,000,000	17.44%	40.75%	32.27%	8.48%	\$8,939,330	47.62%	37.65%	9.97%	\$25,025,673	\$127,640,015
\$200,000,000	34.88%	40.75%	32.27%	8.48%	\$17,878,660	47.62%	37.65%	9.97%	\$50,051,347	\$255,280,030
\$573,377,000	100.00%	40.75%	32.27%	8.48%	\$51,256,062	47.62%	37.65%	9.97%	\$143,491,455	\$731,858,490



\* PV at 8.25% actuarial rate.

\*\* Please see page 8 of this presentation for important disclosure on our calculation of the numbers on this page.



# Overview of Potential Savings from Pension Financing

## TRS Analysis\*\*\*\*

	NO ACTION		PROPOSED PENSION BOND SOLUTION				POTENTIAL SAVINGS-PENSION BOND SOLUTION				
	TRS Salaries		Total Employer Ctb Rate**	Total Employer Payments	Total Employer Ctb Rate***	Total Employer Payments	Pension Bond Debt Service to Pre-Fund Past Svc Rate	Total Employer Payments	Decline in Employer Payments	Decline in Employer Ctb. Rate	Improved Total Employer Ctb. Rate
	Entire TRS* A	Employer w/ 100.00% of Salaries B = A * 100.00%	(Normal + Past Svc) C	(Normal + Past Svc) D = B * C	(Expected Normal Rate) E	(Expected Normal Rate) F = B * E	G	H = F + G	I = D - H	J = I / B	K = C - J
2005	\$573,377,000	\$573,377,000	38.85%	\$222,756,965	14.76%	\$84,630,445	\$93,486,831	\$178,117,277	\$44,639,688	7.79%	31.06%
2006	586,635,000	586,635,000	39.22%	230,078,247	14.28%	83,771,478	99,020,765	182,792,243	47,286,005	8.06%	31.16%
2007	604,620,000	604,620,000	40.75%	246,382,650	14.52%	87,790,824	107,335,765	195,126,589	51,256,062	8.48%	32.27%
2008	623,847,000	623,847,000	41.29%	257,586,426	14.63%	91,250,101	112,575,765	203,825,865	53,760,561	8.62%	32.67%
2009	644,648,000	644,648,000	41.65%	268,495,892	14.73%	94,982,436	117,435,765	212,418,201	56,077,691	8.70%	32.95%
2010	667,202,000	667,202,000	41.53%	277,088,991	14.84%	99,019,449	120,515,765	219,535,213	57,553,777	8.63%	32.90%
2011	691,229,000	691,229,000	41.98%	290,177,934	14.95%	103,324,911	126,460,765	229,785,675	60,392,259	8.74%	33.24%
2012	716,139,000	716,139,000	42.24%	302,497,114	15.06%	107,814,726	131,760,765	239,575,491	62,921,623	8.79%	33.45%
2013	742,797,000	742,797,000	42.75%	317,545,718	15.16%	112,622,881	138,690,765	251,313,646	66,232,072	8.92%	33.83%
2014	771,037,000	771,037,000	43.25%	333,473,503	15.27%	117,729,640	146,015,765	263,745,404	69,728,098	9.04%	34.21%
2015	801,545,000	801,545,000	43.79%	350,996,556	15.38%	123,245,559	154,141,123	277,386,682	73,609,873	9.18%	34.61%
2016	834,288,000	834,288,000	44.32%	369,756,442	15.48%	129,172,811	162,826,123	291,998,934	77,757,508	9.32%	35.00%
2017	869,145,000	869,145,000	44.83%	389,637,704	15.59%	135,499,706	172,001,123	307,500,829	82,136,875	9.45%	35.38%
2018	906,267,000	906,267,000	45.30%	410,538,951	15.70%	142,256,731	181,576,123	323,832,854	86,706,097	9.57%	35.73%
2019	945,445,000	945,445,000	45.68%	431,879,276	15.80%	149,418,128	191,171,123	340,589,251	91,290,025	9.66%	36.02%
2020	986,990,000	986,990,000	45.96%	453,620,604	15.91%	157,039,979	200,726,694	357,766,672	95,853,932	9.71%	36.25%
2021	1,031,829,000	1,031,829,000	46.25%	477,220,913	16.02%	165,278,369	211,121,352	376,399,721	100,821,191	9.77%	36.48%
2022	1,080,428,000	1,080,428,000	46.68%	504,343,790	16.13%	174,219,015	223,431,356	397,650,371	106,693,419	9.88%	36.80%
2023	1,132,136,000	1,132,136,000	47.08%	533,009,629	16.23%	183,768,316	236,367,711	420,136,027	112,873,602	9.97%	37.11%
2024	1,187,212,000	1,187,212,000	47.32%	561,788,718	16.34%	193,978,569	248,933,734	442,912,303	118,876,416	10.01%	37.31%
2025	1,245,623,000	1,245,623,000	47.49%	591,546,363	16.45%	204,855,159	261,712,664	466,567,823	124,978,540	10.03%	37.46%
2026	1,306,908,000	1,306,908,000	48.01%	627,446,531	16.55%	216,332,481	278,243,190	494,575,671	132,870,860	10.17%	37.84%
2027	1,371,207,000	1,371,207,000	47.71%	654,202,860	16.66%	228,443,086	288,155,210	516,598,296	137,604,564	10.04%	37.67%
2028	1,438,671,000	1,438,671,000	47.62%	685,095,130	16.76%	241,121,260	300,482,416	541,603,676	143,491,455	9.97%	37.65%

