

## Debt Retirement

The Department of Revenue has been asked to explore the use of the 2011/2012 surplus to pay down or avoid incurring long term obligations. The table below outlines a proposal of \$198.8 million.

From the budgetary perspective the benefits are:

- Immediate reduction of FY12 debt payment of approximately \$12.0 million
- Long term budgetary savings over the next 20 years of up to \$81.4 million.
- The budget would be reduced by up to an average of \$13.6 million through FY2034. (See analytics page 3.)
- Savings during the latter half of this decade (FY15-FY20) would average close to \$19 annually.

| PURPOSE          | COST<br>(estimate in<br>millions) | FY 12<br>Cash Flow<br>Savings<br>(millions) | NET<br>Cash Flow<br>Savings<br>(millions) | PV<br>(Present Value)<br>Savings<br>(millions) | FISCAL YEARS<br>savings are<br>realized |
|------------------|-----------------------------------|---|---|--|---|
| Anchorage Jail   | \$25.0                            | \$1.0 (FY12)                                | \$5.1                                     | \$3.2  | FY12-FY20                               |
| State COPs (3)   | \$23.7                            | \$1.0 (FY12)                                | \$6.3                                     | \$4.7  | FY12-FY21                               |
| Cash for 2008 GO | \$150.1                           | \$10.0 (FY12)                               | \$70.0                                    | \$35.0   | FY12-FY34                               |
| TOTALS           | \$198.8                           | \$12.0 (FY12)                               | \$81.4                                    | \$43.0   | FY12-FY34                               |

Other benefits the Department of Revenue sees from this action:

- It would be viewed as conservative in the municipal bond buying sector, and a first ever event for the State of Alaska.
- It would increase the potential for further improvement in the State's ratings. Improved ratings could mean significant savings for future potential bond funded projects, potentially making them more economically attractive.
- Eliminating investor risk and removing third parties as facility owners and other conduit finance partners.
- Discounted using a Present Value method results in an immediate cash equivalent savings of \$43.0 million.

Suggested Prioritization Criteria are:

1. Savings – as measured by ANNUAL cash flow, NET cash flow and PV (Present Value) Savings.
2. Credit Pledge - lesser credit prioritized as always higher cost to issue/higher interest rate.
3. Debt Management Goals – Maintaining control of credit at State level is a positive rating criteria.
4. Ease of execution – One transaction versus multiple and size.

Excel spreadsheets with detailed analytics and one page summaries of the three proposed options, including suggested methodology are provided as part of this package. It would be important, particularly with the 2008 transportation general obligation bond option, to provide suggestions to the Legislature to ensure the final product is workable for the Department.

## Anchorage Jail Pre-Pay

### Draft Appropriation Language

The sum of up to 25,000,000 is appropriated to the Department of Administration to pre-pay future obligations and fees to provide for the defeasance of callable Municipality of Anchorage Lease Revenue Refunding Bonds, Correctional Facility, Series 2005 (Anchorage Jail). The State Bond Committee shall certify the amount required to defease the callable bonds by September 1, 2011.

### Explanation

This not to exceed appropriation would allow the State Bond Committee and Department of Administration to work with the Municipality of Anchorage to pay off "defease" the callable portion of the lease revenue bonds issued for the Anchorage Jail Correctional Facility that are payable by the State of Alaska. The callable bonds are from 2016 through 2020 and range from 4.25 to 5% interest rates. The defeasance is accomplished by putting funds in a dedicated escrow sufficient to pay interest on the callable bonds to the call date and then repay the principal amount. It is a common financing mechanism, but is typically found in refinancing structures rather than with an early payment of principal from cash.

### Projected Savings

\$1 million per year from 2012 to 2015 and then \$5.1 million per year from 2016 to 2020

\$5.1 million in net nominal savings with an estimated present value of \$3.2 million

### Other Benefit

This action would be viewed as conservative by rating agencies, as it reduces long term higher cost liability with current year budget surplus.

## **State Certificates of Participation Pre-Pay**

### **Draft Appropriation Language**

The sum of up to 24,000,000 is appropriated to the State Bond Committee to pre-pay future obligations and fees to provide for the defeasance of callable State of Alaska Certificates of Participation Alaska Psychiatric Institute Series 2002, The Seafood and Food Safety Laboratory Facility Series 2003A, & the State Virology Laboratory Facility Series 2005B.

### **Explanation**

This not to exceed appropriation would allow the State Bond Committee to work with the Department of Administration to pay off "defease" the callable portion of the State of Alaska Certificates of Participation Alaska Psychiatric Institute Series 2002, The Seafood and Food Safety Laboratory Facility Series 2003A, & the State Virology Laboratory Facility Series 2005B. The callable bonds are from 2013 through 2021 and range from 4 to 4.9% interest rates. The defeasance is accomplished by putting funds in a dedicated escrow sufficient to pay interest on the callable bonds to the call date and then repay the principal amount. It is a common financing mechanism, but is typically found in refinancing structures rather than with an early payment of principal from cash.

### **Projected Savings**

\$1 million per year from 2012, \$2.4 million in 2013, \$3.4 million in 2014-2015, \$5 million in 2016, \$3.4 million in 2017 to 2019, and then \$2.2 million in 2020 and 2021

\$6.3 million in net nominal savings with an estimated present value of \$4.7 million

### **Other Benefit**

This action would be viewed conservative by rating agencies, as it reduces long term higher cost liability with current year budget surplus.

## **Cash Funding of \$150,050,000 of the Amount Authorized for General Obligation Bonds**

### **Draft Appropriation Language**

The draft language is too extensive to place in this summary- please see attachment following this page.

### **Explanation**

In 2008 the voters approved a \$315,050,000 general obligation bond issue of the State to fund transportation projects. In April 2009 the State Bond Committee issued \$165,000,000 of bonds to fund the first three years of cash flow requirement for the projects. This appropriation would allow the State Bond Committee to avoid issuing the remaining \$150,050,000 in 20 year general obligation bonds. The \$150,050,000 would be held by the State Bond Committee until the 2009 bond proceeds are fully expended and then drawn upon to fulfill the funding requirements of the approved projects. This is extremely unusual to use cash to fund approved general obligation projects, and it has not happened at any point in the State's history. It is believed that this action will be viewed by external parties as an extremely conservative management approach, reinforcing the State of Alaska's history of harboring excess current year revenue for anticipated long term need.

### **Projected Savings**

\$11.0 million per year from 2013 to 2032

\$70 million in net nominal savings with an estimated present value of \$35.0 million

### **Other Benefit**

This action would be viewed as conservative by rating agencies, as it reduces long term liability with current year budget surplus.