ALASKA LEGISLATURE COMMITTEE FILES, 2005-2006 8672
11675 HOUSE STATE AFFAIRS

Case Study: The State of Illinois' $10 Billion POB

$10,000,000,000
State of Illinois
General Obligation Bonds
Pension Funding Series of June 2003 (Taxable)

SECURITY

General Obligation of the State of Illinois

PURPOSE

The net proceeds of the Bonds will be used to (i) reimburse the State's General Revenue Fund for a portion of the contributions made to the Retirement Systems for the last quarter of the State's fiscal year 2003, (ii) reimburse the State's General Revenue Fund for the State's contributions to the Retirement Systems for the State's fiscal year 2004, (iii) fund a portion of the unfunded accrued actuarial liability ("UAAL") contribution representing pension benefits earned in prior years and (iv) pay other costs including capitalized interest and costs of issuance.

AUTHORITY FOR ISSUANCE

The Bond Act, as amended by Public Act 93-2, which became effective as of April 7, 2003, empowers the State to issue and sell up to $10 billion of general obligation bonds of the State, including the Bonds, for the purpose of funding or reimbursing a portion of the State's contributions to the following retirement systems: the State Employees' Retirement System of Illinois, the Teachers' Retirement System of the State of Illinois, the State Universities Retirement System, the Judges Retirement System of Illinois, and the General Assembly Retirement System. In addition to the GO Pension Funding Bonds, the Bond Act authorizes the State to issue and sell direct, general obligations of the State, in the aggregate amount of approximately $17.7 billion (excluding refunding bonds).

STATE OF ILLINOIS RETIREMENT SYSTEMS

Pursuant to the Illinois Pension Code, as amended, the State is responsible for funding employer contributions of the Retirement Systems. The State currently makes payments to the Retirement Systems on an annual basis, consisting of (i) unfunded accrued actuarial liability, and (ii) a contribution representing the State's obligation for its share of the costs of various current benefits. As of June 30, 2002 (the most recently completed fiscal year of the State), the Retirement Systems had an aggregate membership of 311,707 active members. 168,341 inactive members entitled to benefits and 147,956 retired members and beneficiaries. As of June 30, 2002, based upon the most recent available actuarial valuation of the Retirement Systems, the actuarially determined accrued liabilities of the Retirement Systems were approximately $75.2 billion, the fair market value of their assets was approximately $40.3 billion, and the aggregate UAAL with respect to the Retirement Systems was approximately $34.9 billion.

ROADSHOW

- Transaction was considered a full public offering in the United States, Europe and Asia
- There were certain restrictions in certain countries (e.g., United Kingdom, France, the Netherlands, Singapore and Japan) similar to U.S. Blue Sky laws

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TIMETABLE

Date	Activity
Wednesday, 5/21/2003	POS Distributed Electronically
Thursday, 5/22/2003	POS Distributed in Hard Copy
	Bloomberg Roadshow
Week of 5/26	Ratings Received
Thursday, 5/29/2003	Structure Wire Released to Syndicate
Friday, 5/30/2003	Call with State to Discuss Execution Detail
	Call with Syndicate to Discuss Schedule/Process
Tuesday, 6/3/2003	Price Views Solicited from Management Team
	Price Views Distributed to State
	Final Sign Off from the State on Price Guidance
	Call with Joint Leads to Discuss Price
	Deal Announced (Official Price Guidance), Books Opened for Indications
Wednesday, 6/4/2003	Close Book
	Call with State to Discuss Order Book
	Launch Transaction with Any Size, Structure or Pricing Adjustments (Final Price Talk) (Verbal Award)
	Complete Allocation Process
Thursday, 6/5/2003	Give Allocations to Investors
	Determine UST's Sales Against Customer Allocations
	Price Transaction (Final Price)
	Sign BPA
Monday, 6/9/2003	Mail Final OS
Thursday, 6/12/2003	Settlement

MARKETING

Maturity	Principal	UBS Orders	Total Orders	UBS % of Total
June 1, 2008	50,000,000	29,950,000	118,2?5,000	25.3%
June 1, 2009	50,000,000	2,500,000	20,000,000	12.5%
June 1, 2010	50,000,000	229,500,000	879,500,000	26.1%
June 1, 2011	50,000,000	277,500,000	999,250,000	27.8%
June 1, 2012	100,000,000	411,500,000	1,471,500,000	28.0%
June 1, 2013	100,000,000	376,550,000	1,068,340,000	35.2%
June 1, 2014	100,000,000	219,000,000	357,000,000	61.3%
June 1, 2015	100,000,000	271,000,000	523,400,000	51.8%
June 1, 2018	375,000,000	270,000,000	646,225,000	41.8%
June 1, 2023	1,375,000,000	3,091,285,000	9,751,220,000	31.7%
June 1, 2033	7,650,000,000	8,580,300,000	20,256,650,000	42.4%
	10,000,000,000	**13,759,085,000**	**36,091,2?0,000**	**38.1%**

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SYNDICATE

Role	Name
Joint Book-Running Manager	Bear Stearns
Joint Book-Running Manager	**UBS Financial Services Inc.**
Co-Senior Manager	ABN AMRO
Co-Senior Manager	Citigroup
Co-Senior Manager	Goldman Sachs
Co-Manager (Group 1)	Loop Capital Markets
Co-Manager (Group 1)	Merrill Lynch
Co-Manager (Group 1)	RBC Dain Rauscher
Co-Manager (Group 1)	Ramirez & Co.
Co-Manager (Group 1)	Siebert Branford Shank & Co.
Co-Manager (Group 2)	Apex Pryor Securities
Co-Manager (Group 2)	Cabrera Capital Markets
Co-Manager (Group 2)	First Midstate Inc.
Co-Manager (Group 2)	Melvin Securities
Co-Manager (Group 2)	SBK-Brooks Investment Corp.
Co-Manager (Group 2)	Wachovia Bank, N.A.

POB Disclaimer

The projected savings contained in this analysis are reflective of various structuring, bond, and interest rate assumptions as well as forward looking actuarial assumptions regarding the Public Employees' and Teachers' Retirement Systems.

The expected savings shown are contingent upon a consistent assumed annual rate of return of investments for PERS/TRS over the life of the bond deal, among other assumptions. In addition, UBS has incorporated an assumed unfunded actuarial accrued liabilities (UAAL) paydown schedule that was obtained and/or derived from credible, publicly available sources, upon which expected savings are calculated.

Changes in PERS/TRS's underlying assumptions, including but not limited to, mortality, salary, amortization method, actuarial cost method, asset valuation method, payroll increase, statutory UAAL contribution rates, benefits levels, cost-of-living adjustments (COLAs), term of UAAL amortization as well as the effects of "income smoothing," will have either a positive or negative effect on any future funding deficits or surpluses.

There is no guarantee that any projected savings will be realized, nor that PERS/TRS will not accrue a new UAAL after the issuance of the bonds, even if the portfolio of investments earns the expected actuarial rate of return and the expected UAAL paydown schedule is realized for the life of the bond deal.

Please consult your financial advisor and/or actuary regarding these issues and risks.

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION

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Tape Log for Tapes 1 and 2

Tape No.	Speaker	Subject

January 12-13, 2006
Juneau, Alaska
Goldbelt Hotel, Egan Drive

ALASKA RETIREMENT MANAGEMENT BOARD (WORK SESSION) MEETING

ARM BOARD MEMBERS present: Martin Pihl, Gail Schubert, William Corbus, Sam Trivette, Gayle Harbo, Scott Nordstrand, Larry Semmens, Michael Williams

ARM BOARD MEMBERS absent: John Roses

STATE REVENUE STAFF: Gary Bader (CIO), Judy Hall, Bob Mitchell, Tom Boutin, Susan Taylor
ADMIN and R&B STAFF: Melanie Millhorn, Traci Carpenter, Kevin Brooks

IAC MEMBERS PRESENT: Dr. Jerrold Mitchell, Dr. William Jennings

OTHERS PRESENT: Rob Johnson (outside legal counsel); Michael O'Leary, Callan Associates; Clark Gruening, Don Gottschall, Michael Kirk, Chester Johnson (State Financial Advisor), Cynthia Weed (State bond counsel), Jeffrey Sinz (Municipality of Anchorage); Kevin Richie (AK Municipal League); Mike Barnhill (AG's Office); Don Gotschall; Kristin Erchinger (City of Seward); Derek Miller (Rep. Kelly Aide); Jack Kreinheder (OMB); Cindy Spanyers (APEA/AFT); Donn Stewart (DOA Personnel)

Tape 1, Side A
Thursday, January 12, 2006

Start Time: 9:00 a.m.

0	Roll call	Harbo, Nord, Pihl, Schubert, Semmens, Trivette, Williams.
		Public meeting notice rqmt. met
		Agenda
		Harbo motion, Semmens 2nd.
	Trivette	Letter to add.
	Schubert	Approved.
		Public Appearances.
1	Michael Kirk ✓	Ret 20 yrs from teaching. I first brought to actuary's attn that assumptions are from 1930s. Longevity - how long to work, how much they contribute, how long they benefit. "Nothing comes from nothing." Experience nationally shows I did know what I was talking about. "From many comes one." Many contribute to my retirement? Make it fit.
6	Schubert	**Minutes.**
	Trivette	Moved.
	Harbo	2nd.

Tape No.	Speaker	Subject
	Schubert	Technical corrections I'll give to staff, if no objection. Motion passed without objection.
7		**Pension Obligation Bond Panel** State's financial advisor / State's bond counsel / ASIB + ARM financial Michael O'Leary, Chester Johnson, Cynthia Weed, Jeffrey Sinz (intros by Tom Boutin) Advisor PF
	O'Leary	Start with 1st presentation...(overhead slides)
[Bill Corbus arrived at 9:10 a.m.]		
		"You pays me now or you pays me later" - true for pension obligation bonds.
12		Pg 2 - topics that Tom asked me to focus attention.
		Pg 3 - Have to address earnings lost because of underfunding, not just underfunding. Actuary assuming assets are there to earn income every year. If sponsor issues bonds, immediately system is less underfunded, generating earnings. Somebody has to pay cost of bond service. No guarantee system will earn expectations. If it doesn't, then sponsoring entities will have to pay debt costs, plus continuing to pay normal cost of pension system, plus future potential unfunded liability.
14		Pg 4 - use of leverage...double edged sword.
		If you look at young pension plan, young work force, liabilities way out there, that fund has very long term investment horizon. Could have a very aggressive investment policy. But workforce in their 40s, shorter horizon for open plan. Corpus is large...little less aggressive policy is considered reasonable. But for closed plans, that's not true. No new benefits being earned, should be comparatively conservative policy. (bonds) but average age <55
20		July 1, 2006 - no new participants go into PERS system. ...have to be a huge infusion of contributions going in. Dollar cost averaging. Somewhere down the road it will be appropriate to shift to more conservative policy. If in bonds exclusively, what would be appropriate discount rate? 4%, 5%? What would be effect on liabilities if discount rate was 4-5%? Liabilities would rise. Every % rise in the discount rate would be a 10-12% rise in liability rate. Actuaries always offer caveat based on discount rate...
25	Pihl	Aggravated by cashflow going out?
	O'Leary	It's ok to have 0 balance at end of life of plan. Just showing you the implications of bond obligations, sponsors are making payments.
		Pg 5 - from initial meeting. Where PERS and TRS are along efficient frontier. Most plans are somewhere near where you are.
28	balloon payment vs amortized	Leverage from an employer perspective - pg. 6. Issuance of pension obligation bonds - levers their contributors' risk. Fact of life, like mortgages. The debt service on pension obligation bond is fixed, therefore less flexibility on that portion of the pension cost. More variable - in addn to that fixed payment, you continue to make normal cost distributions, plus unfunded liability. If fund earns more than borrowing costs... If fund earns less than borrowing costs, New Jersey example of bad experience. Really don't know

Tape No.	Speaker	Subject
		the answer until bonds are paid off.
34		Pg 7 How does it impact asset allocation from strategic perspective - shouldn't have significant effect. Probably shouldn't be altered. However, your risk tolerance may be different... May wish to rein in the volatility a bit. Others may feel you can afford a little more volatility to make more money, reduce pension cost. If someone invested in 2002, when market was in free fall...short term result would be poor, look like it was exacerbating problem, even though it would help in long term. Private equity investments are periodic with good GPs, where to invest in interim. Have a transition target maybe.
38		Pg 8 - PERS and TRS case, investment proceeds would be considerable. Pg. 9 - 2nd bullet point. cash flow pattern would change, planning liquidity needs more an issue. Pg 10 - What if scenario for Alaska. If issued POBs 3 years ago, you would have been better off. If done 5 years ago, would have been a loser (so far).
41		In terms of target, should an obligation get to 100% funded or some lower level? Some say 90% would be better... political dynamic
Tape 1, Side B (9:45 a.m.)		
0	Chester Johnson several minutes of blank tape before start	(State Financial Officer) (no handout or overhead material) Tell a story..."it's simply a miracle." To emphasize the point that to borrow money is never a miracle. Can't make something out of nothing. POB can be used in certain circumstances, but to borrow to lessen the size of an unfunded liability can work (and did work in 90s) but can it work way out in the future. What rating agencies and honest brokers say about POBs...sometimes there are no other choices. New Jersey, Ilinois examples... Concerns that rating agencies have about use of POBs...debt paid out of GenFunds, immediately affects debt rating of fund. Market risk - will market return disappoint and make problem worse? Conversion of a soft liability into a hard one. Govt can't miss a debt service payment, but can miss a pension payment. Increased pension liability, addl debt can push aside other capital projects. Is 100% funded position a good idea? Many analysts have reservations about 100% funded, creates incentive for govt to give addl benefits. Even research staff of investment bankers have written about credit problems with POBs. UBS...sees it as credit negative, reduces long term operating capability.
10		Is AK in trouble credit wise because of size of unfunded liabilities? Fitch says that declines were consistent with general equity market trends. S&P says state is allocating $$ to cover burden of employers. Moody's says...some concern, state has addressed by DCP for future employees. Lessened by retiree medical benefits included. What does it suggest? AK has AA rating, strong credit position. Unfunded pension liability of AK is in the pack, doesn't stand out from others, even tho AK offers health benefits. AK not in position to use POBs... But if decision to use POB as state or local levels, structural issues. Bonds