Total Employer Savings: \$2,055,412,191  
 PV of Employer Savings @ 8.25%: \$731,858,490

\* See Page 32, Table 4, of State of Alaska TRS Actuarial Valuation as of June 30, 2003

\*\* See Page 27, Table 2, of State of Alaska TRS Actuarial Valuation as of June 30, 2003

\*\*\* Assumes normal rate grows steadily from today's levels to 16.76% in 2028

\*\*\*\* Please see page 8 of this presentation for important disclosure on our calculation of the numbers on this page.





## Overview of Potential Savings from Pension Financing PERS Analysis

**If PERS' Unfunded Accrued Actuarial Liability (UAAL) were refinanced with a bond issue, the financing would show projected PV savings of about \$1 billion of the \$2.8 billion UAAL.\*\***

EMPLOYER SIZE		POTENTIAL SAVINGS FROM PENSION BOND SOLUTION								
2005 PERS Employer Salary	% of Total 2005 PERS Salaries	2007				2028				Total 2005 - 2028 Employer Payment PV Savings <sup>a</sup>
		Actuarial Estimate of Employer Contrib Rate	Employer Contrib Rate w/ Pension Bonds	Decline in Employer Contrib Rate	Decline in Employer Payment	Actuarial Estimate of Employer Contrib Rate	Employer Contrib Rate w/ Pension Bonds	Decline in Employer Contrib Rate	Decline in Employer Payment	
\$5,000,000	0.32%	26.77%	22.43%	4.34%	\$233,577	30.22%	25.38%	4.84%	\$628,138	\$3,152,746
\$10,000,000	0.63%	26.77%	22.43%	4.34%	\$467,155	30.22%	25.38%	4.84%	\$1,256,277	\$6,305,493
\$25,000,000	1.58%	26.77%	22.43%	4.34%	\$1,167,887	30.22%	25.38%	4.84%	\$3,140,692	\$15,763,732
\$50,000,000	3.15%	26.77%	22.43%	4.34%	\$2,335,774	30.22%	25.38%	4.84%	\$6,281,384	\$31,527,465
\$100,000,000	6.31%	26.77%	22.43%	4.34%	\$4,671,548	30.22%	25.38%	4.84%	\$12,562,769	\$63,054,929
\$250,000,000	15.77%	26.77%	22.43%	4.34%	\$11,678,870	30.22%	25.38%	4.84%	\$31,406,922	\$157,637,323
\$500,000,000	31.55%	26.77%	22.43%	4.34%	\$23,357,739	30.22%	25.38%	4.84%	\$62,813,843	\$315,274,645
\$1,585,006,000	100.00%	26.77%	22.43%	4.34%	\$74,044,314	30.22%	25.38%	4.84%	\$199,120,637	\$999,424,409

<sup>a</sup> PV at 8.25% actuarial rate.

\*\* Please see page 8 of this presentation for important disclosure on our calculation of the numbers on this page.





