

Fiscal Note

State of Alaska
2022 Legislative Session

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|---------------------|-----------|
| Bill Version: | SB 166 |
| Fiscal Note Number: | 1 |
| (S) Publish Date: | 1/18/2022 |

Identifier: LL0543-DOR-TSY-1-13-22
Title: G.O. BONDS FOR INFRASTRUCTURE
PROJECTS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

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)

| | FY2023 Appropriation Requested | Included in Governor's FY2023 Request | Out-Year Cost Estimates | | | | |
|------------------------|--------------------------------------|--|-------------------------|-----------------|-----------------|-----------------|-----------------|
| OPERATING EXPENDITURES | FY 2023 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 |
| Personal Services | | | | | | | |
| Travel | 20.0 | | | | | | |
| Services | 1,605.0 | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | 20,664.2 | 20,665.3 | 20,663.9 | 20,662.0 | 20,666.7 |
| Total Operating | 1,625.0 | 0.0 | 20,664.2 | 20,665.3 | 20,663.9 | 20,662.0 | 20,666.7 |

Fund Source (Operating Only)

| | | | | | | | |
|------------------------|----------------|------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1004 Gen Fund (UGF) | | | 20,664.2 | 20,665.3 | 20,663.9 | 20,662.0 | 20,666.7 |
| 1008 G/O Bonds (Other) | 1,625.0 | | | | | | |
| Total | 1,625.0 | 0.0 | 20,664.2 | 20,665.3 | 20,663.9 | 20,662.0 | 20,666.7 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

Change in Revenues

| | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimated SUPPLEMENTAL (FY2022) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2023) cost: 0.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? Yes
(Supplemental/Capital/New Fund - 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? N/A

Why this fiscal note differs from previous version/comments:

Initial version.

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Approved By: Brian Fechter, Deputy Commissioner
Agency: Department of Revenue

Phone: (907)465-3750
Date: 01/13/2022 10:00 AM
Date: 01/13/22

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2022 LEGISLATIVE SESSION

Analysis

The bill authorizes the issuance of a total of \$325,175,000 of general obligation bonds of the State of Alaska of which \$302,286,585 is for project costs and up to \$1,625,000 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 by the Legislature, Alaska voters would consider the proposition in the November general election in 2022. If approved by voters, the bond issuance process would take at least several months with an expectation of bonds being issued and proceeds of bonds placed in the fund created by the 2022 act in January 2023. This timing allows for a first interest period on the bonds of approximately 8 months, known as a "long coupon" without any expected interest rate impact and first debt service on the bonds to fall in fiscal year 2024.

The projects authorized in the current version of the bill include a number of the projects that benefit private business activity which may require these bonds to be subject to the Alternative Minimum Tax or potentially taxable. The final determination on these tax matters will not be made until the projects are finalized and the State's bond counsel and tax specialist has an opportunity to evaluate each project and make a determination. These matters will likely result in the need for multiple series of bonds with alignment of expenditure of proceeds from the identified authorized project. To the extent projects are not tax-exempt eligible the annual debt payments on the bonds will increase to Alternative Minimum Tax (approximately 1/3 of a percentage point higher) or taxable rates (approximately 1.2 percentage points higher). Two key limits associated with tax-exempt bond issues are that an issuer must be able to track all funds, including any investment earnings on unspent proceeds, 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 will require careful state oversight of the proposed municipal projects and potentially require additional bond issues to accommodate projects with longer cash outflow expectation. Due to uncertainty on these matters and the difficulty in simulating multiple bond issues with various amortizations and tax statuses this fiscal note assumes a single bond sale that would close in October or November 2022.

The current rate for a 20-year level amortization of Alaska general obligation bonds remain low with a 2.50% interest rate for tax exempt bonds.

The costs associated with issuing bonds include rating agencies, bond counsel attorneys, financial advisors, marketing and disclosure services, administrative, trustee/paying agent, and printing/internet posting. It is estimated that these costs will be no more than .05% of the bonds issued, or a total of up to \$1,625,000 for the anticipated bond issuance. The bonds will be sold on a competitive basis where underwriters provide bids on a declared date and time and the basis of award is the proposal with the lowest yield/true interest rate that conforms to the bidding specifications. The yield/true interest cost calculation includes an underwriter's discount that is retained by the underwriting firm to facilitate the sale of the bonds. The state is indifferent to the underwriter's discount being high or low in comparison to other bids as it is the yield/true interest cost that determines the winning bid. Therefore, the underwriter's discount will not be included as a cost of issuing the bonds.