

ANCHORAGE CHAMBER OF COMMERCE

STATE & LOCAL GOVERNMENT AFFAIRS COMMITTEE

ISSUE PAPER & RECOMMENDATIONS

**STATE BOND PROPOSITION C
ON THE NOVEMBER 5, 2002 STATEWIDE BALLOT
(\$236,805,441 of state General Obligation bonds
for education and museum projects and
for major rehabilitation of educational facilities)**

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PART I. FACTUAL AND LEGAL BACKGROUND

What is being proposed?

There are two parts to the proposal. One part is the vote on actually issuing up to \$236,805,441 of state General Obligation bonds for schools, for the University of Alaska, for major school maintenance, and for the expansion of the Anchorage Museum of History and Art.

The other part is a law — currently on stand-by and not in effect — which would only become effective if the voters approve these education bonds.* This stand-by law would extend the current state program of reimbursing either 60% or 70% of the principal and interest (the “debt service” on the bonds) for qualifying bonds issued by municipalities for new or replacement schools, expansions of existing schools, and/or for major school rehabilitation. For municipal school bonds voted on and approved after June 30, 1995, the state reimbursement would only be made if the local school district has in place and is following a preventive maintenance plan for its schools that has been approved by the Alaska Department of Education and Early Development.

What are the projects that would be funded by these bonds if they are approved?

\$166,101,441 of the bond proceeds could be spent for 52 identified projects to design, construct, and/or make major maintenance or rehabilitation of, public schools around the state. \$61,704,000 of the bond proceeds could be spent for 20 identified projects to design, construct, and/or make major maintenance or rehabilitation of, facilities of the University of Alaska around the state. \$5,000,000 of the bond proceeds could be spent for the renovation and expansion of the Anchorage Museum of History and Art.

Which of these projects would be in Anchorage?

Of the 52 public schools projects, one would be in Anchorage. This would be \$12,821,521 for “phase 2” of the Wendler Middle School building renovation project. Of the 20 projects for the University of Alaska, two would be in Anchorage: \$8,400,000 for “Phase 1” of an integrated science facility, and \$4,750,000 for a biomedical facility addition. Of course, the entire \$5,000,000 for the Anchorage Museum of History and Art would be in Anchorage.

How would this stand-by law change the existing laws regarding state reimbursement of municipal school bonds?

First, existing law authorizes up to \$357,143,000 as state reimbursements for local

* This stand-by law is Chapter 3, Second Special Session Laws of Alaska 2002. The intricate system for when various sections of this law will become effective, if they ever become effective, is set out in sections 14 – 17 of it. The lynchpin of the whole thing is section 15, which provides that the key sections of the law will only become effective if “the director of elections certifies to the revisor of statutes that a majority of the qualified voters of the state who vote on the question at the 2002 general election affirmatively voted to authorize the contracting of state debt for the purpose of financing capital improvements and major maintenance for schools in rural educational attendance areas or municipal school districts.”

school bonds for qualified school projects that are approved by the voters after June 30, 1995 and before July 1, 2004. *See* AS 14.11.100(n)(1). Of this amount, \$154,-286,000 is allocated to municipalities “with a public school enrollment of 25,000 or more students in fiscal year 1998[.]” *See* AS 14.11.100(n)(2)(A). Only the Anchorage School District had an enrollment of more than 25,000 students in FY1998. The stand-by law would extend the deadline for municipal voters to approve new reimbursable municipal school bonds within this \$357,143,000 reimbursement limit, from June 30, 2004 to June 30, 2006.

Second, existing law authorizes an additional amount of up to \$180,064,912 as state reimbursements for local school bonds for qualified school projects that are approved by the voters after June 30, 1998 and before July 1, 2004. *See* AS 14.11.100(o)(1). Of this amount, \$77,897,000 is allocated to municipalities with student enrollments of more than 25,000 in fiscal year 2000. *See* AS 14.11.100(o)(2)(A). Again, only the Anchorage School District had 25,000 or more students enrolled in FY2000. The stand-by law would extend the deadline for municipal voters to approve new reimbursable municipal school bonds within this \$180,064,912 reimbursement limit, from June 30, 2004 to June 30, 2006.

