

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version: HB 101
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB101-DOR-TRS-3-23-15
Title: MUNI BOND BANK LOANS TO REG HEALTH
 ORGS
Sponsor: HERRON
Requester: House Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2016 Request	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES	FY 2016	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Services							
Travel		15.0	15.0				
Services		250.0	250.0	2.0	2.0	2.0	2.0
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	265.0	265.0	2.0	2.0	2.0	2.0

Fund Source (Operating Only)

1108 Stat Desig		265.0	265.0	2.0	2.0	2.0	2.0
Total	0.0	265.0	265.0	2.0	2.0	2.0	2.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2015) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Prepared By: <u>Deven Mitchell, Executive Director</u>	Phone: <u>(907)465-3750</u>
Division: <u>Alaska Municipal Bond Bank Authority</u>	Date: <u>03/23/2015 08:00 AM</u>
Approved By: <u>Jerry Burnett, Deputy Commissioner</u>	Date: <u>03/23/15</u>
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

BILL NO. HB 101

Analysis

HB 101 authorizes the Alaska Municipal Bond Bank Authority (Bond Bank) to consider making loans to regional health organizations. This will be the first time that the Bond Bank will have been authorized to lend money to an entity that is not a political subdivision of the State. The Bond Bank's participation in these loans would be expected to save significant amounts of interest expense for the regional health organizations. In the current market the benefit would be expected to be an interest rate reduction of 3-5 percent from existing financing alternatives. Assuming an interest rate reduction of just 3% results in nominal savings of approximately \$100 million from reduced interest expense on \$250 million of financing over a 20 year level debt service bond issue. To the extent bonds are issued based on this legislation, they will be moral obligations of the State of Alaska. In the event of a default by a regional health consortium that participates in this authorization the State of Alaska would be asked to provide for that debt service, and if the State failed to act on that request a loss of market access, investor confidence and current credit rating would be expected.

The bill creates a requirement that the Commissioner of The Department of Health and Social Services anticipates a state financial benefit and increase in the regional quality of care for a regional health organization loan request to be considered by the Bond Bank. This provision will require external state analysis of any proposed project and recognition of both financial and health care benefit to Alaska.

The bill creates a new Bond Bank lending limit in the principal amount of not to exceed \$250 million to regional health consortiums. This is a new potential lending program of the Bond Bank, it is important to limit the exposure of the State until there has been an opportunity to gain history and work through the inevitable details of the program.

Bond Bank costs were derived by assuming that \$125 million of bonds would be issued based on this authorization in FY 2016 and \$125 million in FY 2017. The Bond Bank anticipates incurring travel costs of up to \$15 thousand in FY 2016 and 2017. As the program is developed the Board may meet in potential borrower communities to gain a better understanding of the nature of the project. There will also be a need to travel to meet with rating analysts, potential investors, and finance team members in the development of the program. Professional services of up to \$250 thousand will be incurred in FY 2016 and 2017 as bond are issued. the services will include fees to bond counsel, independent registered municipal advisor, rating agencies, preliminary and final official statement production, and investor presentation forum costs. The residual service cost of \$2 thousand per year in 2018 to final maturity of bonds are trustee/paying agent fees for servicing the debt.

All costs incurred associated with the issuance of the bonds will be charged to the regional health organizations and paid from the proceeds of the bond issues of the regional health organizations.

If project financings are more rapid than anticipated or slower, the associated costs will flow to earlier or later years as they are 100% driven by bond issuance activity.