Tape No.	Speaker	Subject
		are taxable. Foreign purchasers have been active in POB market. ...callability of bonds after a certain # of years...
15		Circumstances that POBs would be issued in future: revenues are still recovering from economic slow down. Facing rising interest rate environment = lower investment return. Don't know how economics will stand up over life of bond issuance. Question whether market risk is worth it.
18	Schubert	Is there committee hearing?
	Audience	My colleague still not here yet, he's at hearing.
19	Schubert	Break now for 15 mins.
Break at 10:02 a.m. to 10:22 a.m.		
20	Cynthia Weed	State Bond Counsel (with Preston Gates Ellis LLP)
		Legal Issues
		Starting with presumption that you've decided to do POBs, and if we could, how would we do this. Definition of debt... State constitutional issues: need voter approval.
23		Local general obligation bonds for pension obligations: also requires voter approval.
		Enterprise or public Corporations
		Revenue debt: public organizations as alternative. IX Sec 11
		Debt that is not really debt - structuring ideas. Certificates of participation. Lease and lease back obligations. Not debt for constitutional purposes. State retains right to walk away from facility and not make payments..holders of COP would not be happy but no recourse.
27		Anchorage example: has powerful rep in WA, DC. Tax exempt debt and taxable borrowing in early 1990s. One mechanism that might be available to do pension financing.
		- public corporation
Voter approval/G.O. debt. Muni debt		HB 278 - Give Bond Bank authority to issue bonds... source of repayment of bonds? For employers? How I see it - if bond bank issues bond on behalf of local government...subject to constitutional limitations.
[Backup 2A]		Might be able to use lease and leaseback structure... How that works...consolidate debt to get access to the market. Moral obligation of the state to fund a reserve if there was a shortfall in the Bond Bank. This idea would change... Intercept concept -
	Semmens	Only if you're receiving $$...
	Weed	Yes.
Tape 2, Side A (10:40 a.m.)		
0	Weed	Other Options - Constitutional Amendment...rainy day fund. Dollar switching...from other projects.
		Conclusion: no perfect solution. Read GFOA.org - active committee working on pension funding, resources on website, qns you should ask before get' into a program.
4	Jeffrey Sinz	Chief Fiscal Officer, Muncipality of Anchorage (overhead presentation)
		Important issues to employers in state, as well as taxpayers of local

Tape No.	Speaker	Subject
		governments.
		Speak strongly from alternative position. POBs are good tool, premature to dismiss them because of limited options. Array of perspectives on this issue, mine is local employer perspective. No opportunity for local govts to act independently, but is potential to work through POBs. PERS is statewide system, should be addressed in statewide way. ANC doesn't want to have to act alone.
9		Fond of word "substitute". Introduction page - reads points...
12		Challenge/Opportunity... one response was SB 141, creation of Tier IV. Another is increasing contribution rates.
		PERS Challenge/Opportunity...
15		Anchorage Challenge... $462 million shortfall in PERS. Translates for ANC taxpaper when implemented is 2 mills or $500 a year addl property taxes. Significant.
		Anchorage Opportunity...slightly more conservative view of the world.
19		Current Risks. Financial - earnings, market trends (timing), ratings, risk. Administrative risk - accounting, investment management (undefined policy question), cost allocations, plan flexibility (what to do with excess proceeds). Legal - isn't clear to us at this point. Need clarity. Political - ANC doesn't want to be ahead of the curve.
Policies and clarifications		
26		Summary: financial impacts are real, substitution of lower pension debt can reduce cost, access to pension debt markets are unclear..., and HB 278 is step in right direction but not ready to go in its current state.
what changes		MOA hasn't reached decision on POB yet, but believe that research done to date should be fully explored.
29	Schubert	Thank presenters. Questions now.
	Williams	MOA's ability to issue GOBs, is local voter approval required?
	Sinz	Don't know. Appropriation debt of some form,
	Weed	What they have done so far hasn't been subject to voter approval. Haven't seen all the ideas yet.
	Sinz	Mayor would make call.
31	Williams	Johnson - negative about booking a liability. Govt acctg standards coming to disclose unfunded liabilities, so raters will count that for AK.
	Johnson	Debt and assets ratio to compute...compared on a national basis. Debt Computation does not include liability for pension funding.
36		Neither Fitch or S&P commented on AK's situation. Health care counted in state's obligation, concerned about that. May cause other state's to include HC in their computation. AK less concern about unfunded liability at this point.
38	Semmens	If nothing is done, municipality could have contribution of close to 30%, affect rating ability to repay debt?
	Johnson	As % rises over time, underlying credit characteristics deteriorate.
40	Semmens	Why would MOA do this? Hardship on municipality?

Tape No.	Speaker	Subject
	Sinz	Local impact on tax rate. MOA has tax limitation in its charter
Tape 2, Side B (11:23 am) Backup 2B, 4 mins.		
0	Sinz	Tax increase takes up space that could be used for other projects... Will keep on reviewing until we reach conclusion about POBs.
1	Trivette	At cap now? Will have to reduce $$ elsewhere? Yes.
	Sinz	60% of operating budget is labor.
	Trivette	May have to get rid of employees?
	Sinz	Yes.
	Nordstrand	Financial impact on household, what is reduction of different calculation?
	Sinz	20% of $500 would be shaved off.
	Nordstrand	26% instead of 28.6%.
4	Pihl	What contribution rates have gone from, dramatic.
	Sinz	Magnitude of the problem from afar doesn't look that bad. But looked at from local level, these numbers are defensible.
6	Pihl	We had contribution rates that were way under what they should have been to support the pension plans we have, that's part of the problem.
	Sinz	Radically different than it is today.
	Millhorn	Callability of different bonds - sounds like we'd want that. What is cost?
	Johnson	In tax exempt market, ability to call bonds after 10 yrs at no premium. Perception is you should do that to maintain flexibility. In taxable market tends to be bigger penalties for calling bonds.
11	O'Leary	What is premium on untaxed bonds?
	BMitchell	Varies, not trivial.
	JMitchell	Don't look at either you do or don't do, but it could be a quiver, go from 70 to 80% or 85%, use as an experiment to see how it works.
13	Harbo	Doesn't address rising health care costs. POBs analogous to paying off CC debt by home equity loan. How do you allocate $$ that comes in all at once?
	O'Leary	Most common answer is to invest it immediately per policy, but difficult to do. Think it through before you get the $$. check risk preferences. Approaches vary...
16	Bader	Curious about how much is available once all expenses are paid?
	johnson	Size of bonds matters. Maximum 2% down to 1% for larger amount.
	Trivette	No of years?
	Johnson	25-30 years. Usually matches...
18	Schubert	Do POBs have any advantage over increasing equities over fixed income, less risk?
	O'Leary	Don't know right off. Thought process, which has more risk... Some plans get more risky trying to make up earnings for unfunded liability. Interesting question.
20	Schubert	Concluded presentations. Thank you.
	Schubert	Chair Report. I met with 2 commissioners, discussed committee memberships. Do next

Tape No.	Speaker	Subject
		mtg. I testified at Ways and Means Committee by teleconference, as well as others. Also Report to Leg Committee, we'll do that later. Letter from Sen. Kim Elton in packet - to calculate costs for Tier III and VI employees. Leave that to staff to respond to Senator.
23	Schubert	Recess for lunch now.
End of Tape 2, Side B		

Katie - get this to see + ask to be copied with staff response

JAN-20-06 FRI 11:25 AM FAX NO. P. 01/01

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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Juneau, Alaska 99801-1182
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MEMORANDUM January 5, 2006

SUBJECT: Municipal bonds for pension plans (Work Order 24-LS1458)

TO: Representative Bruce B. Weyhrauch

FROM: Tamara Brandt Cook
Director TBC

You ask whether state law prevents municipalities from issuing pension bonds. I understand that these bonds are to be paid for from the general revenue of the municipality. If the bonds create a general debt of a municipality, like a general bond issue, they are subject to the limitation on acquisition of debt by municipalities under Art. IX, sec. 9 of the state constitution. (See Village of Chefornak v. Hooper Bay Constr. Co., 758 P.2d 1266 (Alaska 1988))

Art. IX, sec. 9 states in full: "No debt shall be contracted by any political subdivision of the State, unless authorized for capital improvements by its governing body and ratified by a majority vote of those qualified to vote and voting on the question." Note that this type of debt may not be used to finance pension plans because its use is limited to capital improvements. (City of Juneau v. Hixson, 373 P.2d 743 (Alaska 1962))

Art. IX, sec. 10 permits borrowing to meet appropriations for a fiscal year, but this type of interim borrowing must be paid before the end of the next fiscal year. It could only be used to fund a pension plan on a short term basis. Other exceptions to the restraint on borrowing are found in Art. IX, sec. 11, but it is not obvious to me how these exceptions might be used to fund pension plans. That section provides:

> SECTION 11. Exceptions. The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

For examples of creative state funding methods that have been upheld by the court see Myers v. Alaska Housing Finance Corp., 68 P.3d 386 (Alaska 2003) involving the sale of the right to future payments from the tobacco settlement to secure revenue bonds, and Carr-Gottstein Properties v. State, 899 P.2d 136 (Alaska 1995) involving the issuance and sale of certificates of participation in a lease-financing arrangement.

TBC:ljw
06-005.ljw

Post-it® Fax Note 7671	Date 1/20/06	# of pages ▸ 1
To W & M Comm.	From Manny	
Co./Dept.	Co.	

Tom Boutain — Dept Director
opposes for State - State credit

HB278 ?

If lease structure
extend moral obligation
1.3 bill now 500 - AK Student Loan
Bond Bank
Energy Authority
limit less than 6 bil but not tested
larger Community would use up
the

Size of community

Devon
Appropriation backed pledge

Jeff Sinz —

P.O.B. preservation of options

3 hurdles

Access to marketplace Are OK
others do not

Access to financial expertise

Uncertainty on many of issues
1) what does system do
invest in pool
? highly successful — immediately see benefits?
? " unsuccessful.

* Other responses PERS + TRS ↑ pay from State

ALASKA MUNICIPAL BOND BANK AUTHORITY

2005 ANNUAL REPORT

THE BOND BANK *An Idea That Works*

LETTER FROM THE GOVERNOR

The Office of
Governor Frank H. Murkowski

December 2005

Dear Alaskans:

It seems that too often, whether through over-regulation or bureaucratic inefficiency, government hinders rather than helps construction of sound economic development or public works projects.

I am proud to present the Alaska Municipal Bond Bank Authority as a great example of government getting it right. The job of the authority is to help municipalities. This report shows that in fiscal year 2005 the authority issued $123.0 million in bonds and provided direct savings of $16.7 million to Alaska municipalities.

Local governments sell their bonds to the authority to achieve lower costs and take advantage of the Bond Bank's high credit ratings. Because bonds issued by the authority are backed by the moral obligation of the state, they have higher credit ratings than bonds issued by most Alaska municipalities.

In fiscal year 2005, bonds sold by the authority financed school construction in Kodiak, Petersburg, Sitka, and Ketchikan; harbor improvements in Adak; a hospital in Juneau; street improvements in North Pole; and a new ice rink in Palmer. It also financed roof repairs for Anchorage's Performing Arts Center and refinanced outstanding bonds for savings to Haines, Palmer, Ketchikan, Fairbanks, Cordova, Sitka, Unalaska, and the Northwest Arctic Borough.

My administration has made a concerted effort to maintain the state's credit ratings over the past three years. The payoff for fiscal discipline, curtailing the use of debt, and laying the groundwork for a long-term fiscal plan has been a return to stable credit ratings. In the case of the Bond Bank, this has resulted in a credit upgrade to A1 from Moody's Investors Service in fiscal year 2005. It is gratifying to see these efforts converted to real and measurable savings for Alaskans throughout their municipal governments.

Our job is not finished. Economic and resource development through improved infrastructure and efficient government continue as a main focus of my administration.

The benefits of the effort come in greater opportunities for Alaskans to find the careers needed to raise families and enjoy the great bounty of the Last Frontier.

Sincerely yours,

Frank H. Murkowski

Frank H. Murkowski
Governor

ALASKA MUNICIPAL BOND BANK AUTHORITY

2005 ANNUAL REPORT

PO BOX 110405
JUNEAU, ALASKA 99811-0405

LETTER FROM THE CHAIRPERSON

To all Alaskans:

The year 2005 marked the 30th year of existence for the Alaska Municipal Bond Bank Authority (Bond Bank). Since its inception in August of 1975, the Bond Bank has helped Alaskan communities secure over $800 million dollars in financing for public works projects that have improved the standards of health, safety and education for our citizens. The municipalities using the services of the Bond Bank have realized significant savings, reducing the burden on taxpayers throughout the state.

The Bond Bank was created to assist Alaskan communities issue bonds. Some communities simply lack familiarity with the financial markets, others seek to reduce the cost of issuing bonds, and some municipalities find they can get better terms on bonds issued by the Bond Bank.

The Bond Bank realizes savings for communities in a number of ways. We pool bonds, selling much larger issues than any one community would, thereby creating economies of scale. Because of our level of activity, we contract for professional services at a lower cost than could less active bond issuers. The Bond Bank also has a better credit rating than is available to most communities, resulting in lower interest rates.

The Bond Bank provides services to urban and rural communities in every region of the State as demonstrated by a review of the financial information that follows.

Beginning in 1977, the Bond Bank has remitted to the State of Alaska annual investment earnings in excess of operating needs. At $26.9 million, those remittances now exceed, by over $8.3 million, the $18.6 million appropriated by the State of Alaska to the Bond Bank between the years 1976 and 1986.

Fiscal year 2005 saw a continuation of the trend of increased use of the Bond Bank. Six series of bonds were issued for $123 million for fourteen Alaskan communities. Bond Bank participation in these transactions is estimated to have saved over $16.7 million.

The Bond Bank is indeed an idea that works an example of the benefits that can be realized through good government.

In accordance with Alaska Statute 44.85.100, we respectfully submit the attached year 2005 report of the activities and financial condition of the Bond Bank.

We hope you share with us our pride in the Bond Bank's accomplishments this outstanding year.

Sincerely,

R. Desmond Mayo

R. Desmond Mayo

THE ALASKA MUNICIPAL BOND BANK AUTHORITY

The Bond Bank is a public corporation that aids Alaskan communities by issuing bonds, and using the proceeds to purchase the municipalities' general obligation and revenue bonds. It commenced operations in August 1975.

The Bond Bank has a legal existence independent of and separate from the State of Alaska. Bonds issued by the Bond Bank are payable only from Bond Bank funds. The State has pledged its moral obligation to the maintenance of a debt service reserve for all of the Bond Bank's bonds. (For more information please see Notes to Financial Statements.)

