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February 9, 2010

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill relating to the waiver of volume cap of recovery zone economic development bonds authorized by 26 U.S.C. 1400U-2 and reallocation by the Alaska Municipal Bond Bank Authority of the waived volume cap; and relating to the waiver of volume cap of recovery zone facility bonds authorized by 26 U.S.C. 1400U-3 and reallocation by the Alaska Industrial Development and Export Authority of the waived volume cap.

The bill will benefit Alaskans by authorizing the Alaska Industrial Development Export Authority to administer the American Recovery and Reinvestment Act (ARRA) program. The result subsidizes interest rates on bonds for government infrastructure and private economic development, removes limitation on the Municipal Bond Bank to allow for energy-related projects in addition to diesel projects, and increases the bond limit to $1 billion.

The bill sets out legislative findings and intent for Secs. 4 and 5 of the bill related to the federal authorization of recovery zone economic development bonds and recovery zone facility bonds and the allocation of the volume cap of the bonds. The bill provides that it is the Legislature's intent to define when volume cap is waived, and to authorize the Alaska Municipal Bond Bank Authority to reallocate waived recovery zone economic development bond volume cap, and to authorize the Alaska Industrial Development and Export Authority to reallocate waived recovery zone facility bond volume cap.

The bill will provide that unused recovery zone economic development bond volume cap is waived on June 30, 2010. The bill will authorize the Alaska Municipal Bond Bank Authority to reallocate waived recovery zone economic development bond volume cap.

The bill will provide that unused recovery zone facility bond volume cap will be waived on June 30, 2010. The bill will authorize the Alaska Industrial Development and Export Authority to reallocate waived recovery zone facility bond volume cap.
The bill will increase the total amount of bonds and notes that the Alaska Municipal Bond Bank Authority may have outstanding from $750,000,000 to $1,000,000,000. The bill will allow the Alaska Municipal Bond Bank Authority to expand its authorization to issue bonds for energy projects and to amend the definition of "municipal bond."

The Alaska Municipal Bond Bank Authority's bonding authorization has been increased several times in the last 30 years. In 2003, the limit increased from $300,000,000 to $500,000,000, and in 2006, the limit increased from $500,000,000 to $750,000,000. As of December 2009, the Alaska Municipal Bond Bank Authority had $623,090,878 in outstanding bonds. This leaves $126,909,122 available for additional loans to communities. Applications to the Alaska Municipal Bond Bank Authority over the next six months are expected to total approximately $150,000,000. This increase is a natural progression for the program, and fits with the historically conservative increases in the borrowing cap. The underlying loan portfolio of the Alaska Municipal Bond Bank Authority is strong and has fully supported all loans for 35 years. Without passage of this bill, it is likely that municipalities will not be able to take advantage of the program.

The bill will repeal an existing limitation on the Alaska Municipal Bond Bank Authority's authorization that limits municipal revenue bonds issued by the bank to only diesel energy projects. With this change, the banks will have the ability to provide financing for a wide variety of energy projects. This change is consistent with the purpose of the Alaska Municipal Bond Bank Authority – to assist municipalities in financing capital improvements and to allow municipalities to create and improve energy facilities across the state. Further, the bill would eliminate the restriction in the definition of "municipal bond" in AS 44.85.410(4)(E)(iii), which currently does not authorize a lease for equipment or building improvement if the State is the lessee. This change will allow small municipalities the ability to finance community buildings if they plan to partner with the State to achieve project efficiency.

The bill provides for an immediate effective date.

I urge your prompt and favorable action on this bill.

Sincerely,

Sean Parnell
Governor

Enclosure