# Overview of Potential Savings from Pension Financing

## PERS Analysis\*\*\*\*

	PERS Salaries		NO ACTION		PROPOSED PENSION BOND SOLUTION			POTENTIAL SAVINGS-PENSION BOND SOLUTION			
	Entire PERS*	Employer w/ 100.00% of Salaries	Total Employer Ctb Rate** (Consol + Past Svc)	Total Employer Payments (Consol + Past Svc)	Total Employer Ctb Rate*** (Expected Consol Rate)	Total Employer Payments (Expected Consol Rate)	Pension Bond Debt Service to Pre-Fund Past Svc Rate	Total Employer Payments	Decline in Employer Payments	Decline in Employer Ctb. Rate	Improved Total Employer Ctb. Rate
	A	B = A * 100.00%	C	D = B * C	E	F = B * E	G	H = F + G	I = D - H	J = I / B	K = C - J
2005	\$1,585,006,000	\$1,585,006,000	16.77%	\$265,805,506	13.31%	\$210,964,299	\$37,045,386	\$248,009,685	\$17,795,822	1.12%	15.65%
2006	1,644,687,000	1,644,687,000	21.77%	358,048,360	13.24%	217,756,559	94,768,848	312,525,407	45,522,953	2.77%	19.00%
2007	1,706,759,000	1,706,759,000	26.77%	456,899,384	13.40%	228,721,222	154,133,848	382,855,070	74,044,314	4.34%	22.43%
2008	1,772,065,000	1,772,065,000	27.74%	491,570,831	13.49%	239,083,788	170,553,848	409,637,636	81,933,195	4.62%	23.12%
2009	1,840,407,000	1,840,407,000	27.99%	515,129,919	13.58%	249,977,464	179,108,848	429,086,312	86,043,608	4.68%	23.31%
2010	1,912,174,000	1,912,174,000	27.73%	530,245,850	13.67%	261,463,719	181,563,848	443,027,567	87,218,283	4.56%	23.17%
2011	1,986,893,000	1,986,893,000	27.84%	553,151,011	13.76%	273,486,790	188,913,848	462,400,638	90,750,373	4.57%	23.27%
2012	2,065,722,000	2,065,722,000	27.96%	577,575,871	13.86%	286,215,173	196,813,848	483,029,021	94,546,850	4.58%	23.38%
2013	2,148,151,000	2,148,151,000	28.08%	603,200,801	13.95%	299,588,950	205,088,848	504,677,798	98,523,003	4.59%	23.49%
2014	2,234,922,000	2,234,922,000	28.20%	630,248,004	14.04%	313,722,096	213,813,848	527,535,944	102,712,060	4.60%	23.60%
2015	2,327,596,000	2,327,596,000	28.39%	660,804,504	14.13%	328,846,995	224,238,848	553,085,843	107,718,652	4.63%	23.76%
2016	2,423,538,000	2,423,538,000	28.53%	691,435,391	14.22%	344,605,071	234,283,848	578,888,919	112,546,472	4.64%	23.89%
2017	2,524,705,000	2,524,705,000	28.67%	723,832,924	14.31%	361,285,286	244,898,848	606,184,134	117,648,790	4.66%	24.01%
2018	2,632,258,000	2,632,258,000	28.84%	759,143,207	14.40%	379,069,082	256,738,848	635,807,930	123,335,278	4.69%	24.15%
2019	2,745,982,000	2,745,982,000	29.01%	796,609,378	14.49%	397,942,719	269,298,848	667,241,567	129,367,811	4.71%	24.30%
2020	2,866,296,000	2,866,296,000	29.17%	836,098,543	14.58%	417,984,129	282,433,848	700,417,977	135,680,567	4.73%	24.44%
2021	2,993,733,000	2,993,733,000	29.34%	878,361,262	14.67%	439,289,494	296,593,848	735,883,342	141,477,920	4.76%	24.58%
2022	3,129,150,000	3,129,150,000	29.50%	923,099,250	14.76%	462,004,774	311,468,848	773,473,622	149,625,628	4.78%	24.72%
2023	3,273,542,000	3,273,542,000	29.70%	972,241,974	14.86%	486,299,544	328,253,848	814,553,392	157,688,582	4.82%	24.88%
2024	3,426,878,000	3,426,878,000	29.90%	1,024,636,522	14.95%	512,193,647	346,152,592	858,346,239	166,290,283	4.85%	25.05%
2025	3,587,398,000	3,587,398,000	30.11%	1,080,165,538	15.04%	539,446,821	365,257,592	904,704,413	175,461,125	4.89%	25.22%
2026	3,755,436,000	3,755,436,000	30.34%	1,139,399,282	15.13%	568,129,186	385,892,592	954,021,778	185,377,504	4.94%	25.40%
2027	3,931,345,000	3,931,345,000	30.27%	1,190,018,132	15.22%	598,314,970	399,697,592	998,012,562	192,005,570	4.88%	25.39%
2028	4,115,495,000	4,115,495,000	30.22%	1,243,702,589	15.31%	630,082,285	414,499,668	1,044,581,953	199,120,637	4.84%	25.38%

Total Employer Savings: \$2,873,435,288  
 PV of Employer Savings @ 8.25%: \$999,424,409

\* See Page 37, Table 4, of State of Alaska PERS Actuarial Valuation as of June 30, 2003

\*\* See Page 32, Table 2, of State of Alaska PERS Actuarial Valuation as of June 30, 2003

\*\*\* Assumes normal/consolidated rate grows steadily from today's levels to 15.31% in 2028

\*\*\*\* Please see page 8 of this presentation for important disclosure on our calculation of the numbers on this page.