The powers of the Bond Bank are vested in its Board of Directors. The membership of the Board consists of five directors representing both the public and private sector. The three private sector board members are appointed by the Governor and serve four-year terms. They are joined on the Board by the Commissioner of Revenue and the Commissioner of Commerce, Community & Economic Development (or their assigned representatives).

The Board of Directors operates in accordance with the Bond Bank Act (AS 44.85), its published regulations (15 AAC 144) and its by-laws. The board's main responsibility is to approve bond issues.

The Bond Bank may not issue revenue bonds in excess of $75 million in any fiscal year unless the Alaska Legislature approves a greater amount. The Bond Bank is further restricted to a limit of $500 million of bonds or notes outstanding. As of June 30, 2005, obligations totaled $409.4 million, allowing for additional bond issuances of approximately $90.6 million.

AN IDEA THAT WORKS

The Bond Bank pays its own way. The Bond Bank's reserve accounts serve to both guarantee the bonds and provide investment income. All of the Bond Bank's costs are paid from these investment earnings. The statutory earnings from its investment accounts exceeded expenses by $402,427 during the fiscal year ending June 30, 2005. Such excess funds are payable to the State of Alaska. The Bond Bank is transferring $250,000 of non statutory investment earnings to the State of Alaska in fiscal year 2006. Since 1977 the Bond Bank has returned excess earnings to the State for a cumulative total of $26.9 million, exceeding by over $8.3 million the State's original investment of $18.6 million (appropriated in the years 1976 through 1986).

Alaska's investment in the Bond Bank is compounded in other ways.

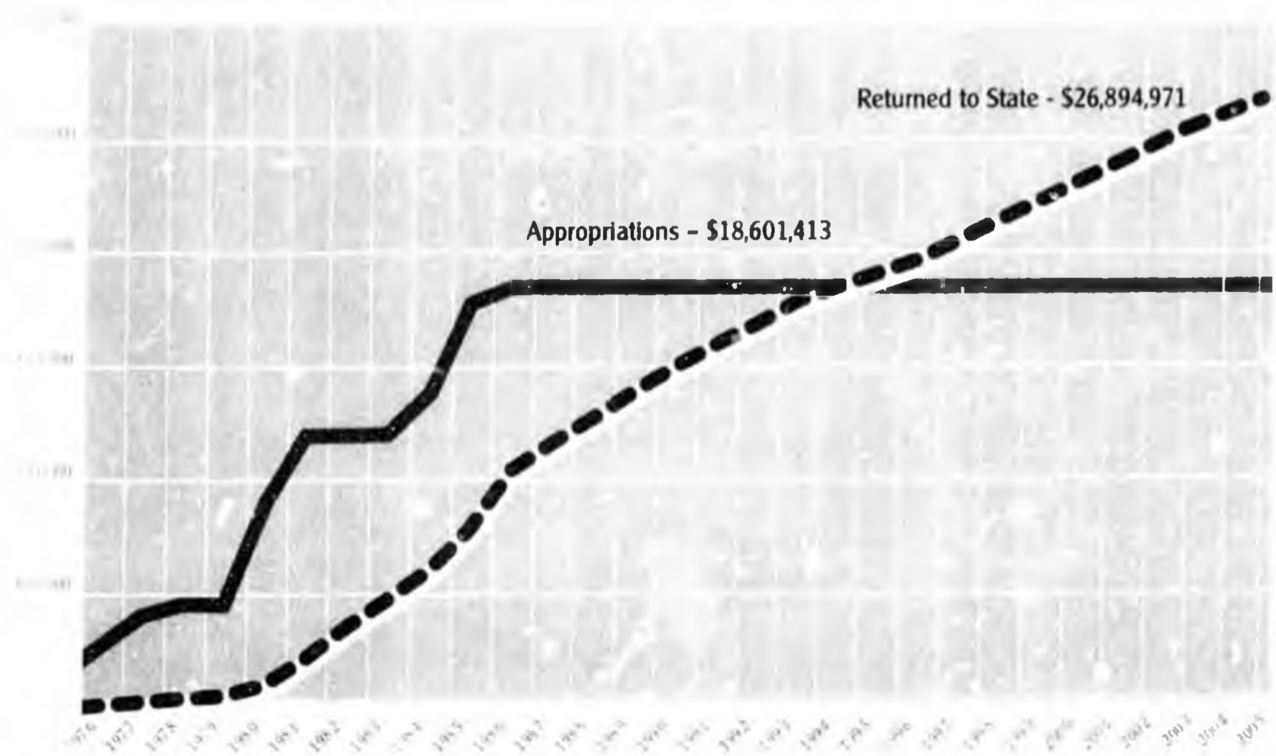
Alaskan communities taking advantage of the Bond Bank's services realize considerable savings. These communities may have low bond ratings or, although credit worthy, have not issued bonds or notes, or have little outstanding debt, and lack investor familiarity.

Some larger communities, capable of issuing their own bonds, find that the Bond Bank's services result in less expense, especially for small bond issues.

In addition to the annual dividends received from the Bond Bank, it costs the State of Alaska less money to reimburse communities for such capital projects as schools built with funds provided by Bond Bank issues. Since bonding expenses for Alaskan communities are less than they would be otherwise, the interest expense is less for the State.

The Bond Bank operates efficiently. Department of Revenue staff serve as executive director and provide accounting support. Where economies of scale dictate, the Bond Bank hires outside professional staff.

CUMULATIVE APPROPRIATIONS COMPARED TO CUMULATIVE EXCESS EARNINGS RETURNED TO STATE

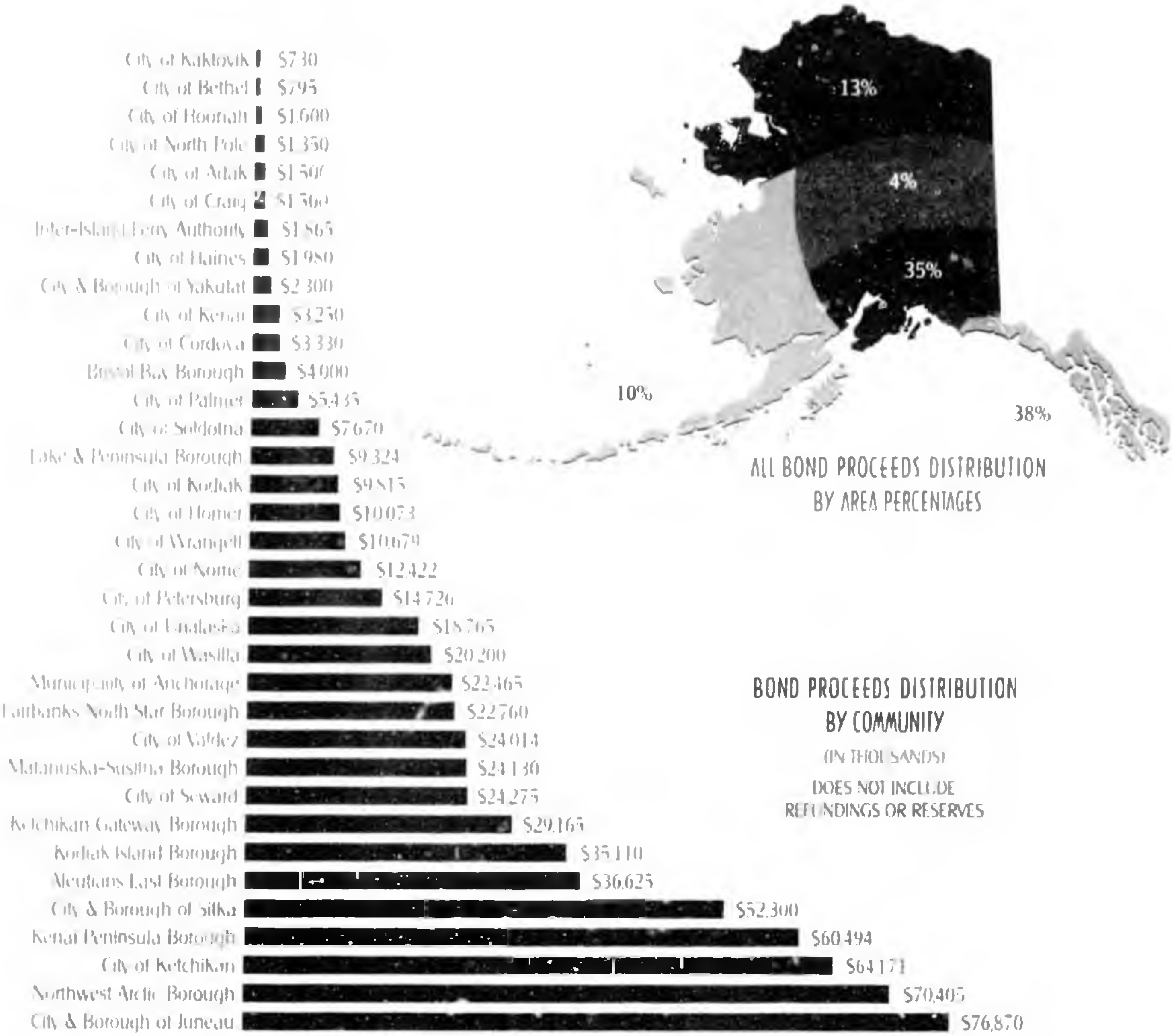


HELPING ALASKAN COMMUNITIES

The Bond Bank is organized to work with all Alaska municipalities, especially new and infrequent issuers of debt for capital projects. From the time a municipality contacts the Bond Bank, legal and financial professionals with extensive experience in Alaska financing begin working with municipal managers to develop the most advantageous financing program for the community.

If it becomes clear that debt financing through the Bond Bank is neither possible nor appropriate, for any particular municipality, the Bond Bank will continue to work with the municipality's administration to find other means or ways of meeting their financial objectives.

In most instances the Bond Bank is able to relieve municipalities from paying certain costs of issuing bonds, such as official statement printing, trustee and paying agent fees. For this reason, even large communities with a track record of issuing bonds occasionally seek the services provided by the Bond Bank.



ALL BOND PROCEEDS DISTRIBUTION
BY AREA PERCENTAGES

BOND PROCEEDS DISTRIBUTION
BY COMMUNITY

(IN THOUSANDS)

DOES NOT INCLUDE
REFUNDINGS OR RESERVES

ISSUING BONDS

The Bond Bank issues mostly tax exempt bonds. Purchasers of these bonds, including bond mutual funds, institutional investors, and insurance companies do not have to pay taxes on the income received.

Each individual issue of the Bond Bank is reviewed by Moody's Investors Service and Standard and Poor's Corporation. Because the Bond Bank has received 'A' ratings, considered "investment grade," from two major national bond rating agencies, it is able to borrow money at lower interest rates than most Alaskan municipalities.

In addition, when it is economical and cost effective to do so, the Bond Bank obtains bond insurance, and thereby secures 'AAA' ratings.

The Bond Bank strengthens its portfolio by including Alaskan communities widely distributed geographically, with different economic bases, and limiting the total percentage of bonds committed to any one municipality.

The Bond Bank often pools municipal general obligation bond issues into a single issue. Following the sale of the issue, the Bond Bank purchases the individual issues from each community.

LEVERAGING STATE DOLLARS

An important reason for the Bond Bank's favorable bond rating and lower borrowing costs is that it secures its bonds with reserve funds supported by the "moral obligation" of the State of Alaska.

The reserve funds are available to cure defaults, should they occur. For General Obligation Bonds, two-thirds of the reserve is funded from bond bank assets and one-third is funded from the proceeds of new bond issues.

The reserve fund is normally used to leverage debt at better than an eleven to one ratio. For every $1 million placed in the reserve fund, more than $11 million of outside capital is attracted to the state.

CURRENT FINANCINGS FY 2005 BONDS ISSUED

$14,575,000

GENERAL OBLIGATION BONDS 2004 SERIES C
City of Palmer – Ice Rink
City of Petersburg – Elementary, Middle and High School Renovations
Standard & Poor's AAA; Moody's Aaa: FSA Insurance
Competitive Sale – CityGroup Global Markets
20 year: True Interest Cost 4.373%

$28,845,000

REVENUE BONDS 2004 SERIES A
City & Borough of Juneau – Hospital
Standard & Poor's AAA: Fitch AAA: MBIA Issued
Negotiated sale – RBC Dain Rauscher
30 year: True Interest Cost 4.962%

$5,365,000

REVENUE BONDS 2004 SERIES B
Municipality of Anchorage – Performing Arts Center
Standard & Poor AAA: Fitch AAA. MBIA Insured
Competitive Sale – Wachovia Securities
30 year: True Interest Cost 4.732%

$13,925,000

GENERAL OBLIGATION BONDS 2004 SERIES D
Kodiak Island Borough – High School and New Pool
City of Adak – Small Boat Harbor
Standard & Poor's AAA: Moody's Aaa: XL Capital Insured
Competitive Sale – Wells Fargo Brokerage
20 year: True Interest Cost 4.176%

$32,655,000

GENERAL OBLIGATION BONDS 2005 SERIES A
City of Ketchikan, City of Fairbanks, City of Cordova, City of Unalaska, City and Borough of Sitka, Northwest Arctic Borough – Refunding
Standard & Poor's AAA. Moody's Aaa: FGIC Insured
18 years: True Interest Cost 4.2035%

$27,625,000

GENERAL OBLIGATION BONDS 2005 SERIES B
City of North Pole – Street Improvements
City and Borough of Sitka – Elementary, Middle & High School Improvements
Ketchikan Gateway Borough – Elementary and Middle School
Haines Borough and City of Palmer – Refunding
Standard and Poor's AAA: Moody's Aaa: MBIA
20 years: True Interest Costs 3.9385%

Issued amounts are inclusive of Reserve obligations

GENERAL OBLIGATION BONDS

Municipal general obligation bonds, the Bond Bank's mainstream program, are usually issued to finance facilities that do not generate revenue, such as schools, roads, public safety and municipal buildings. Such bonds must be approved by the municipal voters.

