February 6, 2017

The Honorable Lyman Hoffman and the Honorable Anna MacKinnon
Alaska State Senators
Co-chairs, Senate Finance Committee
State Capitol Rooms 518 and 516
Juneau, AK 99801

Dear Co-Chairs MacKinnon and Hoffman:

The purpose of this letter is to provide you with a response to the questions asked during my presentation to the Senate Finance Committee on February 1, 2017. Please see questions in italics and my responses immediately below the questions.

1.) Was there a material change to the description of “Negotiated Sales” on page 20 of Debt Affordability Analysis?

The short answer is no. There were changes from 2016 to 2017 in the Negotiated Sales portion of the analysis but that change is, in my opinion, not material.

The change in the first paragraph in number (4) of the section was made to explain how and where idea generation could benefit the State.

The change in the second paragraph eliminated the sentence that stated, “To ensure fair pricing on any bonds sold through a negotiated basis, it is preferable to engage a financial advisory firm which maintains an active trading or underwriting practice.” I removed this sentence as it is subjective as to whether there is actually a benefit to having an active trading or underwriting practice. In fact, there is an alternative perspective that if a firm has an active trading or underwriting practice they are conflicted from negotiating as vigorously as their trading and underwriting practice may suffer on transactions they are simultaneously underwriting. Personally, I believe that there are pros and cons to both firm compositions and removed the language.

2.) Is there a recommended annual amount of general obligation bonds for deferred maintenance projects?

Response – The question really generates the need to analyze both the list of outstanding projects that are competing to obtain State general fund support as well as the potential general obligation debt capacity.
I will only address the second part of the question. Generally, given the size of current
debt obligations relative to the current projection of available revenue, and a desire to
maintain the State’s credit rating the amount of annual issuance would be extremely
limited, or along the lines of $10 million per year. If available revenue increases or
becomes more stable then this estimate would also increase in some proportional fashion.

However, before concluding that $10 million per year is an appropriate target for deferred
maintenance general obligation bond funding all proposed or outstanding debt payment
commitments of the State, including general obligation bonds, subject to appropriation,
the School Debt Reimbursement Program, and annual payments on the special funding
situation for the Public Employees and Teachers Retirement Systems use of general
obligations bonds should be part of a more inclusive analysis. The total amount of these
payments relative to projected annual revenue needs to be compared to a ratio determined
acceptable by the State Bond Committee and Legislature for the purpose of establishing
what level of annual funding for a 10 or 20 year forecast is available for debt payments.
With this information we could make more refined projections about the level of annual
debt available for all capital projects during the forecast period which would be followed
by a policy determination on the prioritization of the competing project needs.

Please contact me if you have further questions.

Sincerely,

[Signature]

Deven Mitchell
Debt Manager