## Disclaimer

Please note that the numbers on pages 3-7 of this presentation are Merrill Lynch's best estimate of future pension financing savings and employer contribution rates based on information in the PERS/TRS Actuarial Valuation Report as of June 30, 2003. It should be noted that future employer contribution rates will be calculated by the PERS/TRS actuary, not Merrill Lynch. In addition, future employer contribution rates will be influenced by unpredictable events such as investment portfolio returns, health care cost assumptions and experience, demographic changes, and other factors which impact the funding levels of the PERS/TRS system. For instance, if the PERS/TRS investment portfolio returns less on an average annual basis than the actuarial assumption of 8.25%, future employer contribution rates will likely be higher than the projected employer contribution rates provided in this presentation. In addition, if the proceeds from a pension bond financing earn less on an average annual basis than the interest rate on the pension bonds for the life of the bonds, the entity issuing the pension bonds will be worse off than had it not issued the bonds.





### **3. Risks of Pension Bond Financings... A Historical Perspective**



## Risks of Pension Bond Financings... A Historical Perspective

### The Real Reason Behind the Decline in Funding Ratios

#### Increasing liabilities, not declining assets...

- A common misperception is that the dismal stock market returns of 2001/2002 caused most of the current underfunding in the retirement system. In reality, changes in liabilities such as health assumption changes and benefit improvements were some of the largest contributors.
- In contrast, investment underperformance was a relatively small contributor to the retirement system's current underfunding.

#### Changes in Assets Include:

- Investment performance

#### Changes in Liabilities Include:

- Health experience
- Health assumption changes
- Plan changes
- Demographic experience
- Non-health changes

Drivers of PERS/TRS Funding Ratio Changes (1992-2003)

	PERS Change in Funded Status	TRS Change in Funded Status
Change Due to Assets	-3.8%	-2.7%
Change Due to Liabilities	-18.5%	-26.6%
<b>Total Change in Funded Status</b>	<b>-22.3%</b>	<b>-29.3%</b>



