HOUSE CS FOR SENATE BILL NO. 97(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 4/11/18
Referred: Rules

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

"An Act relating to pension obligation bonds."

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

*** Section 1.** AS 18.56.086 is amended to read:

Sec. 18.56.086. Creation of subsidiaries. The corporation may create subsidiary corporations for the purpose of financing or facilitating the financing of school construction, facilities for the University of Alaska, facilities for ports and harbors, the acquisition, development, management, or operation of affordable housing, prepayment of all or a portion of a governmental employer's share of unfunded accrued actuarial liability of retirement systems, or other capital projects. A subsidiary corporation created under this section may be incorporated under AS 10.20.146 - 10.20.166. The corporation may transfer assets of the corporation to a subsidiary created under this section. A subsidiary created under this section may borrow money and issue bonds as evidence of that borrowing, and has all the powers of the corporation that the corporation grants to it. However, a subsidiary created for the purpose of financing or facilitating the financing of prepayment of a governmental employer's share of unfunded accrued actuarial liability of retirement systems may borrow money and issue bonds only **after submitting a proposal to the Legislative Budget and Audit Committee under (b) of this section,** if the state bond rating is the equivalent of AA- or better**,** and subject to AS 37.15.903. Unless otherwise provided by the corporation, the debts, liabilities, and obligations of a subsidiary corporation created under this section are not the debts, liabilities, or obligations of the corporation.

* **Sec. 2.** AS 18.56.086 is amended by adding a new subsection to read:

(b) Before the issuance of bonds under this section, the subsidiary corporation shall submit a proposal to the Legislative Budget and Audit Committee for review, and 45 days shall elapse before bonds are issued, unless the Legislative Budget and Audit Committee earlier recommends that the subsidiary corporation proceed with the issuance. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the subsidiary corporation not proceed with the issuance of bonds, the subsidiary corporation shall again review the proposal and, if the subsidiary corporation decides to issue the bonds, the subsidiary corporation shall provide the Legislative Budget and Audit Committee with a statement of the subsidiary corporation's reasons for doing so before issuance under this section.

* **Sec. 3.** AS 37.15.900(a) is amended to read:

(a) For purposes of financing prepayment of all or a portion of a governmental employer's share of unfunded accrued actuarial liability of retirement systems, including the costs of issuance and administration, the issuance and sale of bonds of the state by the committee is authorized as provided in this section and AS 37.15.903 - 37.15.955, but only **after submitting a proposal to the Legislative Budget and Audit Committee under (e) of this section and** if the state bond rating is the equivalent of AA- or better. The net proceeds of the sale of the bonds remaining after payment of costs of issuance and administration shall be transferred to the commissioner of administration for the account of the governmental employer whose share of unfunded accrued actuarial liability is to be prepaid for application to that liability. Accrued interest paid on the bonds shall be paid into the pension obligation bond redemption fund.

*** Sec. 4.** AS 37.15.900 is amended by adding a new subsection to read:

(e) Before the issuance and sale of bonds under this section, the committee shall submit a proposal to the Legislative Budget and Audit Committee for review, and 45 days shall elapse before bonds are issued and sold, unless the Legislative Budget and Audit Committee earlier recommends that the committee proceed with the issuance. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the committee not proceed with the issuance and sale of bonds, the committee shall again review the proposal and, if the committee decides to issue and sell the bonds, the committee shall provide the Legislative Budget and Audit Committee with a statement of the committee's reasons for doing so before issuance under this section.

*** Sec. 5.** AS 37.15.903 is amended to read:

Sec. 37.15.903. Pension obligation bond limit. The total unpaid principal amount of bonds, including refunding bonds, but excluding refunded bonds, issued by all state entities added together, for the purposes of financing prepayment of all or a portion of a governmental employer's share of unfunded accrued liability of retirement systems, may not exceed <u>**$1,500,000,000 or a funding ratio of actuarial assets to accrued liability greater than 85 percent, whichever is less**</u> [$5,000,000,000].