Bonds issued by the Bond Bank to purchase municipal general obligation bonds are secured by:

- Full faith and credit of each respective community with no taxing limitation for the general bonded debt issued to the Bond Bank.
- The Bond Bank's general obligation debt service reserve fund. This reserve is generally funded in an amount equal to maximum annual debt service on all the Bond Bank general obligation bonds.
- All Bond Bank assets shall be used to restore the debt service reserve to an amount that equals the maximum annual debt service on the Bond Bank bonds.
- The statutory right of the Bond Bank, in the event of default, to demand and receive any funds held by a state agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

REVENUE BONDS

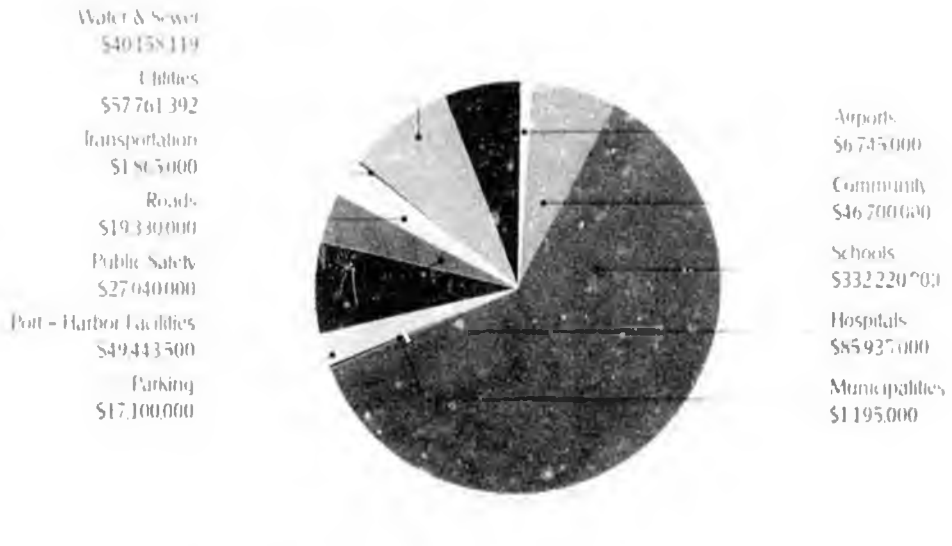
Revenue Bonds are used to finance revenue-producing capital improvements such as utility or port facilities. Because they are not secured by a municipality's taxing power, such bonds do not normally require municipal voter approval.

Bonds issued by the Bond Bank to purchase municipal revenue bonds are secured by:

- A pledge of the revenues from the facility being financed.
- The municipalities' reserve fund under their bond resolutions. The reserve fund generally is funded in an amount equal to maximum annual debt service on the municipalities' bonds.
- The Bond Bank reserve fund under the bond resolution for that issue. The reserve fund generally is funded in an amount equal to maximum annual debt service on the Bond Bank bonds.
- The statutory right of the Bond Bank, in the event of a default, to demand and receive from a state agency any funds held by that state agency which are payable to the defaulting municipality.
- The moral obligation of the State of Alaska to maintain the debt service reserves at their required levels.

USES OF BOND PROCEEDS — INCEPTION TO DATE

DOES NOT INCLUDE REFUNDINGS



SUMMARY OF DEBT SERVICE

SCHEDULE OF TOTAL DEBT SERVICE BY CLASSIFICATION AT JUNE 30, 2005

1976 GENERAL BOND RESOLUTION FUND	PRINCIPAL	INTEREST	TOTAL
1995 Series A	$ 2,330,000	134,750	2,464,750
1995 Series C	1,090,000	32,700	1,122,700
1995 Series D	90,000	2,644	92,644
1996 Series A	610,000	27,450	637,450
1996 Series B	895,000	61,931	956,931
1997 Series A	385,000	29,390	414,390
1997 Series B	1,435,000	103,320	1,538,320
1998 Series A	6,500,000	2,289,201	8,789,201
1998 Series B	1,830,000	225,268	2,055,268
1999 Series A	10,045,000	3,803,634	13,848,634
2000 Series A	2,830,000	406,175	3,236,175
2000 Series B	2,960,000	623,775	3,583,775
2000 Series C	6,360,000	1,233,868	7,593,868
2000 Series D	1,580,000	851,326	2,431,326
2000 Series E	11,050,000	2,756,937	13,806,937
2000 Series F	810,000	213,060	1,023,060
2001 Series A	14,270,000	6,657,000	20,927,000
2001 Series B	3,480,000	1,583,934	5,063,934
2002 Series A	12,470,000	2,433,975	14,903,975
2002 Series B	11,055,000	5,053,623	16,108,623
2003 Series A	8,745,000	4,020,297	12,765,297
2003 Series B	2,035,000	79,200	2,114,200
2003 Series C	6,800,000	1,051,538	7,851,538
2003 Series D	13,965,000	6,913,223	20,878,223
2003 Series E	31,125,000	24,888,937	56,013,937
2003 Series F	1,690,000	12[illegible],087	1,812,087
2003 Series G	22,825,000	12,069,287	34,894,287
2004 Series A	19,190,000	5,926,097	25,116,097
2004 Series B	16,690,000	6,234,875	22,924,875
2004 Series C	14,575,000	7,140,192	21,715,192
2004 Series D	13,925,000	6,649,633	20,574,633
2005 Series A	32,655,000	16,177,276	48,832,276
2005 Series B	27,625,000	12,633,697	40,258,697
	303,920,000	132,430,300	436,350,300

COASTAL ENERGY IMPACT PROGRAM REVENUE BONDS	PRINCIPAL	INTEREST	TOTAL
Coastal Energy Reserve Loan Fund	11,005,878	-	11,005,878
1995A Revenue Bond Resolution	2,265,000	7[illegible]9,293	3,024,293
1997A Revenue Bond Resolution	13,935,000	57[illegible]6,352	19,691,352
1998A Revenue Bond Resolution	6,170,000	1,196,700	7,366,700
1998B Revenue Bond Resolution	1,105,000	113,222	1,218,222
1999A Revenue Bond Resolution	1,660,000	809,324	2,469,324
2000A Revenue Bond Resolution	445,000	24,030	469,030
2000B Revenue Bond Resolution	2,725,000	1,386,249	4,111,249
2001A Revenue Bond Resolution	1,550,000	566,344	2,116,344
2001B Revenue Bond Resolution	2,285,000	885,611	3,170,611
2002A Revenue Bond Resolution	5,380,000	1,193,975	6,573,975
2003A Revenue Bond Resolution	2,935,000	92,337	3,027,337
2003B Revenue Bond Resolution	19,000,000	9,982,156	28,982,156
2003C Revenue Bond Resolution	820,000	55,175	875,175
2004A Revenue Bond Resolution	28,845,000	27,554,705	56,399,705
2004B Revenue Bond Resolution	5,365,000	4,714,045	10,079,045
	$ 409,410,878	187,519,818	596,930,696

SUMMARY OF TOTAL DEBT SERVICE REQUIREMENTS BY FISCAL YEAR

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2006	31,885,000	17,960,479	49,845,479
2007	25,240,000	16,598,854	41,838,854
2008	22,530,000	15,696,521	38,226,521
2009	21,785,000	14,826,328	36,611,328
2010	21,905,000	13,947,354	35,852,354
2011–2015	106,440,000	55,656,371	162,096,371
2016–2020	93,730,878	33,431,444	127,162,322
2021–2025	59,645,000	13,399,601	73,044,601
2026 and after	26,250,000	6,002,866	32,252,866
	$ 409,410,878	187,519,818	596,930,696

THE BOND BANK HAS FIVE DIRECTORS CONSISTING OF THREE PUBLIC MEMBERS APPOINTED BY THE GOVERNOR, THE COMMISSIONER OF REVENUE AND THE COMMISSIONER OF COMMUNITY AND ECONOMIC DEVELOPMENT.

THE COMMISSIONERS HAVE TRADITIONALLY APPOINTED DELEGATES TO SERVE IN THEIR PLACE.

THE BOARD OF DIRECTORS

R. DESMOND "DESI" MAYO
Chairman
Term expires July 15, 2007

Mr. Mayo was appointed on September 15, 1999 and reappointed on July 29, 2003. Mr. Mayo is the Chief Financial Officer of the Matanuska Telephone Association. Prior to his current employment, Mr. Mayo has served as Chief Financial Officer for the Matanuska-Susitna Borough and more recently Municipal Light and Power, an enterprise of the Municipality of Anchorage. He has also served in the capacity of Corporate Controller for Alyeska Pipeline Service Company. Mr. Mayo graduated from the University of Alaska and has attended graduate classes at Alaska Pacific University. Mr. Mayo served as Governor Knowles' appointee to the Alaska State Pension Investment Board and served on Governor Murkowski's Mat-Su Finance Policy Transition Team. Mr. Mayo has also served on the boards of Northwest Public Power Association, Matanuska Electric Association, Alaska Rural Electric Cooperative Association, the United Way of Matanuska-Susitna Borough and Habitat for Humanity Mat-Su.

MARK PFEFFER
Vice Chairman
Term expires July 15, 2009

Mr. Pfeffer was appointed October 10, 2001. Mr. Pfeffer is a registered architect who has owned and led an architectural practice in Alaska for over 20 years. He is active in the development, design and management of commercial real estate projects, many of which include public/private partnerships. He is a partner in the firms Koonce Pfeffer Bettis, Inc. and Venture Development Group, LLC. Mr. Pfeffer received a Bachelor of Architecture Degree from the University of Nebraska in 1980.

TOM BOUTIN
Member

Mr. Boutin is the first delegate for William A. Corbus, Commissioner of the Department of Revenue. Mr. Boutin spent his first 22 years in New Hampshire, logging and working for dairies. He then moved to Alaska, working as a logging engineer for Ketchikan Pulp Co. and as a timber faller, rigging slinger and equipment operator for various logging and road building firms. He bought and sold logs, lumber, veneer and plywood for North Pacific Lumber Company, and was chief Financial Officer and then President and Chief Financial Officer for Klukwan, Inc. an ANCSA corporation involved in forest products and money management. His government service experience consists of State Debt Manager for the Alaska Department of Revenue, Alaska State Forester, and currently, Deputy Commissioner for the Alaska Department of Revenue. Mr. Boutin has a Bachelor of Science from the University of New Hampshire, and an MBA in Finance from the University of Oregon. He has lived in Juneau for the past 20 years.

WILLIAM F. LARGE
Member
Term expires July 15, 2006

Mr. Large was appointed on May 2, 2005. Mr. Large is a member of the Alaska Bar and has practiced law In Alaska and nationwide for 10 years. His practice focuses primarily on complex commercial litigation, with emphases on national resources, oil & gas and corporate disputes. After graduating from law school in 1995, Mr. Large served as a law clerk for one year to the Hon. Andrew J. Kleinfeld, U.S Court of Appeals for the 9th Circuit, before joining the predecessor to his current firm, Hosie McArthur LLP. Mr. Large has a Bachelor of Science degree from the Massachusetts Institute of Technology and a Law Degree from Harvard Law School.

GREG WINEGAR
Member

Mr. Winegar is the first delegate for William Noll, Commissioner of the Department of Community and Economic Development. Mr. Winegar was appointed Director of the Division of Investments on May 22, 2000. This Division administers various direct lending programs for the State and services loans for other State agencies, representing approximately 3,500 accounts totaling $250 million. Prior to his appointment as Acting Director, Mr. Winegar served as the Division of Investment's Lending Branch Manager for 21 years. Mr. Winegar received his Bachelor's degree from the Evergreen State College in 1973. In 1974, he accepted a position with the predecessor to the Department of Community and Economic Development as a Clerk Typist III and was promoted several times over the next five years. In addition to his work as Lending Branch Manager, he also served as a Loan Officer for the Department for five years where his responsibilities included credit analysis and recommendations for commercial, multi-family, residential and consumer loan requests.

THE STATE'S DEPARTMENT OF REVENUE–TREASURY DIVISION (DOR-TREASURY) FULFILLS ADMINISTRATIVE AND MANAGEMENT RESPONSIBILITIES FOR THE BOND BANK.

DEVEN MITCHELL

Executive Director, appointed April 7, 1998

Mr. Mitchell also serves as the State Debt Manager and Investment officer in Department of Revenue-Treasury. Mr. Mitchell has worked for the State of Alaska Department of Revenue since 1992. He previously held several positions in Alaskan financial institutions. Mr. Mitchell holds a Bachelor of Science in Business Administration from Northern Arizona University.

SUSAN TAYLOR, CPA

Deputy Treasurer, appointed August 9, 2005

Ms. Taylor is the State Comptroller for the Alaska Department of Revenue, Treasury Division. Ms. Taylor started her career as an auditor with the Legislative Audit Division; she has held various positions of increasing responsibility in Alaska state government. These included Senior Fiscal Analyst for the Legislative Finance Division, Budget Analyst for the Office of Management and Budget and positions with the Departments of Revenue and Health and Social Services. Ms. Taylor holds a Bachelor of Business Administrative-Accounting degree from the University of Alaska, Anchorage. She is a Certified Public Accountant in the State of Alaska, and a member of the American Institute of Certified Public Accountants.

RATHER THAN EMPLOY STAFF THE BOND BANK CONTRACTS IN THE PRIVATE SECTOR FOR A WIDE RANGE OF PROFESSIONAL SERVICES. THE EXECUTIVE DIRECTOR COORDINATES THE ACTIVITIES OF THESE PROFESSIONALS INCLUDING BOND COUNSEL, FINANCIAL ADVISOR, ACCOUNTANTS, AUDITORS, FUND TRUSTEES, BOND TRUSTEES AND CLERICAL SUPPORT.

FINANCIAL ADVISOR

WESTERN FINANCIAL GROUP, LLC

Provides loan analysis services, including recommendations as to the adequacy of loan applications, credit worthiness, projected capability to repay, and the overall effect a proposed loan will have on the credit of the Bond Bank. Assists in preparation of the official statements, recommends type and timing of bond sales, negotiates with underwriters and assists with investment of various funds. Also coordinates financial reviews with bond rating houses and prepares other general financial reviews and analyses required by the Bond Bank.

BOND COUNSEL

WOHLFORTH JOHNSON BRECHT CARTLEDGE & BROOKING

Prepares for the authorization, sale, issuance and delivery of Bond Bank bonds. Prepares series resolutions, notices of sale; assists in preparation of official statements; renders necessary opinions as required; and provides other general legal services.

TRUSTEE/PAYING AGENT

JP MORGAN TRUST COMPANY

Acts as custodian of the bond proceeds and supervises the investment of funds for the purposes specified in the bond resolutions. The trustee oversees debt service funds and maintenance of certain reserve accounts required in the contract with the bondholders. As paying agent, makes all necessary interest and principal payments to the bondholders.

INVESTMENT MANAGER

ALASKA PERMANENT CAPITAL MANAGEMENT COMPANY

Supervises and controls the investment of the custodial funds and the trustee funds. Also provides analyses of investments, advice on investment guidelines, and directs the investment of all funds in accordance with Authority procedures and guidelines.

CUSTODIAL BANK

FIRST NATIONAL BANK OF ALASKA

Acts as the Authority's bank for processing all fund transactions.