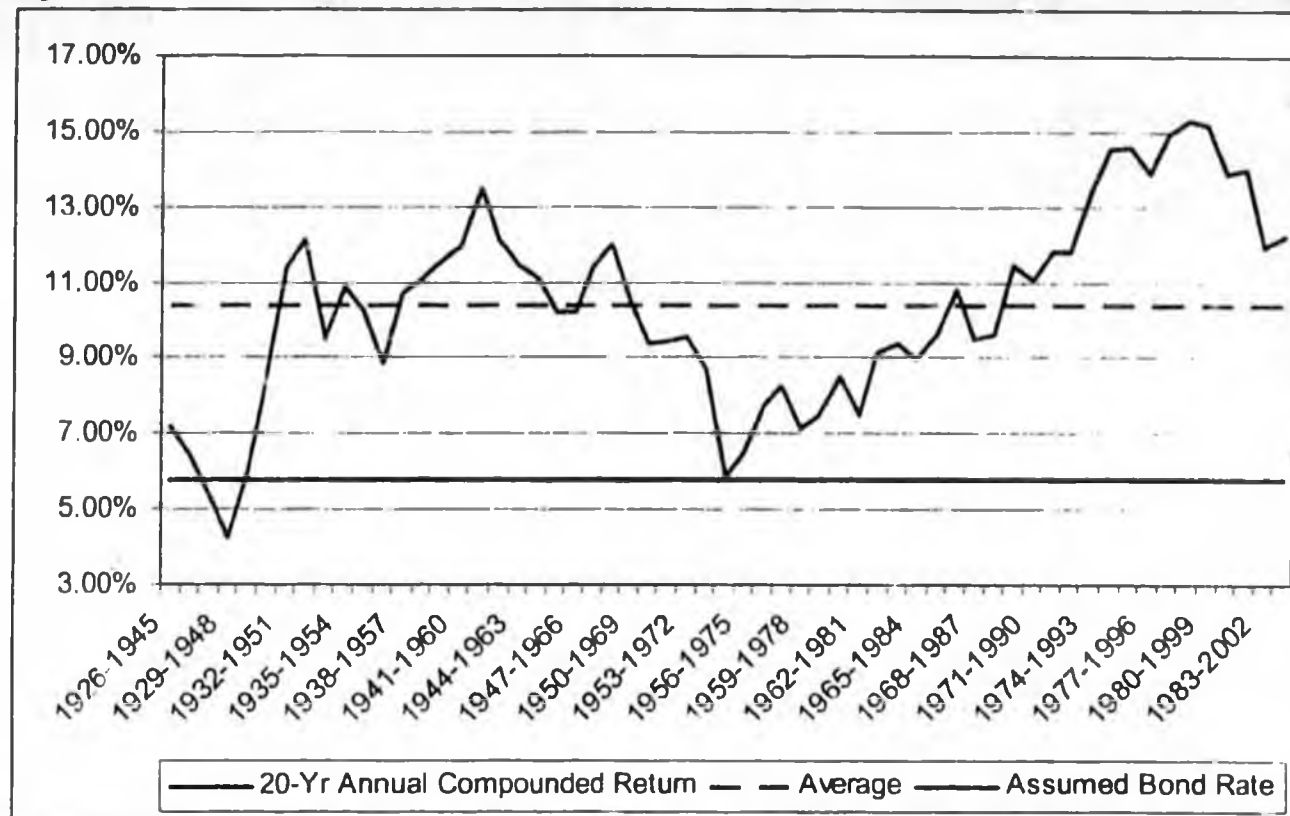


## Risks of Pension Bond Financings... A Historical Perspective

### PERS/TRS Investment Returns vs. Pension Bond Interest Rates

With the exception of two 20-year periods beginning in 1928 and 1929, a 70% stock / 30% bond portfolio since 1926 has always returned more than today's assumed pension bond rate.