Third, the stand-by law would authorize state reimbursement of either 60% or 70% of the debt service on local school bonds for qualified school projects that are approved by the municipal voters after June 30, 1999 and before January 1, 2005. The 70% reimbursement would be available if the municipality demonstrates a need the projects and the Commissioner of Education and Early Development approves them. The 60% reimbursement would be available even if the municipality does not demonstrate “need” for the projects under AS 14.11.100(j)(4), so long as the Commissioner has reviewed them under AS 14.07.020(a)(11). These reimbursements would be outside the two previously described limitations on state reimbursements under the present law, and the stand-by law would not establish a dollar limit on the total amount to be so reimbursed by the State under this new program.

Fourth, the stand-by law would add a new precondition for state reimbursement under any of the three reimbursement programs described above, and this requirement is that the school district must have in place and be following a preventive maintenance plan for its schools that is approved by the Department of Education and Early Development.

What is the bottom line for Anchorage from all these changes that the stand-by law would make?

First, 70% of the debt service on the \$98,695,000 of school bonds that Anchorage voters approved in last April’s municipal election would be reimbursable by the state, assuming the Anchorage School District has and is following a state-approved preventive maintenance program.

Second, 70% of the debt service on any new school bonds that Anchorage voters approve between now and January 1, 2005 would also be reimbursable by the state — again, assuming the preventive maintenance program and the school projects themselves are approved by the Commissioner of Education and Early Development.

What is the purpose of the stand-by law's new provision requiring school districts to have state-approved preventive maintenance plans in order to get state reimbursement?

Too often in the past under the state reimbursement program, local school bonds have been issued for new schools or expanded ones and then those schools were not adequately maintained once they were built. Now they need to be replaced for the safety and well-being of the children and their teachers. The legislature has apparently decided that the State will help pay for the costs of providing adequate schools once, but not twice — at least not if the need to replace an existing school has arisen because that school has not been properly maintained to last its normal useful life.

What commitment is the State making if it issues these bonds?

The State of Alaska is promising to take whatever action is necessary — no matter how drastic — to ensure that the debt service on these bonds will be paid on time and in full. Such action, if necessary, could include the enactment of temporary or permanent taxes on individuals and/or businesses in order to have the necessary money to pay the debt service on these bonds in full as it comes due.

What about the Permanent Fund if the State guarantees these bonds?

The principal of the Permanent Fund cannot ever be spent under the constitutional amendment creating the Fund. Since pledging Permanent Fund principal would be tantamount to spending it if the State could not otherwise pay the debt service on these bonds, this “thou shalt not spend Fund principal” provision means that the principal of the Permanent Fund cannot legally be pledged to pay that debt service.

The income from the Permanent Fund, however, is spendable under the state constitution. So the State's guarantee of these bonds could mean that Permanent Fund income might be used instead of, or in conjunction with, new taxes in order to ensure the timely and full payment of the debt service on these bonds.

Have the costs for the debt service on these new state bonds and for the additional state reimbursement of debt service on municipal school bonds been included in the State's fiscal plan?

No. The debt service on these new state General Obligation bonds would be an additional expenditure in the state operating budget for future years until these bonds are paid off. Similarly, the reimbursement to municipalities for 60% or 70% of the debt service on their qualifying school bonds will also be an additional expenditure in the state operating budget for future years until those municipal school bonds are paid off.

What happens if the voters do not approve these bonds?

If the voters do not approve these bonds, then none of the state bonds proposed in Bond Proposition C will be issued, the stand-by law will not become effective, and the present law regarding state reimbursement of local school bonds will remain unchanged.

PART II. PROS AND CONS

Pros

Anchorage needs the Wendler Middle School renovation which these state bonds would help pay for.

UAA needs the integrated science facility and the biomedical facility addition which these state bonds would help pay for.

The \$5 million for the Anchorage Museum of History and Art will help launch a much needed expansion of the Museum's facilities.

The other public-school and University projects around the state which these state bonds would pay for in whole or in part are important to the Alaskans who will be served by those schools and projects, to the betterment of Alaska as a whole.

The extension of the state reimbursement of debt service on municipal bonds — which will occur if Bond Proposition C passes — will save Anchorage taxpayers 70% of the cost for the \$98,695,000 in school bonds that were approved last April, and will save them 70% of the cost for any new school bonds that are approved before 2005.

If Bond Proposition C passes, the new precondition for state reimbursement — that local school districts must develop and implement state-approved preventive maintenance programs for their schools — will save the State and the school districts countless millions of dollars by not having to replace inadequately maintained schools before the end of their normal useful lives.

Cons

The combination of the debt service on the new state bonds and the extended and unlimited state commitment to reimburse up to 70% of the debt service on local school bonds will significantly worsen the fiscal gap that the State is facing and must solve. There are no revenues from any of these projects that can or will be used to pay all this debt service, but only financial liability for it.