*** Sec. 6.** AS 37.16.030(a) is amended to read:

(a) For purposes of financing prepayment of all or a portion of a governmental employer's share of unfunded accrued actuarial liability of retirement systems, including the costs of issuance and administration, the issuance and sale of bonds by the corporation is authorized as provided in this section and AS 37.16.040 - 37.16.900, but only <u>**after submitting a proposal to the Legislative Budget and Audit Committee under (e) of this section and**</u> if the state bond rating is the equivalent of AA- or better. The net proceeds of the sale of the bonds remaining after payment of costs of issuance and administration shall be transferred to the commissioner of administration for the account of the governmental employer whose share of unfunded accrued actuarial liability is to be prepaid for application to that liability. Accrued interest paid on the bonds shall be paid into the reserve fund.

*** Sec. 7.** AS 37.16.030 is amended by adding a new subsection to read:

(e) Before the issuance and sale of bonds under this section, the corporation shall submit a proposal to the Legislative Budget and Audit Committee for review, and 45 days shall elapse before bonds are issued and sold, unless the Legislative Budget and Audit Committee earlier recommends that the corporation proceed with the issuance. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the corporation not proceed with the issuance and sale of bonds, the corporation shall again review the proposal and, if the corporation decides to issue and sell the bonds, the corporation shall provide the Legislative Budget and Audit Committee with a statement of the corporation's reasons for doing so before issuance under this section.

* **Sec. 8.** AS 44.85.010(a) is amended to read:

(a) It is the policy of the state to

(1) foster and promote by all reasonable means the provision of adequate capital markets and facilities for borrowing money by municipalities in the state to finance capital improvements or for other authorized purposes, to assist these municipalities in fulfilling their capital needs and requirements by use of borrowed money within statutory interest rate or cost of borrowing limitations, to the greatest extent possible to reduce costs of borrowed money to taxpayers and residents of the state, and equally to encourage continued investor interest in the purchase of bonds or notes of municipalities as sound and preferred securities for investment;

(2) encourage municipalities to continue their independent undertakings and financing of capital improvements and other authorized purposes and to assist them by making capital funds available at reduced interest costs for orderly financing of capital improvements and other purposes especially during periods of restricted credit or money supply, particularly for those municipalities not otherwise able to borrow for capital needs;

(3) assist municipalities to provide for adequate insurance coverage by authorizing the Alaska Municipal Bond Bank Authority to issue negotiable or nonnegotiable revenue bonds, notes, or certificates of participation either directly or through an entity it may create for the purpose of providing a self-insurance program for municipalities or municipal joint insurance arrangements organized under

AS 21.76;

(4) assist governmental employers to prepay all or a portion of their share of unfunded accrued actuarial liabilities of retirement systems in an effort to reduce their costs of satisfying their contractual obligations to provide retirement and other benefits to public employees through the issuance of bonds, notes, commercial paper, or other obligations by the bond bank authority or by a subsidiary corporation created by the bond bank authority under AS 44.85.085, but only **after submitting a proposal to the Legislative Budget and Audit Committee and** if the state bond rating is the equivalent of AA- or better; this assistance is limited as provided in AS 37.15.903;

(5) assist the University of Alaska to provide heating or energy projects by providing capital funds through loans that minimize costs and the effects on the debt capacity of the University of Alaska;

(6) assist regional health organizations to provide health care facilities by providing capital funds through loans that minimize costs and the effects on the debt capacity of regional health organizations when the commissioner of health and social services anticipates a state financial benefit and an increase in regional quality of care;

(7) assist joint action agencies in providing public utilities, including hydroelectric power projects, through loans and bonds that minimize costs and the effects on the debt capacity of public utilities and joint action agencies.

*** Sec. 9.** AS 44.85.085(c) is amended to read:

(c) A subsidiary corporation created under (a) of this section may, **after submitting a proposal to the Legislative Budget and Audit Committee under (e) of this section,** if the state bond rating is the equivalent of AA- or better, and subject to AS 37.15.903, borrow money and issue bonds, notes, commercial paper, or other obligations as evidence of that borrowing and may have all the powers of the bond bank authority that the bond bank authority grants to it. The provisions of AS 44.85.130 - 44.85.170 and 44.85.270 - 44.85.390 apply to the subsidiary corporation and to bonds, notes, commercial paper, or other obligations issued by the subsidiary corporation. Unless otherwise provided by the bond bank authority, the debts, liabilities, and obligations of the subsidiary corporation are not the debts, liabilities, or obligations of the bond bank authority.