Compounded Annual Return Over 20-Year Periods of Portfolio of 70% Stocks and 30% Bonds\*



\* Compounded annual returns from Ibbotson Associates "2004 Yearbook". Portfolio comprised of 70% stocks (2/3 large cap and 1/3 small cap) and 30% long-term corporate bonds



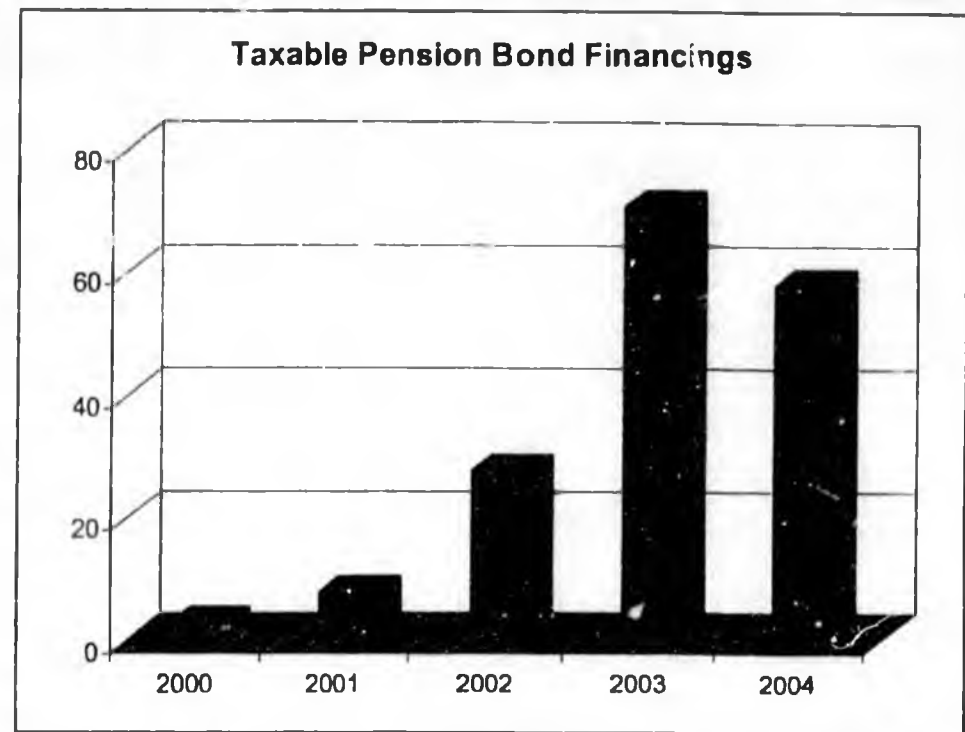
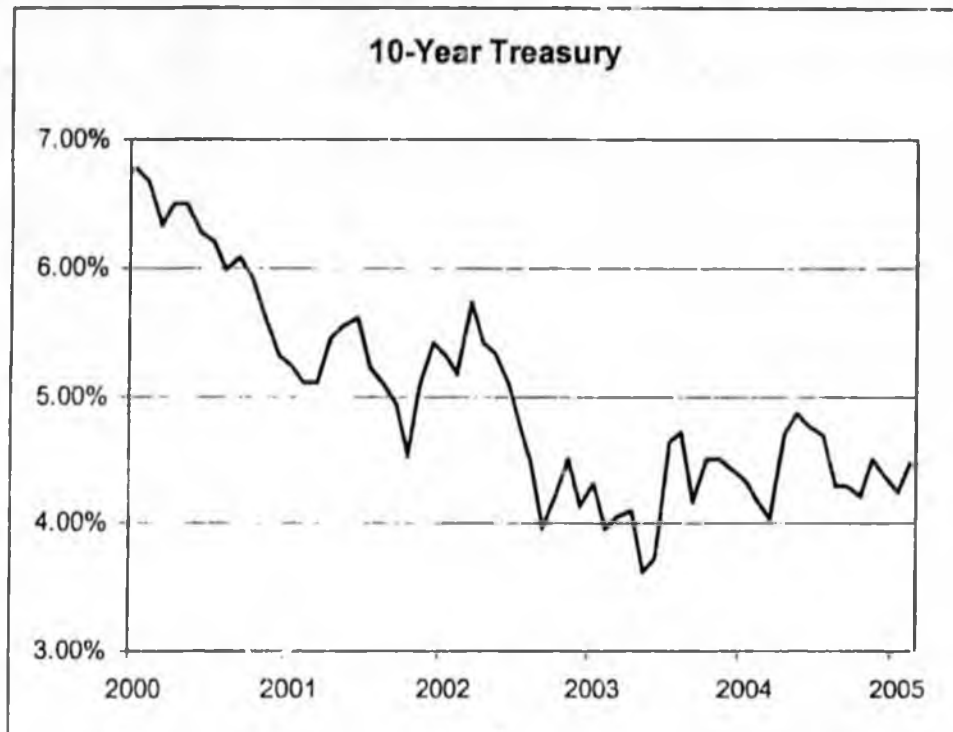
## Risks of Pension Bond Financings...A Historical Perspective