FINANCIAL STATEMENTS

JUNE 30, 2005

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is required by GASB 34, a rule established by the Governmental Accounting Standards Board. This section is intended to make the financial statements more understandable to the average reader who is not familiar with traditional accounting terminology.

This financial report has two integral parts: this MD&A and the financial statements with the accompanying notes that follow. Together, they present the Alaska Municipal Bond Bank Authority's ("Bond Bank") financial performance during the fiscal year ended June 30, 2005. Summarized prior fiscal year information is shown within this MD&A, as needed for comparative purposes.

REQUIRED FINANCIAL STATEMENTS

GASB 34 requires two financial statements: the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balances. These statements report financial information about the Bond Bank's activities using generally accepted accounting principles.

FINANCIAL HIGHLIGHTS

During fiscal year 2005 the Bond Bank approved 10 municipalities' applications and purchased $78.4 million in municipal bonds. The subsequent issuance of Bond Bank Bonds resulted in approximate savings of $14.8 million to the borrowing communities. Additionally, the Bond Bank entered into amended loan agreements on 10 existing bond issues and purchased $41 million in municipal bonds. The amended bond issues resulted in approximately $1.9 million in savings to the borrowing communities. Total bond issuance for FY2005 was $123.0 million, funding $119.4 million in 20 loans to 16 communities and providing total savings of $16.7 million. This activity level and community benefit is comparable to FY2004 when the Bond Bank issued $109.5 million to fund fourteen communities' projects and provided savings of $4.8 million to the borrowing communities.

The financial position of the Bond Bank remains strong. All reserves are fully funded and invested. Fiscal year 2005 investment earnings funded fiscal year 2005 operations and will provide for a $402,427 transfer to the state's general fund in fiscal year 2006. This transfer will be in addition to the $250,000 transfer provided in the state's fiscal year 2006 operating budget. The Bond Bank holds unrestricted reserves adequate to make up shortfalls in years that investment earnings are not sufficient to fund operations.

STATEMENT OF NET ASSETS

The statement of net assets report assets, liabilities and net assets of the Bond Bank.

ASSETS

Assets represent 1) the value of the Bond Bank's investments and investment income receivable on the financial statement dates, recorded at fair market value, and 2) bond principal and interest payments receivable from municipalities. The investments generate income for the Bond Bank to use to meet reserve requirements and pay operating costs. Excess investment earnings are distributed to the State of Alaska's (State) general fund each year. Interest received on bonds purchased from municipalities is used to pay the Bond Bank's corresponding interest payments on the bonds that it has issued.

LIABILITIES

Liabilities represent claims against the fund for 1) goods and services provided before the financial statement date but not yet paid for at that date, and 2) interest and bond payments due to purchasers of the Bond Bank's bonds after the financial statement date.

RESTRICTED AND UNRESTRICTED NET ASSETS

Net assets are comprised of two components. The restricted portion reflects monies maintained in separate trust accounts where their use is limited by applicable bond covenants for repayment of bonds. The unrestricted portion reflects the accumulated excess of the Authority's share of earnings on investments held over those earnings distributed to the State as well as investment income that has not been realized and therefore is not yet subject to distribution to the State's general fund.

The following table shows the value of Bond Bank assets summarized as of June 30, 2005 and 2004 as well as liabilities and net assets.

	As of June 30		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and Investments	$ 53,137,123	$ 50,396,591	$ 2,740,532	5.4%
Bonds and bond interest receivable	408,074,781	341,840,489	66,234,292	19.4%
Total assets	461,211,904	392,237,080	68,974,824	17.6%
LIABILITIES				
Accounts payable and accrued liabilities	3,658,817	178,126	3,480,691	1954.1%
Bonds and bond interest payable	418,074,486	352,446,648	65,627,838	18.6%
Due to primary government	402,427	-	402,427	100.0%
Total liabilities	422,135,730	352,624,774	69,510,956	19.7%
NET ASSETS				
Restricted	26,838,760	23,994,579	2,844,18	11.9%
Unrestricted	12,237,414	15,617,727	(3,380,313)	-21.6%
Total net assets	$ 39,076,174	$ 39,612,306	$ (536,132)	-1.4%

The increase in cash and investments reflects realized and unrealized investment income.

The increase in bonds and bond interest receivable, as well as in bonds and bond interest payable, reflects the issuance of approximately $123 million in new bonds during the year net of principal payments on bonds previously issued of over $54.7 million.

Communities monies received in advance of payment date are not applied to their debt liability until due. In FY2005 the increase was over $3.4 million for the change in accounts payable and accrued liabilities.

Due to primary government represents the excess of realized investment income over current year operating expenses and reserve requirements. The increase reflects higher investment earnings on fixed income marketable securities resulting in current year realized investment income greater than current year operating expenses. There is excess investment income in the current year due to primary government.

Restricted net assets represents the original appropriations made by the State of $18,601,414 to fund the Bond Bank, as well as Bond Bank funds placed into separate accounts in accordance with the reserve requirements of each bond indenture. There have been no new State appropriations since 1986. The increase in restricted net assets reflects a reclassification of one bond reserve fund as well as the funding of additional special reserves during the year from the Custodian account.

Unrestricted net assets represent accumulated earnings on Bond Bank investments, not used to fund reserves, and unrealized gains that are segregated until realized. The decrease in unrestricted net assets is due primarily to the funding of bond issue reserves. The Bond Bank's investments are all held in U.S. Government securities.

STATEMENTS OF ACTIVITIES

The statement of activities shows the activity that occurred during each of the last fiscal year.

Revenues

Revenues include earnings on investments and interest payments received from municipalities. Earnings on investments include interest on fixed income marketable securities and the change in fair market value of those investments.

Expenses

Expenses include interest payments made to bond holders who purchased the Bond Bank's bonds, payments made to the State of Alaska and operating expenses. Operating expenses include all expenditures required to issue bonds during the current year and include in-house expenses, as well as external consultant fees. Expenses are subtracted from revenues.

	For the Year Ended		Change from 2004 to 2005 Increase (Decrease)	
	June 30, 2005	June 30, 2004	Dollars	Percent
REVENUES				
Interest income on bonds receivable	$ 15,749,064	$ 11,32[illegible],112	$ 4,419,952	39.0%
Investment earnings	1,696,533	314,226	1,382,307	439.9%
Total income	17,445,597	11,64[illegible],338	5,802,259	49.8%
EXPENSES				
Interest expense on bonds payable	16,201,477	11,84[illegible],151	4,353,326	36.7%
Operating expenses	602,825	755,529	(152,704)	-20.2%
Payments to primary government	1,177,427	775,000	402,427	51.9%
Total expenses	17,981,729	13,37[illegible],680	4,603,049	33%
Change in net assets	(536,132)	(1,7[illegible]5,342)	1,199,210	-69.1%
Net assets, beginning of period	39,612,306	41,347,648	(1,735,342)	-4.2%
Net assets, end of period	$ 39,076,174	$ 39,612,306	$ (536,132)	-1.4%

Interest income and expense on bonds receivable and payable are a function of the total amount of bonds outstanding, the age of the bonds and the interest rates at which they are issued. The increases in both these line items are consistent with the net increase in bond interest receivable and payable of $8.5 million and $8.6 million, respectively.

Investment earnings are a function of market conditions. The Bond Bank uses other assets to subsidize debt service during times of low investment returns in bond reserve funds.

GOVERNMENTAL FUNDS

The governmental funds include the General Fund, which accounts for the primary operations of the Bond Bank, and the Debt Service Fund, which accounts for the resources accumulated and payments made on the long-term debt of the Bond Bank. The primary difference between the governmental funds and the statement of net assets is the elimination of inter-fund payables and receivables and bond proceeds are reported as an other financing source in the governmental funds and this contributes to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of debt principal is recorded as an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

The following tables show the changes in governmental funds.

GENERAL FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and Investments	$ 10,687,308	$ 14,085,271	$ (3,397,963)	-24.1%
Accrued interest receivable	238,949	299,956	(61,007)	-20.3%
Interfund receivable	2,019,770	723,595	1,296,175	179.1%
Total assets	12,946,027	15,108,822	(2,162,795)	-14.3%
LIABILITIES				
Accounts payable and accrued liabilities	149,023	165,888	(16,865)	-10.2%
Due to primary government	402,427	–	402,427	100.0%
Total liabilities	551,450	165,888	385,562	232.4%
FUND BALANCE				
Unreserved	12,394,577	14,942,934	(2,548,357)	-17.1%
Total fund balance	12,394,577	14,942,934	(2,548,357)	-17.1%
Total liabilities and fund balance	$ 12,946,027	$ 15,108,822	$ (2,162,795)	-14.3%

DEBT SERVICE FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
ASSETS				
Cash and Investments and related receivables	$ 43,638,791	$ 36,772,951	$ 6,865,840	18.7%
Bonds and bond interest receivable	406,646,856	341,078,902	65,567,954	19.2%
Total assets	450,285,647	377,851,853	72,433,794	19.2%
LIABILITIES				
Accounts payable and accrued liabilities	3,509,794	12,238	3,497,556	28579.5%
Interfund payables	2,019,770	723,595	1,296,175	179.1%
Total liabilities	5,529,564	735,[illegible]33	4,793,731	651.5%
FUND BALANCE:				
Reserved	444,756,083	377,116,020	67,640,063	17.9%
Total liabilities and fund balance	$ 450,285,647	$ 377,851,853	$ 72,433,794	19.2%

GENERAL FUND

	As of June 30,		Change from 2004 to 2005 Increase (Decrease)	
	2005	2004	Dollars	Percent
REVENUES				
Interest income	$ 601,815	$ 256,257	$ 345,558	134.8%
Total income	601,815	256,257	345,558	134.8%
EXPENDITURES				
Operating expenses	602,825	755,529	(152,704)	-20.2%
Payments to primary government	1,177,427	775,000	402,[illegible]	51.9%
Total expenses	1,780,252	1,530,529	249,723	16.3%
Excess of revenues over expenditures	(1,178,437)	(1,274,272)	(95,835)	-7.5%
Other financing sources (uses) - Transfers	(1,369,920)	(1,551,805)	(181,885)	-11.7%
Fund balance, beginning of period	14,942,934	17,769,011	(2,826,077)	-15.9%
Fund balance, end of period	$ 12,394,577	$ 14,942,934	$ (2,548,357)	-17.1%

DEBT SERVICE FUND

	For the Year Ended		Change from 2004 to 2005 Increase (Decrease)	
	June 30, 2005	June 30, 2004	Dollars	Percent
REVENUES				
Interest income on bonds receivable	$ 15,664,431	$ 11,329,112	$ 4,335,319	38.3%
Investment earnings	1,179,351	57,969	1,121,382	1934.5%
Total income	16,843,782	11,387,081	5,456,701	47.9%
EXPENDITURES				
Interest payments	15,218,639	12,576,973	2,641,666	21.0%
Principal payments	58,345,000	34,975,000	23,370,000	66.8%
Total expenses	73,563,639	47,551,973	26,011,666	54.7%
Excess of revenues over expenditures	(56,719,857)	(36,164,892)	20,554,965	56.8%
Other financing sources -				
Bond proceeds	122,990,000	113,225,000	9,765,000	8.6%
Transfers	1,369,920	1,551,805	(181,885)	-11.7%
Excess of revenues and transfers over expenditures	67,640,063	78,611,913	(10,971,850)	-14.0%
Fund balance, beginning of period	377,116,020	298,504,107	78,611,913	26.3%
Fund balance, end of period	$ 444,756,083	$ 377,116,020	$ 67,640,063	17.9%

DEBT

At year end the Bond Bank had $398,123,878 of bonds and notes outstanding up 19% from $333,513,378 at June 30, 2004. The debt is secured by the assets of the Bond Bank. The outstanding balance is comprised of the following:

General obligation bonds payable	$ 294,157,500
Revenue bonds payable	92,960,000
Coastal Energy notes payable	11,005,878
	$ 398,123,378

INDEPENDENT AUDITORS' REPORT

ELGEE REHFELD MERTZ LLC

The Board of Directors
Alaska Municipal Bond Bank Authority:

We have audited the accompanying basic financial statements of the Alaska Municipal Bond Bank Authority (the Authority), a component unit of the State of Alaska, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Municipal Bond Bank Authority as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 14 through 19, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The Supplemental Schedule of Statutory Reserve Accounts – Assets, Liabilities and Account Reserves is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

ERM

September 23, 2005

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets
ASSETS					
Cash and cash equivalents	$ 212,461	5,324,110	5,536,571	-	5,536,571
Investments, at fair value (note 4)	9,614,847	37,985,705	47,600,552	-	47,600,552
Accrued interest receivable:					
Bonds receivable	15,469	8,523,478	8,538,947	-	8,538,947
Investment securities	223,480	328,976	552,456	-	552,456
Bonds receivable (note 5)	860,000	398,123,378	398,983,378	-	398,983,378
Interfund receivables	2,019,770	-	2,019,770	(2,019,770)	-
Total assets	$ 12,946,027	450,285,647	463,231,674	(2,019,770)	461,211,904
LIABILITIES					
Accounts payable	$ 12,277	-	12,277	-	12,277
Deferred revenue	-	3,509,794	3,509,794	-	3,509,794
Accrued interest payable	-	-	-	8,663,608	8,663,608
Arbitrage interest rebate payable	136,746	-	136,746	-	136,746
Due to Primary Government	402,427	-	402,427	-	402,427
Interfund payables	-	2,019,770	2,019,770	(2,019,770)	-
Long-term liabilities (notes 5 and 6)					
Portion due or payable within one year					
General obligation bonds payable	-	-	-	21,695,000	21,695,000
Revenue bonds payable	-	-	-	4,790,000	4,790,000
Other long-term debt	-	-	-	5,400,000	5,400,000
Portion due or payable after one year					
General obligation bonds payable	-	-	-	282,225,000	282,225,000
Revenue bonds payable	-	-	-	89,695,000	89,695,000
Other long-term debt	-	-	-	5,605,878	5,605,878
Total liabilities	551,450	5,529,564	6,081,014	416,054,716	422,135,730
FUND BALANCES/NET ASSETS					
Fund Balances					
Reserved	-	444,756,083	444,756,083	(444,756,083)	-
Unreserved	12,394,577	-	12,394,577	(12,394,577)	-
Total fund balances	12,394,577	444,756,083	457,150,660	(457,150,660)	-
Total liabilities and fund balances	$ 12,946,027	450,285,647	463,231,674		
Net assets					
Restricted for debt service				26,838,760	26,838,760
Unrestricted				12,237,414	12,237,414
Total net assets				$ 39,076,174	39,076,174