* **Sec. 10.** AS 44.85.085 is amended by adding a new subsection to read:

(e) Before the issuance of bonds under this section or under AS 44.85.086, the subsidiary corporation shall submit a proposal to the Legislative Budget and Audit Committee for review, and 45 days shall elapse before bonds are issued, unless the Legislative Budget and Audit Committee earlier recommends that the subsidiary corporation proceed with the issuance. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the subsidiary corporation not proceed with the issuance of bonds, the subsidiary corporation shall again review the proposal and, if the subsidiary corporation decides to issue the bonds, the subsidiary corporation shall provide the Legislative Budget and Audit Committee with a statement of the subsidiary corporation's reasons for doing so before issuance under this section.

* **Sec. 11.** AS 44.85.086 is amended to read:

Sec. 44.85.086. Powers of subsidiary corporation. A subsidiary corporation created under AS 44.85.085 has the following powers in addition those granted to it under AS 44.85.085(c):

(1) to make loans to and enter into contracts with governmental employers;

(2) to incur debt, subject to AS 37.15.903, in furtherance of its purposes, in the form of bonds, notes, commercial paper, or other obligations as the subsidiary corporation considers appropriate, but only **after submitting a proposal to the Legislative Budget and Audit Committee under AS 44.85.085(e) and** if the state bond rating is the equivalent of AA- or better;

(3) to secure its debt with a pledge of any assets that are available to the subsidiary corporation for the purpose, including identified revenue and contractual payments from participating governmental employers, and the general assets and revenue of the subsidiary corporation; and

(4) to enter into contracts with underwriters, bond counsel, financial advisors, accountants, actuaries, and other contractors to provide assistance as the

subsidiary corporation considers desirable to accomplish its purposes.

*** Sec. 12.** AS 44.85.180(a) is amended to read:

(a) Subject to AS 44.85.100(b), the bond bank authority may issue its bonds or notes in principal amounts that it considers necessary to provide funds for any purposes under this chapter, including

(1) the purchase of municipal bonds;

(2) the making of loans through the purchase of municipal bonds, notes, or certificates of participation secured by an agreement between the bond bank authority and a municipality or a municipal joint insurance arrangement organized under AS 21.76;

(3) the payment, funding, or refunding of the principal of, or interest or redemption premiums on, bonds or notes issued by it whether the bonds or notes or interest to be funded or refunded have or have not become due;

(4) the establishment or increase of reserves to secure or to pay bonds or notes or interest on bonds or notes and all other costs or expenses of the bond bank authority incident to and necessary or convenient to carry out its corporate purposes and powers;

(5) assisting governmental employers to prepay all or a portion of their share of the unfunded accrued actuarial liabilities of retirement systems, with security as the bond bank authority considers reasonable; however, to carry out this paragraph, bonds and other obligations may only be issued **after submitting a proposal to the Legislative Budget and Audit Committee under (f) of this section and** if the state bond rating is the equivalent of AA- or better; bonds issued under this paragraph are subject to AS 37.15.903.

*** Sec. 13.** AS 44.85.180 is amended by adding a new subsection to read:

(f) Before the issuance of bonds under this section, the bond bank authority shall submit a proposal to the Legislative Budget and Audit Committee for review, and 45 days shall elapse before bonds are issued, unless the Legislative Budget and Audit Committee earlier recommends that the bond bank authority proceed with the issuance. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the bond bank authority not proceed with the issuance of bonds, the bond bank authority shall again review the proposal and, if the bond bank authority decides to issue the bonds, the bond bank authority shall provide the Legislative Budget and Audit Committee with a statement of the bond bank authority's reasons for doing so before issuance under this section.