

# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version CS HB 286 (FIN)  
Fiscal Note Number \_\_\_\_\_  
( ) Publish Date \_\_\_\_\_

Identifier (file name) HB286CS(FIN)-DOR-TRS-04-06-12 Dept. Affected Revenue  
Title G.O. BONDS FOR PORTS Appropriation Taxation and Treasury  
Allocation Treasury  
Sponsor Rules by request of the Governor  
Requester (H)FIN OMB Component Number 121

## Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel	20.0		20.0		20.0		
Services	1,255.0		1,255.0		1,284.7		
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous			11,100.0	23,600.0	23,600.0	36,392.0	36,392.0
<b>TOTAL OPERATING</b>	<b>1,275.0</b>	<b>0.0</b>	<b>12,375.0</b>	<b>23,600.0</b>	<b>24,904.7</b>	<b>36,392.0</b>	<b>36,392.0</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF		11,100.0	23,600.0	23,600.0	36,392.0	36,392.0	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1008	G/O Bonds (Other)	1,275.0	1,275.0		1,304.7			
<b>TOTAL</b>		<b>1,275.0</b>	<b>0.0</b>	<b>12,375.0</b>	<b>23,600.0</b>	<b>24,904.7</b>	<b>36,392.0</b>	<b>36,392.0</b>

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES							
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Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required,  
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required,  
(discuss reasons and fund source(s) in analysis section)

### Why this fiscal note differs from previous version (if initial version, please note as such)

Updated fiscal note following discussion with Legislative Legal.

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Division Treasury Division  
Approved by Angela Rodell, Deputy Commissioner  
Department of Revenue

Phone 907-465-3750  
Date/Time 4/6/12 1:00 PM  
Date 4/6/2012

## FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. CS HB 286 (FIN)

### Analysis

The bill authorizes the issuance of a total of \$453,499,200 of general obligation bonds of the State of Alaska of which \$449,900,000 is for project costs and up to \$3,599,200 is for the costs associated with issuing the bonds. The bonds would carry the full faith, credit and resources pledge of the State and must be ratified in a statewide election. This is the strongest form of credit pledge available to the State and accordingly results in the lowest interest rates for borrowed funds. If the bill is approved, Alaska voters would consider the proposition in the November 2012 general election.

The bonds would be issued as either tax-exempt or tax exempt, subject to the Alternative Minimum Tax (AMT) securities in a ratio estimated to be 60 percent tax exempt and 40% subject to AMT. All of the bonds will be subject to limitations of the Federal tax code. While there are many restrictions imposed when taking advantage of tax exemption, two key limits are that an issuer must be able to track all funds to final expenditure on an allowed public capital project and that all funds resulting from the bond issuance are expended within three years of the bond sale. Due to these limitations it is anticipated that the authorization would require careful state oversight of the proposed municipal projects and result in multiple bond issues. For planning purposes six bond issues are assumed with three sale dates staggered over three years beginning with an initial issuance in February 2013 of \$150 million followed by a 2014 issuance of \$150 million and a 2016 issuance of the final \$153,499,200. The initial bond issues would be sized based on anticipated cash-flow with subsequent issues adjusted to actual cash flow.

The first bonds would be issued in February 2013, and sold in two series anticipated to total \$150 million. The current rate for a 20 year level amortization of Alaska general obligation bonds are at all time lows and estimated at 2.35% for tax exempt and 3% for tax exempt subject to AMT. The bonds would be structured to amortize AMT bonds first and then tax exempt for a blended rate of 2.61%. This rate results in annual debt service of approximately \$9.75 million beginning in FY 2014 for the \$150 million. The borrowing rate is below the anticipated Constitutional Budget Reserve (CBRF) regular account rate of return of 3.4% and well below the assumed rate of return on the CBRF subaccount of 6.85%.

For planning purposes a more conservative, but still historically low rate of 4% was used, increasing the annual debt service estimate to \$11,100,000. If interest rates have increased at the point bonds are sold there would be a similar increase in the rate of return expectations in the CBRF regular account as it is comprised of fixed income securities that are actively managed.

It is estimated that \$150 million in bonds would be sold in February 2014 with estimated annual debt service of \$12.5 million beginning in FY 2015 followed by \$153,499,200 in February 2016 with estimated annual debt service of \$12.79 million beginning in FY 2017. This proposed schedule of issuance would be modified to match the actual expenditures on the authorized projects. A more conservative 5% interest rate was used to estimate debt service on these issues.

The costs associated with issuing bonds include underwriting, rating agency, attorneys, financial advisors, marketing and disclosure services, administrative, and printing. It is estimated that these costs will be less than .8% of the bonds issued, or a total of up to \$3,599,200 for the anticipated six series of bonds on three issue dates.