MUNICIPALITY OF ANCHORAGE

Office of the Chief Fiscal Officer

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Travis C. Frisk, CFO

Date: June 22, 2022

To: Amy Demboski, Municipal Manager

From: Travis C. Frisk, CFO
Ross Risvold, Public Finance Manager
Jessie Wei, Municipal Debt Officer
Kayla MacEwen, Municipal Advisor, Masterson Advisor LLC
Steve Kantor, Municipal Advisor, Masterson Advisor LLC

Regarding: Eagle Exit Succession Concept

You have asked for a general fiscal note if EaglExit were to go forward. What would be the fiscal note on previously owed bond debt due from Chugiak-Eagle River residents, as well as how would the tax liability change for Anchorage residents (if at all)?

<u>Executive Summary</u>

The 'Municipality of Eagle River' would be required to make a one-time upfront payment to the Municipality of Anchorage of $92 million. This would make the Municipality of Anchorage whole on the day of the retirement of the Municipality's outstanding debt. Eagle River would have their associated debt outstanding and Anchorage would have their associated debt outstanding. This one-time fee would result in an upfront one-time assessment on a $400,000 home in Eagle River of $8,487. The same $400,000 home in Eagle River would have an additional assessment of $727 to pay for their share of the new debt service over the next twenty years, although the amount would decrease over time. Further impact on the future debt issuance by Anchorage and various tax assessments of Eagle River are delineated in the discussion below.

<u>Questions & Responses</u>

Responses to these two questions are difficult to quantity since there are numerous factors that are an integral part to one or both questions. We have answered these questions based upon reasonable and known assumptions at this time.

Part I

What would be the fiscal note on previously owed bond debt due from Chugiak-Eagle River residents?

Summary of Assumptions

1 Consider only General Obligation Debt and not Revenue Bond Debt
2 Requirement to retire all GO debt on or prior to succession
3 Current capital market interest rates which will change in the future, likely in an upward direction
4 Eagle River will pay for all expenses related to restructuring the GO debt
5 There will likely be additional legal fees above and beyond those for a normal bond refunding transaction, including special tax counsel fees
6 There will likely be additional municipal advisor fees above and beyond those for a normal bond refunding transaction, including rating agency discussions
7 The Municipality is currently on Credit Watch with a negative outlook for its AA+ rating by S&P Global and with a succession of Eagle River the S&P Rating would drop to a single “A” rating.
8 We are selling bonds in an increasing interest rate environment
9 These will be advance refundings which we require both parties to sell taxable bonds that have a higher interest rate than tax-exempt bonds
10 This does not include the assessment of a potential claim by an Anchorage bond holder of an “impairment of contract” against the Municipality of Anchorage
11 This compares the new debt service for the remaining Municipality of Anchorage to 88% of the existing debt service of the Municipality of Anchorage
12 This assumes Eagle River will retire the equivalent to 12% of the Municipality of Anchorage’s outstanding debt, which is currently estimated as $96 million, whether through public borrowing or other sources of funds.
13 The numbers herein are based on market interest and investment rates on June 14, 2022. The assessed values are as of December 31, 2021.
14 All numbers are subject to change in the future.

Part I

What would be the fiscal note on previously owed bond debt due from Chugiak-Eagle River residents?

Fiscal Note Impact

1 The Municipality and Eagle River combined would have to retire all of the $803 million of GO Bonds outstanding by selling $824 million of GO bonds which would cost the Municipality of Anchorage nearly $87 million in present value debt service. This would be a one-time fee for which the Eagle River would be required to compensate the Municipality.

2 Additional legal expenses related to the evaluation and consultation by bond counsel and special tax counsel, would be incurred by the Municipality and would aggregate at least $2 million in total that Eagle River would be obligated to pay.

3 Additional municipal advisor expenses related to the evaluation and consultation for the marketing of bonds to investors and the request for ratings by the rating agencies would be incurred by the Municipality and would aggregate at least $2 million in total that Eagle River would be obligated to pay.

4 Other additional expenses related to this kind of debt retirement transaction would be incurred by the Municipality and would aggregate at least $1 million in total that Eagle River would be obligated to pay.

5 This is just the beginning of the financial impact and liability.

6 Eagle River's one-time payment to the Municipality for the refinancing debt related expenses not financed would be $5 million.

7 The combined one-time upfront fee would be $92 million.
   a. This would be a one-time 21.22 mill rate charge on a $400,000 home equal to $8,487.

8 Eagle River's annual debt service for the $99 million GO bonds would be $7.9 million in the first year.
   a. The average home valued at $400,000 would incur a 1.82 mill rate charge for debt service in the first year of $727. This amount would decrease over the next twenty years assuming no further debt is issued.

Part II

How would the tax liability change for Anchorage residents (if at all)?

Summary of Assumptions

1 The $92 million one-time fee is paid to the Municipality and is used to pay the costs for retiring bonds and fees related to the retirement.

2 We assumed 12% of assessed value for the new Eagle River Municipality based upon:
   a. The 2022 Total Projected Taxable Value (real and personal) was used to set the 2022 mill rates and
   b. Tax districts 10, 16, 22, 30, 46, 47, 50, 51, and 58 are assumed to be part of the new Eagle River Municipality.

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Tax Liability Impact for Anchorage Residents Regarding the Debt

1. Based upon these assumptions and our review, there should be a neutral impact on the Municipality's remaining debt obligation after succession. This assumes no further debt is issued by the Municipality.
2. However, future debt issued by the Municipality at the lower single "A" rating is not considered in these assumptions and the debt service would be materially higher in every future debt issue.