If the State breaks its commitment to reimburse up to 70% of the debt service on local school bonds, the resulting increase in local taxes to pay for the full debt service on the bonds they have issued could be devastating to those communities and their businesses — and ultimately to the entire state economy.

PART III. SALGA COMMITTEE'S RECOMMENDATION TO THE BOARD.

The State and Local Government Affairs Committee believes there are three appropriate options for the Chamber Board of Directors to consider regarding Bond Proposition C appearing on the ballot in the November 5, 2002 general election. One (Alternative A) would be to express support without reservation for the Proposition. The second (Alternative B) would be to express qualified support by supporting the Proposition itself, but to note also that voter approval of this Proposition will worsen the state fiscal gap. The third option (Alternative C) would be to oppose the Proposition.

The Committee recommends that the Chamber Board of Directors adopt the “Alternative B” resolution *of qualified support for* Bond Proposition C:

[Alternative A —support of Bond Proposition C without reservation]

**Board of Directors, Anchorage Chamber of Commerce
Resolution 2002/03-____
In Favor of Bond Proposition C on the November 5, 2002 Ballot
(\$236,805,441 of state General Obligation bonds for education projects)**

WHEREAS, Bond Proposition C on the November 5, 2002 general election ballot proposes the issuance of \$236,805,441 of state General Obligation bonds for new and replacement schools, school expansions, rehabilitation of schools, projects for the University of Alaska, and an expansion of the Anchorage Museum of History and Art; and

WHEREAS, the projects in Anchorage that would be funded from bond proceeds if Bond Proposition C is approved are the Wendler Middle School renovation phase 2 (\$12,821,521), an integrated science facility phase 1 (\$8,400,000) and a biomedical facility (\$4,750,000) for the University of Alaska Anchorage, and the expansion of the Anchorage Museum of History and Art (\$5,000,000); and

WHEREAS, the Anchorage projects and the other projects around the state that would be financed by these proposed bonds will be important for the people in those communities, and for the betterment of Alaska as a whole; and

WHEREAS, the voters’ approval of Bond Proposition C would put into effect a state law enacted last spring (chapter 3, SSSLA 2002) that currently is only on stand-by; this law would extend the state’s program for reimbursing up to 70% of the principal and interest on local municipal bonds issued to build, replace, expand and/or make major maintenance to local schools; this reimbursement program would apply to the \$98,695,000 of school bonds that Anchorage voters approved in last April’s municipal election, as well as any other school bonds they might approve before 2005; and

WHEREAS, the stand-by law would also require that, in order to receive this state reimbursement of part of the debt service on local school bonds, school districts to have and carry out a state-approved plan for preventive maintenance of their schools, so that the schools will not need to be replaced prematurely due to inadequate maintenance;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board supports issuance of the \$236,805,441 of state General Obligation bonds for educational and museum purposes, and recommends that Chamber members vote “yes” on Bond Proposition C appearing on the ballot for the general election on November 5, 2002, and will inform the Chamber’s membership of this Resolution, and of the Board’s reasons for adopting it;

AND FURTHER RESOLVED that the Chamber will issue a press release and public announcement of this Resolution, and send copies of it to the other chambers of commerce in Alaska and the press.

DATED _____, 2002

[Alternative B — qualified support of Bond Proposition C]

**Board of Directors, Anchorage Chamber of Commerce
Resolution 2002/03-__
In Favor of Bond Proposition C on the November 5, 2002 Ballot
(\$236,805,441 of state General Obligation bonds for education projects)**

WHEREAS, Bond Proposition C on the November 5, 2002 general election ballot proposes the issuance of \$236,805,441 of state General Obligation bonds for new and replacement schools, school expansions, rehabilitation of schools, projects for the University of Alaska, and an expansion of the Anchorage Museum of History and Art; and

WHEREAS, the projects in Anchorage that would be funded from bond proceeds if Bond Proposition C is approved are the Wendler Middle School renovation phase 2 (\$12,821,521), an integrated science facility phase 1 (\$8,400,000) and a biomedical facility (\$4,750,000) for the University of Alaska Anchorage, and the expansion of the Anchorage Museum of History and Art (\$5,000,000); and

WHEREAS, the Anchorage projects and the other projects around the state that would be financed by these proposed bonds will be important for the people in our respective communities, and for the betterment of Alaska as a whole; and