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/NET ASSETS

For the year ended June 30, 2005

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets
REVENUES:					
Investment earnings	$ 517,182	1,179,351	1,696,533	-	1,696,533
Interest income on bonds receivable	84,633	15,564,431	15,749,064	-	15,749,064
Total revenues	601,815	16,843,782	17,445,597	-	17,445,597
EXPENDITURES / EXPENSES					
Debt service					
Principal payments	-	58,345,000	58,345,000	(58,345,000)	-
Interest payments / expense	-	15,218,639	15,218,639	982,838	16,201,477
Payments to primary government	1,177,427	-	1,177,427	-	1,177,427
Professional services	491,031	-	491,031	-	491,031
Arbitrage interest	-	-	-	-	-
Personal services	71,400		71,400	-	71,400
Printing and advertising	26,685	-	26,685	-	26,685
Administrative travel	9,970	-	9,970	-	9,970
Office expense	3,155	-	3,155	-	3,155
Miscellaneous expenses	584	-	584	-	584
Total expenditures / expenses	1,780,252	73,563,639	75,343,891	(57,362,162)	17,981,729
Excess (deficiency) of revenues over expenditures / expenses	(1,178,437)	(56,719,857)	(57,898,294)	57,362,162	(536,132)
OTHER FINANCING SOURCE/USES					
Proceeds of bonds payable	-	122,990,000	122,990,000	(122,990,000)	-
Transfers to/from Custodial Fund	(2,844,181)	2,844,181	-	-	-
Transfers – internal activities	1,474,261	(1,474,261)	-	-	-
Total other financing source/use	(1,369,920)	124,359,920	122,990,000	(122,990,000)	-
Excess (deficiency) of revenues and transfers in over expenditures / expenses and transfers out	(2,548,357)	67,640,063	65,091,706	(65,627,838)	(536,132)
FUND BALANCES / NET ASSETS					
Beginning of the year	14,942,934	377,116,020	392,058,954	(352,446,648)	39,612,306
End of the year	$ 12,394,577	444,756,083	457,150,660	(418,074,486)	39,076,174

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ► HISTORY/REPORTING ENTITY

The Alaska Municipal Bond Bank Authority (Authority or Bond Bank) was created pursuant to Alaska Statute, Chapter 85, Title 44, as amended, (Act) as a public corporation and instrumentality of the State of Alaska (State), but with a legal existence independent of and separate from the State. The authority is a discre ly presented component unit of the State of Alaska for purposes of financial reporting.

The Authority was created for the purpose of making moneys available to municipalities within the State to finance capital projects or for other authorized purposes by means of issuance of bonds by the Authority and use of proceeds from such bonds to purchase from the municipalities their general obligation and revenue bonds. The Authority commenced operations in August 1975.

The bonds are obligations of the Authority, payable only from revenues or funds of the Authority, and the State of Alaska is not obligated to pay principal or interest thereon, and neither the faith and credit nor the taxing power of the State is pledged to the bonds. The municipal bonds and municipal bond payments, investments thereof and proceeds of such investments, if any, and all funds and accounts established by the bond resolution to be held by the Trustee (with the exception of the Coastal Energy Loan Debt Service Program, which is administered by the Authority) are pledged and assigned for the payment of bonds.

The Authority may not issue revenue bonds in excess of $75 million in any fiscal year unless the State of Alaska Legislature approves a greater amount.

AS 44.85.180(c) was enacted in 1975, limiting Bond Bank bonds outstanding at any time to $150 million. This Statue has been periodically amended to raise the limit. In 2003, the limit was raised to $500 million. Total Bond Bank bonds and notes outstanding as of June 30, 2005 are approximately $409.4 million. Thus, the limit on additional bond issuance as of June 30, 2005 is approximately $90.6 million.

NOTE 2 ► SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Authority's accounting policies are described below.

(A) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The statement of net assets and the statement of changes in net assets report information on all of the activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. The balance sheet and statement of revenues, expenditures and chang in fund balances are provided for governmental funds.

(B) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of the Authority.

The purposes of each of these funds are described in the following paragraphs:

GENERAL FUND

The General Fund is comprised of a custodian account and an operating account. The custodian account is established to account for appropriations by the State of Alaska Legislature available to fund the special reserve account. The Operating Account is established to account for the ordinary operations of the Authority. Moneys are derived from the following sources: (a) amounts appropriated by the Legislature, (b) fees and charges collected, (c) income on investments of the Statutory Reserve Account in excess of required debt service reserves required by bond resolutions and (d) any other moneys made available for purposes of the General Fund from any other source.

Amounts in the Operating Account may be used to pay (a) administrative expenses of the Authority, (b) fees and expenses of the Trustee and paying agents, (c) financing costs incurred with respect to issuance of bonds and (d) any expenses in carrying out any other purpose then authorized by the Act. The excess revenues of the Operating Account are returned to the State of Alaska

DEBT SERVICE FUND

Within the Debt Service Fund, separate Debt Service Programs have been established for each bond resolution to account for the portion of bond sale proceeds used to purchase obligations of the municipalities and for the payment of interest and principal on all bonds of the Authority issued under the nine resolutions. Each program is comprised of an "interest account" and a "principal account", both of which are maintained by a trustee.

The receipts of interest and principal from the municipalities and the Statutory Reserve Account are deposited in these programs and are used to pay interest and principal on the Authority bonds. One additional Debt Service Program has been established to account for transactions not involving bond resolutions. This is the Coastal Energy Loan Debt Service Program. The Coastal Energy Loan Debt Service Program is not maintained by a trustee. Payments of interest and principal by municipalities having coastal energy loans are made directly to the federal government by the municipalities and are accounted for in the Coastal Energy Loan Debt Service Program.

Each debt service fund programs contains a Statutory Reserve Account established to account for (a) money available to fund debt service reserves required by future bond sales under various bond resolutions (Custodian Account) and by (b) debt service reserves which have already been established under various bond resolutions which are to be used in the case of deficiency in a Debt Service Program in accordance with its respective bond resolution (reserve accounts). Separate reserve accounts exist under each bond resolution as follows:

1976 General Bond Resolution – The amount on deposit in the reserve account is to be the greater of the maximum annual debt service requirement or 10% of all municipal loan obligations outstanding. The reserve account is comprised of an ordinary reserve sub-account and a special reserve sub-account. The ordinary reserve sub-account is created as a result of the Authority increasing each bond issue by the amount necessary to fund one-third of the required debt service reserve or with a transfer from the Custodian Account unreserved investment earnings account. The special reserve sub-account is created and funded from the Custodian Account at an amount equal to two-thirds of the required debt service reserve. Both sub-accounts are maintained by a trustee.

On August 23, 1999, the Authority amended the debt service reserve requirement for the 1976 bond resolution that takes effect when all bonds outstanding as of the date of the resolution are retired. Under this new requirement, the reserve must be the least of: (i) 10% of the original stated principal amount of all bonds outstanding; (ii) the maximum annual principal and interest requirements on all bonds then outstanding; (iii) 125% of the average principal and interest requirements on all bonds then outstanding; or (iv) such lesser amount as shall be required to maintain the exemption of interest of all bonds outstanding from inclusion in gross income for federal income tax purposes under the Internal Revenue Code.

1990 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1993 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1995 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1997 Revenue Bond Resolution – Under this resolution an ordinary reserve account was created at an amount equal to the lesser of 10% of the proceeds of the 1997 Series A bonds or the maximum annual debt service on all Series 1997 A bonds outstanding under the resolution.

1998 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

1999 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2000 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2001 Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2002 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 B Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2003 C Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

2004 A Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

2004 B Revenue Bond Resolution – Under this resolution a special reserve account was created at an amount equal to the maximum annual debt service of municipal obligations outstanding from moneys made available by legislative appropriation residing in the Custodian Account.

Amounts in the Statutory Reserve Account in excess of (a) required debt service reserves, (b) appropriations by the legislature residing in the Custodian Account, and (c) income on non-legislature-appropriated funds are transferred to the Operating Account. Income on non-legislature-appropriated funds, representing excess of revenues over expenditures of the ordinary reserve accounts and interest earned on the unreserved investment earnings account is accumulated in the Custodian Account and is available to fund the Special Reserve account.

(C) RESTRICTED ASSETS

Certain resources set aside for the repayment of the Authority's bonds, net of certain proceeds from additional bonds issued, are classified as restricted net assets on the statement of net assets because they are maintained in separate trust accounts and their use is limited by applicable bond covenants. Cash and cash equivalents and investments include $26,838,760 of restricted assets. These assets were funded from the issuance of $9,762,500 of reserve bonds and a transfer of $18,601,414 of State appropriation.

(D) LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

(E) FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. In the government-wide financial statements, restrictions of net assets are reported when externally imposed.

(F) INTEREST ARBITRAGE REBATE

Bonds issued after August 15, 1986 are subject to Internal Revenue Service income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds or any applicable reserves in excess of the allowable yield of the issue.

(G) INCOME TAXES

The Authority is exempt from paying federal and state income taxes.

NOTE 3 ▸ CASH

The Authority considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents at June 30 consist of demand deposits with various financial institutions.

The bank balance of all of the Authority's deposits with financial institutions are insured by the FDIC or collateralized by securities held in the Authority's name by its custodial agent. At June 30, 2005, the amounts recorded in the Authorities books equaled its bank balances.

NOTE 4 ▸ INVESTMENTS

The fair value as of June 30, 2005 of the Authority's investments is $47,600,552. At June 30, 2005 the investments held in the reserve accounts total $37,985,705 and the Custodian account totals $9,614,847.

The fair value as of June 30, 2005 of debt security investments by contractual maturity is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Investment Maturities (in Years)				
	Less than 1	1-5	6-10	More than 10	Total
U.S. Treasury securities	$ 2,686,175	12,010,891	-	485,000	15,182,066
U.S. Government agencies securities	14,184,819	16,150,860	504,[illegible]45	1,577,962	32,418,486
Total investments	$ 16,870,994	28,161,75[illegible]	504,[illegible]45	2,062,962	47,600,552

(A) INVESTMENT POLICIES

The Authority has distinct investment objectives and policies associated with the Custodian Account, Reserve Funds, and municipal debt payments. The three classes of funds are listed below:

- Custodian Account – The Custodian Account investment portfolio is designed with the objective of attaining the highest market rate of return subject to the required use of the Custodian Account for operation, funding transfers to the state, and funding reserves. When the Custodian Account balance allows, a longer investment horizon is implemented for the Custodian Account, accepting the limited probability of short-term loss in exchange for higher yield on investments. The Custodian Account balance must exceed $15 million, and be forecast to exceed $15 million for the subsequent six month period before return on investment will be the highest priority of the Custodian Account. The Custodian Account has to maintain sufficient liquidity to meet operating requirements, provide the prior fiscal year's state dividend, and to allow transfers to reserves as needed for bond issuance activity. Long term preservation of principal is the third objective of the Custodian Account's investment program. Investments shall be undertaken in a manner that minimizes the probability of long-term loss.

- The Custodian Account balance is a critical component in determining anticipated life, ability to diversify, and investment policy in this account. Accordingly, when the account balance is above $15 million a more aggressive policy will be implemented. When the account balance is below $15 million a more conservative policy will be used.
- Shifting from one asset allocation to another may be approved by the investment committee.
- There are no arbitrage restrictions.
- When the Custodian Account balance is less than $15 million:
  - 100% government agencies and U.S. Treasuries with maturities of less than 5 years.
  - Performance benchmark is 100% Merrill Lynch 1-5 Government Index.
- When the Custodian Account balance exceeds and is expected to remain in excess of $15 million:
  - 10% Money Market Fund.
  - 90% Broad US Bond Market Fund.
  - Performance benchmark is 10% Three-month U.S. Treasury Bill and 90% Lehman Brothers Aggregate Index.
- The following transactions are prohibited with the Custodian Account unless those transactions have the prior written consent of the Investment Committee:
  - Short sale of securities (the sale and settlement of a security not currently owned by the Authority and a formal agreement to borrow the security to facilitate the settlement of the short sale);
  - Purchases of futures, forwards or options for the purpose of speculating (currency futures, forwards and options are permitted only for hedging or to facilitate otherwise permissible transactions);
  - Borrowing to leverage the return on investments. Extended settlement of securities purchases executed to facilitate or improve the efficiency of a transaction will not be considered borrowing, provided that sufficient cash equivalent securities or receivables are available to facilitate the extended settlement;
  - Purchases of "private placement" or un ted corporate bonds;

- Bond Reserve Funds — Preservation of Principal is the foremost objective of the Reserve Funds investment program. These Funds shall be managed to ensure that the corpus is preserved. These Funds will not be expended until the final maturity of the bond issue they secure, unless there is a failure to pay debt service by a community. As there is limited benefit in maximizing return it is the least important objective of the Reserve Funds. It is anticipated that the Reserve Funds cumulative average return should target the blended arbitrage yield limit of the bond issues secured.

- Bond Resolutions limit allowed investment of these funds. Investment risk should be examined on an annual basis to ensure that no greater than the minimum level of risk required to achieve the highest probability of earning the arbitrage yield limit on the bonds is incurred.
- 100% government agencies and U.S. Treasuries with maturities of less than 5 years.
- Performance benchmark is 100% Merrill Lynch 1-5 Government Index.

- Municipal Debt Payments — Preservation of Principal and liquidity are the foremost objectives of the Municipal Debt Payments investment program, as these funds will be expended within seven business days of receipt. Return on investment is a benefit of holding these funds for the advance payment period, but not the focus of investing the funds. The bond resolutions limit investments.
  - 100% Money Market Fund.
  - Performance benchmark is 10% Three-month U.S. Treasury Bill.

It is the policy of the Authority to diversify its investments and to ensure the safety and liquidity of the investments by observing the following sound investment practices:

- Not more than 5% of the Custodian Account may be invested in the corporate debt of any one issuer, at the time of purchase.
- In the event of a credit downgrade which reduces a security below the required rating written notification will be made to the Investment Committee setting forth the particulars of the downgrade and recommending a course of action.
- Not more than 50% of the Custodian Account may be invested in corporate securities, at the time of purchase.
- The duration of the Custodian Account must remain within 80 to 120 percent of the duration of the Lehman Brothers Aggregate Index.
- Purchases of more than 10% of a corporate bond issue shall not be made.

(B) CONCENTRATION RISK

Concentration risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issue. Concentration limits are not established in the bond indentures and governing agreements for pledged investments. The Authority's policies set out maximum concentration limits for investments managed by the external investment manager.

