FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version	**HB286**
Fiscal Note Number	
() Publish Date	

Identifier (file name)	HB286-DOR-TRS-1-31-12	Dept. Affected	Revenue
Title	Port General Obligation Bonds	Appropriation	Treasury and Taxation
		Allocation	Treasury Division
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	880.0		1,145.0		880.0		
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous			7,400.0	19,900.0	19,900.0	28,100.0	28,100.0
TOTAL OPERATING	**900.0**	**0.0**	**8,565.0**	**19,900.0**	**20,800.0**	**28,100.0**	**28,100.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	900.0		8,565.0	19,900.0	20,800.0	28,100.0	28,100.0
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		**900.0**	**0.0**	**8,565.0**	**19,900.0**	**20,800.0**	**28,100.0**	**28,100.0**

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

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)

Initial note.

Prepared by	Deven Mitchell, Debt Manager	Phone	907-465-3750
Division	Treasury Division	Date/Time	1/31/12 1:00 PM
Approved by	Angela Rodell, Deputy Commissioner	Date	1/31/2012
	Department of Revenue		

(Revised 1/17/2012 OMB)

FISCAL NOTE

STATE OF ALASKA **BILL NO.** HB286
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Analysis

The bill authorizes the issuance of $350 million of general obligation bonds of the State of Alaska. 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 purposed six bond issues are assumed with three sale dates staggered over three years beginning with an initial issuance in February 2013 of $100 million followed by a 2014 issuance of $150 million and a 2016 issuance of the final $100 million. The initial bond issues would be sized based on anticipated cash-flow with subsequent issues adjusted to actual cash flow.

The first two series of $100 million in bonds would be issued in February 2013. 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 for a blended rate of 2.61%. The series of bonds would be structured to amortize AMT bonds first and then tax exempt and at current rates results in annual debt service of approximately $6.5 million beginning in FY 2014 for the $100 million. This 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 $7,400,000. 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 $100 million in February 2016 with estimated annual debt service of $8.2 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 .85% of the bonds issued, or a total of up to $2,965,000 for the anticipated six series of bonds on three issue dates.