WHEREAS, the voters' approval of Bond Proposition C would put into effect a state law enacted last spring (chapter 3, SSSLA 2002) that currently is only on stand-by; this law would extend the state's program for reimbursing up to 70% of the principal and interest on local municipal bonds issued to build, replace, expand and/or make major maintenance to local schools; this reimbursement program would apply to the \$98,695,000 of school bonds that Anchorage voters approved in last April's municipal election, as well as any other school bonds they might approve before 2005; and

WHEREAS, the stand-by law would also require that, in order to receive this state reimbursement of part of the debt service on local school bonds, school districts to have and carry out a state-approved plan for preventive maintenance of their schools, so that the schools will not need to be replaced prematurely due to inadequate maintenance; but

WHEREAS, the debt service on these new bonds, together with the unlimited new state commitment to reimburse up to 70% of the debt service of local school bonds approved by their respective voters before 2005, represent new obligations and undertakings by the State which have not been provided for in any plan to balance the state budget, and thus will make it that much harder to craft and implement a plan to balance that budget on a sustainable basis; and

WHEREAS, municipalities that issue significant new school bonds in the expectation that the State will reimburse them for up to 70% of the cost of those bonds could find themselves in a serious financial situation or crisis if the State were to fail to fulfill its commitment to provide that reimbursement;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board supports issuance of the \$236,805,441 of state General Obligation bonds for educational and museum purposes, and recommends that Chamber members vote "yes" on Bond Proposition C appearing on the ballot for the general election on November 5, 2002, and will inform the Chamber's membership of this Resolution, and of the Board's reasons for adopt-

ing it;

AND FURTHER RESOLVED that, if Bond Proposition C is approved by the voters, the next legislature is hereby urged to establish and implement, as one of its top priorities, a plan to fund the State's commitments to reimburse up to 70% of the costs of qualifying local school bonds under chapter 3, SSSLA 2002, which will take effect upon such approval of Bond Proposition C;

AND FURTHER RESOLVED that the Chamber will issue a press release and public announcement of this Resolution, and send copies of it to the other chambers of commerce in Alaska and the press.

DATED _____, 2002

[Alternative C — against Bond Proposition C]

**Board of Directors, Anchorage Chamber of Commerce
Resolution 2002/03-__
Against Bond Proposition C on the November 5, 2002 Ballot
(\$236,805,441 of state General Obligation bonds for education projects)**

WHEREAS, Bond Proposition C on the November 5, 2002 general election ballot proposes the issuance of \$236,805,441 of state General Obligation bonds for new and replacement schools, school expansions, rehabilitation of schools, projects for the University of Alaska, and an expansion of the Anchorage Museum of History and Art; and

WHEREAS, the Anchorage projects and the other projects around the state that would be financed by these proposed bonds will be important for the people in our respective communities, and for the betterment of Alaska as a whole; HOWEVER,

WHEREAS, the voters' approval of Bond Proposition C would put into effect a state law enacted last spring (chapter 3, SSSLA 2002) that currently is only on stand-by; this law would extend the state's program for reimbursing up to 70% of the principal and interest on local municipal bonds issued to build, replace, expand and/or make major maintenance to local schools; this reimbursement program would apply to the \$98,695,000 of school bonds that Anchorage voters approved in last April's municipal election, as well as any other school bonds that Anchorage voters might approve before 2005; and

WHEREAS, there is no limitation under chapter 3, SSSLA 2002 on the total amount the State's reimbursements to municipalities for the costs of qualifying local school bonds that are approved by the respective municipal voters on or after June 30, 1999 but before 2005; and

WHEREAS, the open-endedness of the State's new commitments and undertakings under chapter 3, SSSLA 2002 that would arise if Bond Proposition C is approved could drastically impair the State's ability to bring its budget into balance on a sustainable basis; and — on the other hand — if the State did not fulfill its reimbursement commitments under chapter 3, SSSLA 2001, its failure to do so could cause serious financial situations or crises for municipalities that issue qualifying school bonds in the expectation of such reimbursement;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Anchorage Chamber of Commerce that the Board opposes the State's issuance of \$236,805,441 of state General Obligation

gation bonds for education and museum projects, and recommends that Chamber members vote “no” on Bond Proposition C appearing on the ballot for the general election on November 5, 2002, and will inform the Chamber’s membership of this Resolution, and of the Board’s reasons for adopting it;

AND FURTHER RESOLVED that the Chamber will issue a press release and public announcement of this Resolution, and send copies of it to the other chambers of commerce in Alaska and the press.

DATED _____, 2002