### Growth in Pension Financing Solutions

Acceptance of pension financing solutions has grown considerably over the past four years.

As taxable fixed rates have dropped to historic lows...

...pension financing solutions have become common.



Many of the  
solutions  
Assurance





## 4. Pension Financing Structures



## Pension Financing Structures

### Problems with Traditional Approaches

**Question:** How can local governments – school districts, municipalities or municipal enterprises – pre-pay their unfunded accrued actuarial liabilities (UAAL) without incurring debt?

#### Traditional Approaches:

**General Obligation Bonds:** State Constitution requires funding a “capital improvement.” Of note: many public entities outside of Alaska can use GO Bonds for pension financings.

**Revenue Bonds:** Require a separable, pledgeable revenue stream. Won't work for general government or schools since the only meaningful revenues those entities have are tax-derived. May work for government enterprises such as utilities (e.g. ML&P).





## Pension Financing Structures

### Proposed Approach to a Financing

**Legal Approach:** The restrictions on contracting debt contained in Alaska's Constitution are applicable only where the local government has endeavored to borrow money. A contractual obligation to make contributions to a pension fund is not debt.

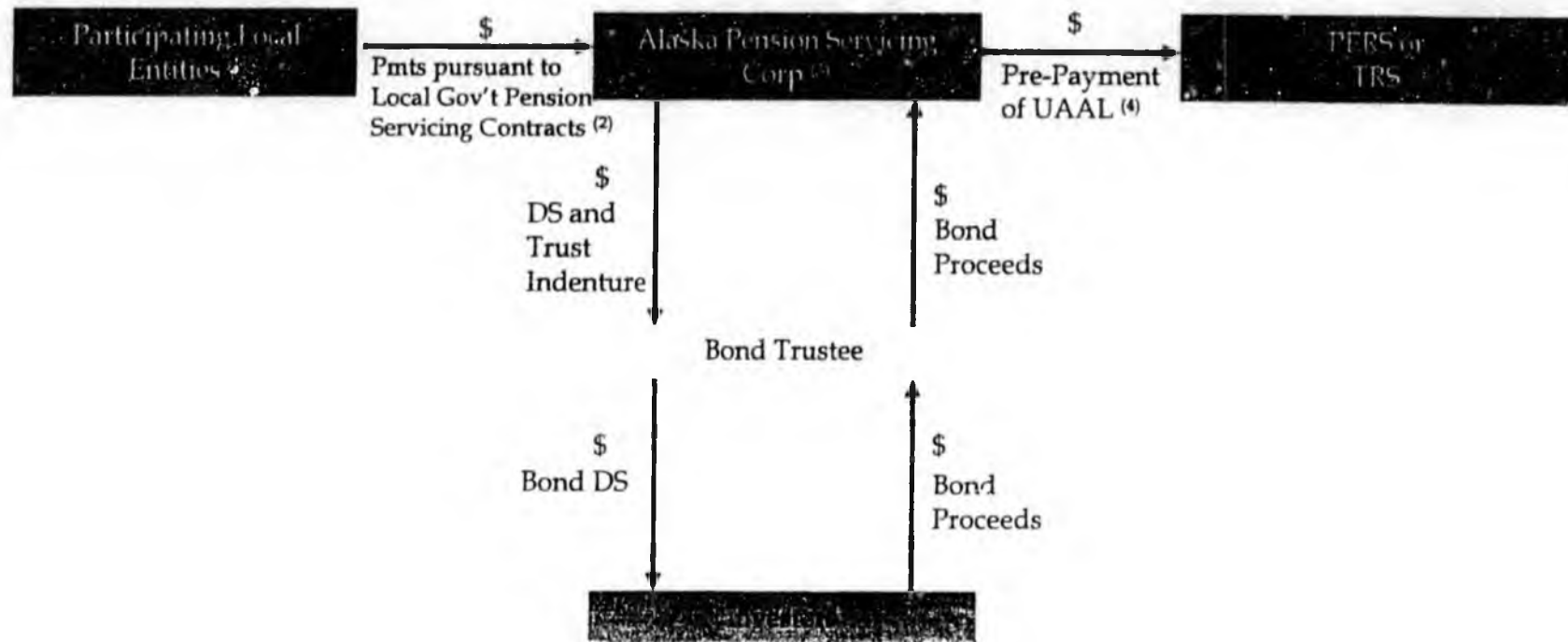
- Step 1:** Enact legislation to form a special-purpose state entity (e.g., the "Alaska Pension Servicing Corp." or "APSC") to service all or a portion of the participating local governments' payments to PERS or TRS related to the local governments' share of the UAAL.
- Step 2:** Execute contract ("Local Government Pension Servicing Contract") between the participating local governments and the APSC. Key provisions:
- The APSC agrees to act as a servicer for the local governments;
  - The local governments agree to make related payments to the APSC;
  - The amount and timing of contractual payments and remedies for failure to pay;
  - The APSC agrees to undertake a receivables financing to prepay all or a portion of the local governments' shares of the PERS or TRS UAAL;
  - The parties agree that no local government will be responsible for the payments of any other local government; and
  - Potentially, include direct deposit mechanism to channel State aid into debt service fund.
- Step 3:** The APSC issues contract revenue bonds payable solely from APSC's receipts pursuant to each Local Government Pension Servicing Contract.
- Step 4:** The APSC transfers to PERS or TRS proceeds from contract revenue bonds to prepay all or a portion of the participating local governments' UAALs.





## Pension Financing Structures

### Proposed Approach to a Financing



- 1) Government entities with UAAL.
- 2) Servicing Contract obligates each participating government to make payments to the APSC, and the APSC to issue revenue bonds and to deposit the proceeds with PERS or TRS to prepay UAAL.
- 3) APSC is a new, special- purpose corporation of the State that can (a) by contract, service obligations of local governments to PERS/TRS; and (b) can issue revenue bonds payable solely from payments received from the local governments.
- 4) Pre-pay of pension liability of each participant.





## Pension Financing Structures

### Pension Obligation Bond Security Structures

#### Survey of Pension Obligation Bond Security Structures

<u>General Obligation</u>	<u>Pension Obligation</u>	<u>Appropriation</u>	<u>Moral Obligation</u>	<u>Dedicated Revenues</u>
Oregon	LA County	New York	Wisconsin	Philadelphia
Pittsburgh	San Diego County	New Jersey		Denver
Indiana <sup>(1)</sup>	New Orleans			
Illinois	Sacramento County			

- Higher credit quality general obligation bonds are more widely accepted in the marketplace.
- With GO backing not feasible, the bond can be structured as an appropriation credit or a revenue bond structure.



(1) Bonds secured by underlying pool of municipality GO bonds.



## Pension Financing Structures Credit Considerations

### Rating Agency Perspectives

- The estimated funding ratios of 64% and 73% for TRS and PERS, respectively, as of June 20, 2003 are at very low levels; a pension obligation bond issue demonstrates the Local Entity's intention to address the situation.
  - › Large unfunded liability creates the potential for unexpected future cash contributions to the plan.
- Rating agencies will generally view a plan to address the pension liability in a positive light.
  - › Given the structural nature of the pension obligation, a bond will not be viewed as an entirely new obligation, but must be part of a reasonable, forward thinking plan to address unfunded pension liability.
  - › Careful assessment and appropriate adjustments to actuarial assumptions, benefit increases, and contribution levels can help demonstrate to the rating agencies that the pension bond is part of a comprehensive approach.
- Most issuers of sizeable pension obligation bond programs have not witnessed a resulting decline in ratings.
- The rating agencies are interested in seeing a long-term plan to fund the TRS' and the PERS' unfunded liabilities. A pension obligation bond issue on its own may not fully address analysts' concerns.