(C) CREDIT RISK

Credit risk is the risk of loss due to the failure of the security or backer. The Authority mitigates its credit risk by limiting investments permitted in the investment policies. The credit quality ratings of the Authority's investments are AAA and Aaa as of June 30, 2005 as described by nationally recognized statistical rating organization Standard and Poor, and Moody's, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

U.S. Treasury securities and securities of agencies that are explicitly guaranteed by the U.S. government total $47,600,552, and are not considered to have credit risk.

(D) CUSTODIAL CREDIT RISK

The Authority assumes levels of custodial credit risk for its deposits with financial institutions, bank investment agreements, and investments. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority has not established a formal custodial credit risk policy for its investments.

The Authority had no investments registered in the name of a counterparty.

(E) INTEREST RATE RISK

Interest rate risk is the risk that the market value of investments will decline as a result of changes in general interest rates. For non-pledged investments, the Authority mitigates interest rate risk by structuring its investment's maturities to meet cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity. For investments held in trust, investment maturities are structured to meet cash requirements as outlined in its bond indentures and contractual and statutory agreements.

(F) MODIFIED DURATION

Modified duration estimates the sensitivity of an investment to interest rate changes. The following table shows the Authority's investments with their weighted average modified duration as of June 30, 2005 by investment type:

	Investment Fair Value	Modified Duration
U.S. Treasury securities	$ 15,182,066	3.08
U.S. Government agencies securities	32,418,486	3.85
Total Portfolio	$ 47,600,552	3.60

The Authority's investment policies require the duration of the Custodian Account must remain within 80 to 120 percent of the duration of the Lehman Brothers Aggregate Index.

NOTE 5 ▸ BOND AND NOTES RECEIVABLE

Bonds and notes receivable by debt service program at June 30, 2003 mature in varying annual installments as follows:

Year ending June 30	1976 General	1995A Seward Revenue	1997A Ketchikan Revenue	1998B Ketchikan Revenue	1998B Homer Revenue	1999A Inter-Island Ferry Revenue
2006	$ 19,820,500	170,000	690,000	660,000	235,000	75,000
2007	18,025,000	180,000	725,000	685,000	250,000	80,000
2008	17,000,000	195,000	760,000	715,000	255,000	85,000
2009	16,905,000	205,000	800,000	755,000	180,000	85,000
2010	17,115,000	215,000	840,000	785,000	185,000	90,000
2011-2015	78,788,000	1,300,000	4,930,000	2,570,000	-	535,000
2016-2020	71,589,000	-	3,665,000	-	-	710,000
2021-2025	46,035,000	-	-	-	-	-
2026-2030	8,800,000	-	-	-	-	-
2031 and after	-	-	-	-	-	-
	$294,157,500	2,265,000	12,410,000	6,170,000	1,105,000	1,660,000

Year ending June 30	2000A Unalaska Revenue	2000B Seward Revenue	2001A Ketchikan Revenue	2001B Ketchikan Revenue	2002A Ketchikan Revenue	2003A CBJ Revenue
2006	$ 445,000	105,000	80,000	115,000	460,000	1,445,000
2007	-	110,000	85,000	120,000	475,000	1,490,000
2008	-	115,000	90,000	130,000	490,000	-
2009	-	120,000	90,000	135,000	505,000	-
2010	-	125,000	95,000	140,000	520,000	-
2011-2015	-	745,000	555,000	825,000	2,930,000	-
2016-2020	-	950,000	555,000	820,000	-	-
2021-2025	-	455,000	-	-	-	-
2026-2030	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-
	$ 445,000	2,725,000	1,550,000	2,285,000	5,380,000	2,935,000

Year ending June 30	2003B Valdez Revenue	2003C Kodiak Revenue	2004A CBJ Revenue	2004B Anchorage Revenue	Coastal Energy Loan	Total Principal
2006	-	200,000	-	110,000	5,400,000	30,010,000
2007	665,000	200,000	500,000	95,000	400,000	24,085,000
2008	675,000	205,000	515,000	100,000	400,000	21,730,000
2009	680,000	215,000	535,000	100,000	400,000	21,710,000
2010	680,000	-	555,000	105,000	450,000	21,905,000
2011-2015	5,005,000	-	3,120,000	600,000	2,250,000	104,153,000
2016-2020	6,600,000	-	3,875,000	730,000	1,705,878	91,199,878
2021-2025	4,695,000	-	4,995,000	905,000	-	57,085,000
2026-2030	-	-	6,460,000	1,145,000	-	16,485,000
2031 and after	-	-	8,290,000	1,475,000	-	9,765,000
	$ 19,000,000	820,000	28,845,000	5,365,000	11,005,878	398,123,378

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The general fund includes $150,000 of 7.9% bonds receivable due from the City of Haines that mature through 2009, and $710,000 of 6.9% bonds receivable due from the City of Yakutat that mature through 2014.

Under the Coastal Energy Loan Program (Program), the Authority issued $5,000,000 1986 Series A Coastal Energy Bonds (Bonds) payable to the National Oceanic and Atmospheric Administration (NOAA). The proceeds of these bonds were used to purchase port revenue bonds from the City of Nome. The City of Nome entered into a tripartite agreement with NOAA and the Authority effective August 2, 1994 to defer payment of the principal and accrual of interest for ten years. The related loan payable does not represent a general obligation of the Authority as it is payable only from proceeds received from the City of Nome.

Also under the Program, the Authority issued $6,563,000 1987 Series A Coastal Energy Bonds payable to NOAA. The proceeds of these bonds were used to purchase port revenue bonds from the City of St. Paul. The City of St. Paul entered into a tripartite agreement with NOAA and the Authority effective December 14, 2000 to modify and amend the repayment terms including principal and interest.

The related loan payables do not represent a general obligation of the Authority as they are payable only from proceeds received from the City of Nome and St. Paul, respectively. Payment of principal and interest on the Bond Bank's Coastal Energy Bond is not secured by a pledge of any amounts held by or payable to the Bond Bank under the General Bond Resolution, including the Reserve Account, and is not in any way a debt or liability of the Bond Bank.

NOTE 6 ▸ LONG TERM LIABILITIES

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
1976 General Bond Resolution Program				
1995 Series A	4.5%–7%	$ 1590000	4.5%–7%	$ 740000
City of Haines				
Kenai Peninsula Borough				
1995 Series C – Lake and Peninsula Borough	3.5%–6%	550,000	6%	510000
1995 Series D – City of Palmer	5%–6%	90,000	–	–
1996 Series A	4%–5.5%	610000	–	–
City of Hoonah				
City of Soldotna				
1996 Series B	4.5%–6.75%	695000		
City of Seward				
1997 Series A	5%–5.1%	355000	–	–
Lake & Peninsula Borough				
City of Yakutat				
1997 Series B – City of Ketchikan	4.5%–6%	1,435000	–	–
1998 Series A		6400000	5%	100000
City of Wasilla	4.63%–6%			
Aleutians East Borough	4.63%–5.63%			
1998 Series B		1,830000	–	–
City of Homer	4%–4.375%			
City of Cordova	4%–4.75%			
1999 Series A	4.375%–5.5%	9685000	4.375%–5.5%	360000
City of Sitka				
Aleutians East Borough				

Long Term Liabilities, continued

ISSUE	Debt Service Account		Statutory Reserve Account Ordinary Reserve Sub-Account	
	Interest Rate	Principal Outstanding	Interest Rate	Principal Outstanding
2000 Series A	5.5%–5.875%	2,830,000	–	–
City of Fairbanks				
City of Cordova				
2000 Series B	4.8%–6%	2,960,000	–	–
City of Kaktovik				
City of Sitka				
City of Unalaska				
2000 Series C – Northwest Arctic Borough	4.53%–5.75%	6,360,000	–	–
2000 Series D – Petersburg	4.55%–5.70%	1,580,000	–	–
2000 Series E	4.75%–5.375%	10,577,000	5%–5.375%	473,000
Kenai				
Kodiak Island Borough				
Lake and Pen-Port				
Wrangell				
Nome-School				
2000 Series F – Kodiak Island Borough	6.9%–9%	810,000	–	–
2001 Series A – Northwest Arctic Borough	4.4%–5%	13,850,000	4.4%–5%	420,000
2001 Series B – Aleutians East Borough	3.875%–4.75%	3,195,000	3.875%–4.75%	285,000
2002 Series A – City of Wasilla	2.5%–4.5%	11,715,000	2.5%–4.5%	755,000
2002 Series B	3.875%–4.80%	10,530,000	3.875%–4.80%	525,000
City of Wrangell				
Northwest Arctic Borough				
2003 Series A – Ketchikan Gateway Borough	3.70%–4.80%	5,440,000	4.80%	305,000
2003 Series B – Kodiak Island Borough	2.00%–4.75%	2,035,000	–	–
2003 Series C	2.00%–3.625%	6,590,000	2.00%–3.625%	210,000
Kenai Peninsula Borough				
Lake & Peninsula Borough				
2003 Series D	4.90%–6.00%	[illegible]00,000	4.90%–6.00%	265,000
2003 Series E	2.00%–5.25%	125,000	–	–
Aleutians East Borough				
Kenai Peninsula Borough				
2003 Series F – Seward	2.00%–3.5%	1,690,000	–	–
2003 Series G – NW Arctic Borough	2.00%–5.00%	22,825,000	–	–
2004 A Series	3.00%–4.40%	[illegible]390,000	3.00%–4.40%	800,000
Fairbanks				
Sitka				
2004 B Series	2.00%–4.00%	1[illegible],358,500	2.00%–4.00%	331,500
Nome				
Valdez				
Petersburg				
Craig				
Seward				
2004 C Series	4.00%–5.00%	[illegible]307,000	5.00%	268,000
Kodiak Island Borough				
Palmer				
Petersburg				
2004 D Series	3.00%–5.00%	[illegible]550,000	3.00%	1,375,000
Adak				
Kodiak Island Borough				
2005 A Series		[illegible]150,000	2.75%–5.60%	1,475,000
Cordova	2.75%–5.00%			
Fairbanks	2.75%–5.00%			
Ketchikan Gateway Borough	2.75%–5.00%			
Northwest Arctic Borough	2.75%–5.00%			
Sitka	2.50%–4.25%			
Unalaska	2.50%–4.25%			

NOTES TO FINANCIAL STATEMENTS, CONTINUED

ISSUE	Debt Service Account Interest Rate	Debt Service Account Principal Outstanding	Statutory Reserve Account Ordinary Reserve Sub-Account Interest Rate	Statutory Reserve Account Ordinary Reserve Sub-Account Principal Outstanding
2005 B Series		27,160,000	5.00%	465,000
Haines	4.00%–5.00%			
Ketchikan Gateway Borough	3.00%–5.25%			
City of North Pole	3.00%–5.25%			
Palmer	3.00%–5.00%			
Sitka	3.00%–5.25%			
Total 1976 General Bond Resolution Fund		294,157,500		9,762,500
1995A Seward Revenue Bond Resolution Program	4.85%–7.35%	2,265,000	-	-
1997A Ketchikan Revenue Bond Resolution Program	4.9%–5.75%	12,410,000	4.9%–5.75%	1,525,000
1998A Ketchikan Revenue Bond Resolution Program	4%–4.7%	6,170,000	-	-
1998B Homer Revenue Bond Resolution Program	4%–4.5%	1,105,000	-	-
1999A Inter-Island Ferry Revenue Bond Resolution Program	5.125%–5.9%	1,660,000	-	-
2000A Unalaska Revenue Bond Resolution Program	4.9%–5.75%	445,000	-	-
2000B Seward Revenue Bond Resolution Program	4.35%–5.5%	2,725,000	-	-
2001A Ketchikan Revenue Bond Resolution Program	4.5%–4.9%	1,350,000	-	-
2001B Ketchikan Revenue Bond Resolution Program	4.5%–4.9%	2,255,000	-	-
2002A Ketchikan Revenue Bond Public Utilities	3.00%–5.00%	5,380,000	-	-
2003A CBJ Revenue Bond Resolution Program	2.00%–3.00%	2,935,000	-	-
2003B City of Valdez Bond Resolution Program	2.75%–5.25%	19,000,000	-	-
2003C City of Kodiak Bond Resolution Program	2.00%–3.00%	820,000	-	-
2004A City and Borough of Juneau Bond Resolution Program	6.25%–4.375%	28,845,000	-	-
2004B Anchorage Bond Resolution Program	4.00%–4.75%	5,365,000	-	-
Total Revenue Bonds		92,960,000		1,525,000
Coastal Energy Reserve Loan Account				
City of Nome Port Facility Revenue Bond	5.50%	5,000,000	-	-
City of Saint Paul – Fuel Dock	5%	6,005,878	-	-
Total Coastal Energy Reserve Loan Account		11,005,878		-
		$ 398,123,378		11,287,500

During the year ended June 30, 2005 the Authority's long—term liabilities changed as follows:

	Beginning of year	New debt	Repayments	End of year
General obligation bonds payable	$ 267,825,000	88,780,000	52,685,000	303,920,000
Revenue bonds payable	65,905,000	34,210,000	5,630,000	94,485,000
Other long-term debt	11,035,878	-	30,000	11,005,878
Total	$344,765,878	122,990,000	58,345,000	409,410,878

General obligation bonds are secured by bonds receivable and by amounts in the ordinary reserve account. The Act further provides that if a municipality defaults on its principal and/or interest payments, upon written notice by the Authority, the State of Alaska must pay to the Authority all funds due from the defaulting municipality from the State in an amount sufficient to clear the default. Loans made under the Coastal Energy Loan Program are payable only from proceeds received from the municipalities to which the loans were made.