## 5. Work Plan



## Work Plan

### What Has Happened

#### What has happened recently...

- **House and Senate Hearings:** Over the past month, Alaska policymakers have discussed numerous potential solutions to PERS/TRS underfunding. Pension financing is one of many solutions that policymakers have expressed a desire to explore.
- **Growing Local Interest:** Many local entities and school districts are attracted to pension financing solutions. For instance, the Alaska Municipal League recently recommended that the State "consider the creation of a State and Local Retirement Pension Bond Corporation to finance the PERS/TRS \$5 Billion past liability with low interest bonds. Estimated bond rates of 5.5 to 6% could save an estimated over \$100 million/year on the PERS/TRS unfunded liability currently at 8.25%."
- **Tier Restructuring:** Tier restructuring has been discussed as a partial remedy. Most states that have executed bond solutions have done so in conjunction with other programmatic changes (such as Tier restructuring) that helped to get pension funding under control. We believe that, mathematically, our pension financing savings should be available 1-for-1 against whatever Tier restructuring is implemented. Also, a new Tier tends to help more in the far future, whereas the borrowing would have an immediate benefit.
- **Historically Low Rates:** Long-term interest rates have remained at historic lows, making pension bond financings extremely attractive.
- **Increasingly Common Financing Tool:** Municipalities and school districts across the country have increasingly executed pension bond financings and thereby taken advantage of the attractive potential savings levels in today's market. In the past two years alone, there have been 137 taxable pension bond financings in the US.





## Work Plan

### Next Steps

#### Going forward, what needs to happen...

- **Continued Development of Legal Structure:** In section 4 we discussed potential legal structures of a pension financing. Next steps would be to work with local counsel and policymakers to formalize the legal structure that would work best for this type of financing.
- **Drafting and Approval of Enabling Legislation:** Merrill Lynch can work with attorneys to draft legislation authorizing a pension bond financing.





## Work Plan

### Key Features of Legislation

#### Legislation could be drafted by local counsel to...

- Create Alaska Pension Servicing Corp ("APSC") as a subsidiary of [State Agency].
- Develop necessary governance and assign staff. Most likely would have considerable Board overlap w/ [State Agency], but would need independent directors to preserve necessary independence and bankruptcy protection. Could share accounting, finance and administrative staff with [State Agency].
- Give APSC necessary powers and rights as a government agency to borrow, contract, hire specialists and contractors etc. May draw upon the already enumerated powers of [State Agency] and supplement with additional features as needed.
- Specifically authorize some of the various important features directly associated with the APSC borrowing program. Would authorize APSC to:
  - enter into pension servicing contracts with local governments;
  - pledge portions of those municipal contracts to secure the payment of the bonds in return for bond proceeds;
  - deposit bond proceeds with TRS and PERS boards as appropriate;
  - cooperate with and request help from actuaries; and
  - act on behalf of local governments in making sure proceeds are properly tracked.
- Specifically authorize local governments to contract with the APSC using this structure.





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Presentation to:



**State of Alaska:  
PERS/TRS Update**

**Pension Obligation Bonds**

January 2006



Global Markets & Investment Banking Group

# State of Alaska: PERS/TRS Update

## Pension Obligation Bonds

### Table of Contents

1. Executive Summary
2. What is Pension Financing?
3. Potential Savings Analysis
4. Risk Analysis
5. Implementation Considerations
6. Oregon Example

Appendix A: Detailed Savings Analysis

Appendix B: Copy of House Bill No. 278

As a multi-service broker-dealer, MLPF&S, works with and maintains accounts for, numerous individuals and entities, some of which may have a past or present relationship with who this may concern. In order to both identify and avoid the perception of an existing or potential conflict of interest, we wish to inform you that MLPF&S has worked together on various projects with persons or entities that may currently or previously have a relationship with who this may concern as Financial Advisor, Swaps Financial Advisor, Asset Manager, or other capacity. MLPF&S may have a current or previous relationship with such persons or entities, which may include working together on financings, and structurings in which they have been compensated for their services, as well as participating with them in, or acting as sponsor of, industry related conferences. In addition, they and their principals may have maintained brokerage and money management accounts with MLPF&S. If you would inform us of individuals or entities which work (or have worked) with you as service provider in any capacity, we would be happy to inform you as to whether MLPF&S has any relationship with them and, upon your request, provide any information you wish regarding such relationship with them.