The above bonds mature in varying annual installments. The maturities at June 30, 2005 are as follows:

Year ending June 30	- 1976- General	- 1976- Reserve	1995A Seward Revenue	1997A Ketchikan Revenue	General Reserve	1998A Ketchikan Revenue	1998B Homer Revenue
2006	$ 19,820,500	1,874,500	170,000	690,000	-	660,000	235,000
2007	18,025,000	1,155,000	180,000	725,000	-	685,000	250,000
2008	17,000,000	800,000	195,000	760,000	-	715,000	255,000
2009	16,905,000	75,000	205,000	800,000	-	755,000	180,000
2010	17,115,000	5,000	215,000	840,000	-	785,000	185,000
2011-2015	78,788,000	2,287,000	1,300,000	4,930,000	-	2,570,000	-
2016-2020	71,589,000	1,006,000	-	3,665,000	1,525,000	-	-
2021-2025	46,035,000	2,560,000	-	-	-	-	-
2026-2030	8,880,000	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-	-
	$ 294,157,500	9,762,500	2,265,000	12,410,000	1,525,000	6,170,000	1,105,000

Year ending June 30	1999A Inter-Island Ferry Revenue	2000A Unalaska Revenue	2000B Seward Revenue	2001A Ketchikan Revenue	2002B Ketchikan Revenue	2002A Ketchikan Revenue	2003A CBJ Revenue
2006	75,000	445,000	105,000	80,000	115,000	460,000	1,445,000
2007	80,000	-	110,000	85,000	120,000	475,000	1,490,000
2008	85,000	-	115,000	90,000	130,000	490,000	-
2009	85,000	-	120,000	90,000	135,000	505,000	-
2010	90,000	-	125,000	95,000	140,000	520,000	-
2011-2015	535,000	-	745,000	555,000	825,000	2,930,000	-
2016-2020	710,000	-	950,000	555,000	820,000	-	-
2021-2026	-	-	455,000	-	-	-	-
2026-2030	-	-	-	-	-	-	-
2031 and after	-	-	-	-	-	-	-
	$ 1,660,000	445,000	2,725,000	1,550,000	2,285,000	5,380,000	2,935,000

Year ending June 30	2003B Valdez Revenue	2003C Kodiak Revenue	2004A CBJ Revenue	2004B Anchorage Revenue	Coastal Energy Loan	Total Principal	Total Interest
2006	-	200,000	-	110,000	5,400,000	31,885,000	17,960,479
2007	665,000	200,000	500,000	95,000	400,000	25,240,000	16,598,854
2008	675,000	205,000	515,000	100,000	400,000	22,530,000	15,696,521
2009	680,000	215,000	535,000	100,000	400,000	21,785,000	14,826,328
2010	680,000	-	555,000	105,000	450,000	21,905,000	13,947,354
2011-2015	5,005,000	-	3,120,000	600,000	2,250,000	106,440,000	55,656,371
2016-2020	6,600,000	-	3,875,000	730,000	1,705,878	93,730,878	33,431,444
2021-2025	4,695,000	-	4,995,000	905,000	-	59,645,000	13,399,601
2026-2030	-	-	6,460,000	1,145,000	-	16,485,000	4,526,241
2031 and after	-	-	8,290,000	1,475,000	-	9,765,000	1,476,625
	$ 19,000,00	820,000	28,845,000	5,365,000	11,005,878	409,410,878	187,519,818

NOTE 7 ▸ ADJUSTMENTS

Certain adjustments are considered to be necessary to the governmental funds in order to present the Authority's financial position and the results of its operations. These adjustments include the elimination of inter-fund payables and receivables. Additionally, bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

NOTE 8 ▸ COMMITMENTS

In fiscal year 2006, $250,000 in earnings from the Custodian Account will be transferred to the State of Alaska and deposited in the State's Debt Service Fund. The entire Custodian Account balance is available for appropriation, at any time, by the State Legislature.

NOTE 9 ▸ SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Bond Bank issued two general obligation bond series to follow:

> General Obligation Bonds, 2005 Series C, in the face amount of $32,060,000 with interest rates ranging from 4.0% to 5.00% over maturities of October 1, 2006 through October 1, 2025.
>
> General Obligation Bonds, 2005 Series One, in the face amount of $18,450,000, sold in October 2005. Interest rates ranging from 3.00% to 5.25% over maturities of June 1, 2006 through June 2025.

In September 2005, $250,000 in earnings from the Custodian Account was transferred to the State of Alaska and deposited in the State's Debt Retirement Fund.

City of Nome and St. Paul have entered in negotiations, with NOAA, for the restructuring and possible forgiveness for their respective Coastal Energy loans. The related loan payables do not represent a general obligation of the Authority, as they are payable only from proceeds received from the City of Nome and St. Paul, respectively. Payment of principal and interest on the Bond Bank's Coastal Energy Bond is not secured by a pledge of any amounts held by or payable to the Bond Bank under the General Bond Resolution, including the Reserve Account, and is not in any way a debt or liability of the Bond Bank. Loan payments due in August 2005 have not been made.

THE BOND BANK

An Idea That Works

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS — ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2005

	1976 General "Ordinary"	1976 Special	1990A Yakutat	1995A Seward	1997A Ketchikan
ASSETS					
Cash	$ 1,209,148	194,219	–	2,685	20,531
Accrued interest receivable	32,714	207,221	–	5,106	14,200
Marketable securities	8,495,264	20,149,168	–	297,083	1,508,623
Interaccount receivables	1,027,439	408,407	–	–	–
	10,764,565	20,959,015	–	304,874	1,543,354
LIABILITIES					
Interaccount payables	847,180	2,416,167	–	4,517	95,265
Bond payable	9,762,500	–	–	–	1,525,000
Accrued interest payable	133,299	–	–	–	6,831
	10,742,979	2,416,167	–	4,517	1,627,096
RESERVES					
Special Reserve – State Appropriated	–	15,663,302	–	299,550	–
Special Reserve – Unappropriated	–	2,944,602	–	–	–
Special Reserve – Unrealized Gain (Loss)	–	(65,056)	–	807	–
Ordinary Reserve – Unallocated	121,570	–	–	–	(74,765)
Ordinary Reserve – Unrealized Gain (Loss)	(99,984)	–	–	–	(8,977)
	21,586	18,542,848	–	300,357	(83,742)
	$10,764,565	20,959,015	–	304,874	1,543,354

	1998A Ketchikan	1998B Homer	1999A Inter-Island	2000A Unalaska	2000B Seward
ASSETS					
Cash	$ 57,203	10,283	22,707	22,288	27,839
Accrued interest receivable	30,338	5,710	458	688	658
Marketable securities	1,271,667	242,023	149,438	224,156	224,156
Interaccount receivables	4,542	–	–	–	2,893
	1,363,750	258,016	172,603	247,132	255,576
LIABILITIES					
Interaccount payables	20,083	5,727	6,394	9,523	2,931
Bond payable	–	–	–	–	–
Accrued interest payable	–	–	–	–	–
	20,083	5,727	6,394	9,523	2,931
RESERVES					
Special Reserve – State Appropriated	1,341,299	251,396	169,804	243,000	248,518
Special Reserve – Unappropriated	–	–	–	–	–
Special Reserve – Unrealized Gain (Loss)	2,368	893	(3,595)	(5,391)	4,127
Ordinary Reserve – Unallocated	–	–	–	–	–
Ordinary Reserve – Unrealized Gain (Loss)	–	–	–	–	–
	1,343,667	252,289	166,209	237,609	252,645
	$ 1,363,750	258,016	172,603	247,132	255,576

See Independent Auditors' Report

SUPPLEMENTAL SCHEDULE OF STATUTORY RESERVE ACCOUNTS — ASSETS, LIABILITIES AND ACCOUNT RESERVES

For the year ended June 30, 2005

	2001A Ketchikan	2001B Ketchikan	2002A Ketchikan	2003A CBJ	2000B Valdez
ASSETS					
Cash	$ 32,174	33,764	36,300	22,872	16,288
Accrued interest receivable	382	611	805	1,594	20,256
Marketable securities	124,531	199,250	597,750	544,767	1,749,879
Interaccount receivables	–	–	–	–	9,407
	157,087	233,625	634,855	569,233	1,795,830
LIABILITIES					
Interaccount payables	5,407	8,547	24,231	6,691	–
Bond payable	–	–	–	–	–
Accrued interest payable	–	–	–	–	–
	5,407	8,547	24,231	6,691	–
RESERVES					
Special Reserve – State Appropriated	154,675	229,870	–	–	–
Special Reserve – Unappropriated	–	–	625,000	568,500	1,780,063
Special Reserve – Unrealized Gain (Loss)	(2,995)	(4,792)	(14,376)	(5,958)	15,767
Ordinary Reserve – Unallocated	–		–	–	–
Ordinary Reserve – Unrealized Gain (Loss)	–		–	–	–
	151,680	225,078	610,624	562,542	1,795,830
	$ 157,087	233,625	634,855	569,233	1,795,830

	2003C Kodiak	2004A CBJ	2004B Anchorage	Total
ASSETS				
Cash	$ 26,773	34,569	44,674	1,814,317
Accrued interest receivable	211	7,385	607	328,974
Marketable securities	74,039	1,836,124	297,787	37,985,705
Interaccount receivables	283	–	–	1,452,971
	101,306	1,878,078	343,068	41,581,967
LIABILITIES				
Interaccount payables	56	16,349	3,673	3,472,741
Bond payable	–	–	–	11,287,500
Accrued interest payable	–	–	–	140,130
	56	16,349	3,673	14,900,371
RESERVES				
Special Reserve – State Appropriated	–	–	–	18,601,414
Special Reserve – Unappropriated	101,500	1,875,750	341,931	8,237,346
Special Reserve – Unrealized Gain (Loss)	(250)	(14,021)	(2,536)	(95,008)
Ordinary Reserve – Unallocated	–	–	–	46,805
Ordinary Reserve – Unrealized Gain (Loss)	–	–		(108,961)
	101,250	1,861,729	339,395	26,681,596
	$ 101,306	1,878,078	343,068	41,581,967

See Independent Auditors' Report

Pension Obligation Bonds

Mark Prussing, Vice President
Lindsay Sovde, Vice President
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Replacement Obligation

1

What is a Pension Obligation Bond?

- 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.

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What is a Pension Obligation Bond?

- 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

- 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	
	PERS	TRS
Asset base	$ 8.2 billion	$ 3.9 billion
Covered Employees	69,135	21,220
Average employer rate	16.77% (1) 25%	21.00% (2) 36%
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%. PERS

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

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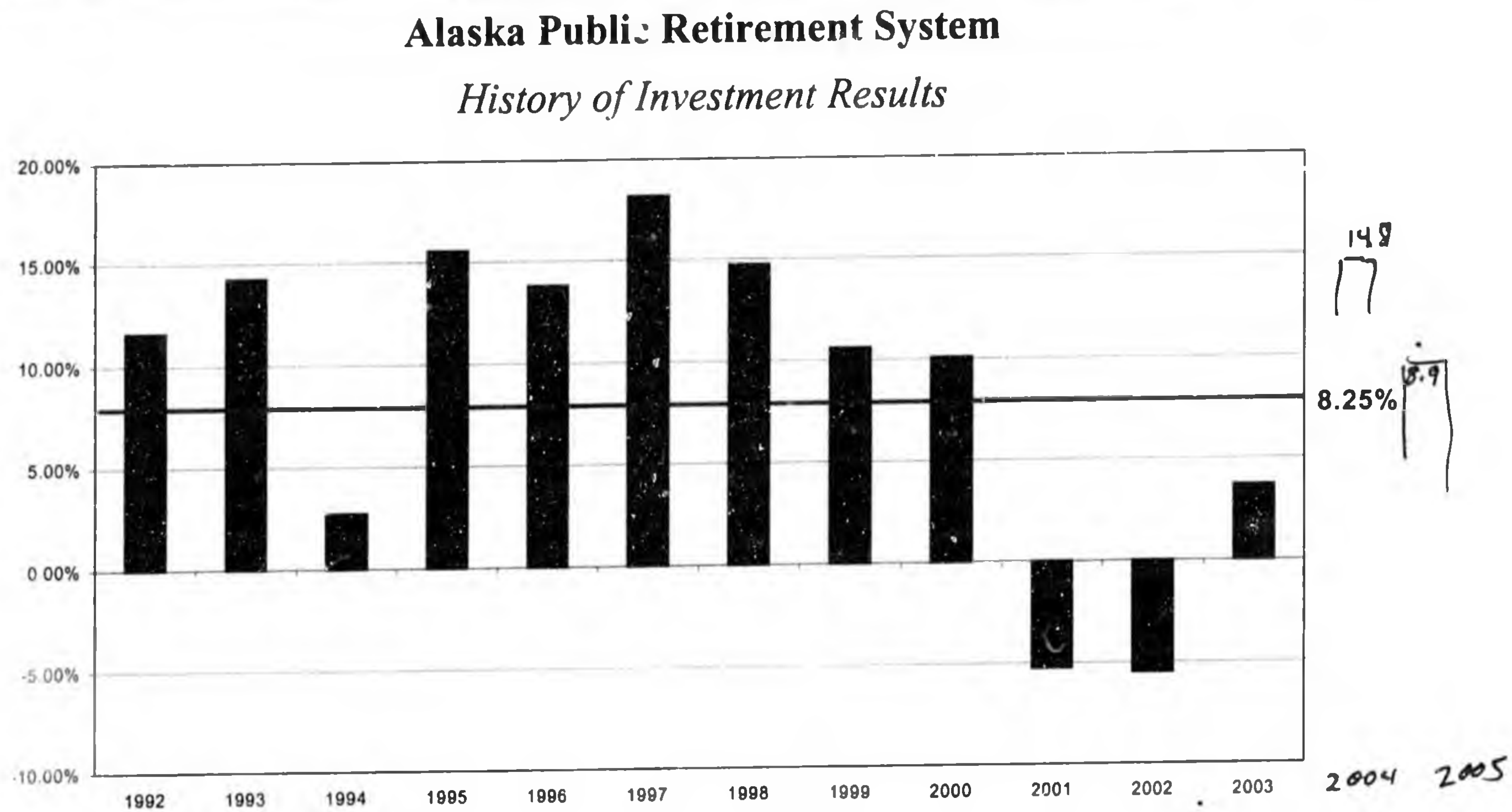
Arbitrage play

The Arbitrage Issue

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 returns are greater than 8.25%, cost reductions will be greater than projected.
  - If returns are less than 8.25% cost reductions will be positive, but less than projected.
  - If returns are less than the bond yield, borrowers will be worse off than those who do not borrow.

Alaska PERS



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Bonding a Popular Tool

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

- 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% (1)
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

SEATTLE-NORTHWEST SECURITIES CORPORATION

Lessons Learned

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

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. — cost ½ %
- 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 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.

would payroll % immediately jump to Actuarial rate
yes unless go thru variable

Alaska Legislative Considerations

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

H.B. 278 needs to expand to allow intercept

SEATTLE-NORTHWEST SECURITIES CORPORATION

HB 278 – Comments

- One part of a broad solution.
- The nature of the obligation between local entities and the Bond Bank is not clear. grant clear authority of local to sell bond to bond authority
- Would like it 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.

Pension Bonds in Alaska: Potential Savings

Types of Obligations

- Savings would be maximized if GO bonds could be issued.
- Appropriation 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

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)