

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 498(FIN)
 (H) Publish Date: 4/22/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Whittier Private Prison BRU Revenue Operations
 Component Treasury Division
 Sponsor House Finance Committee
 Requester House Finance Committee Component No. 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel		15.0				
Contractual		380.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service			1,712.1	1,710.1	1,711.1	1,712.3
TOTAL OPERATING	0.0	395.0	1,712.1	1,710.1	1,711.1	1,712.3

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		15.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond Proceeds		380.0	1,712.1	1,710.1	1,711.1	1,712.3
TOTAL	0.0	395.0	1,712.1	1,710.1	1,711.1	1,712.3

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Deven Mitchell, State Debt Manager Phone 465-3750
 Division Treasury Division Date/Time 4/17/02 3:49 PM
 Approved by: Larry Persily, Deputy Commissioner Date 4/17/2002
 Agency Department of Revenue

ANALYSIS CONTINUATION

This legislation authorizes the Department of Corrections to enter into an agreement with the City of Whittier for the purposes of acquiring correctional facility space and services to house state prisoners. The Finance Committee substitute also allows that if such a facility is started in Whittier, the Department of Administration may also enter into a lease-financing agreement for a 96-bed expansion of the Yukon-Kuskokwim Correctional Center in Bethel.

CITY OF WHITTIER

The agreement would be for a minimum of 25 years and provide at least 1,000 prison beds. The lease must provide for an agreement between the City of Whittier and one or more private, third-party contractors to construct and operate the facility. The legislation provides no requirement that tax-exempt financing be used for the facility, no maximum lease term, no maximum annual lease payment amount, and no maximum project size in dollars or number of prisoners to be housed at the facility.

Although there is no specific provision in this legislation for the State Bond Committee to participate in structuring the financing, the Department of Revenue anticipates working with the City of Whittier to obtain the most favorable financing terms for the state -- as the state's lease payments will be security for any bonds sold by the municipality. The state's credit must be represented, as the pledge that will be given to bond investors is that the state will make annual payments under the agreement entered into by the Department of Corrections. This "credit trail" quickly leads investors to the fact that the likelihood of repayment or credit risk involved with this transaction hinges on the appropriation of state general fund dollars. The foundation upon which the state has built its good credit rating has been the centralized control of the state's credit through the State Bond Committee, and the Bond Committee's involvement in this issuance is important to maintaining that credit strength. This position is further strengthened by the fact that the City of Whittier has no bonds currently outstanding, and has limited local resources available to develop this complex transaction. The State Bond Committee, and contractors of the Bond Committee, would work with the City of Whittier to structure and market the transaction. The anticipated travel costs in the fiscal note would be paid from the state general fund, with the additional \$50,000 to \$80,000 in contractual costs to be paid from bond proceeds of the transaction.

YUKON-KUSKOKWIM CORRECTIONAL FACILITY

The legislation also authorizes the issuance of up to \$17,895,000, plus costs of issuance, in certificates of participation (COPs) for the facility expansion in Bethel. The total estimated issuance amount authorized in this legislation is \$19,000,000. However, the numbers in this fiscal note are based on the assumption that the total issuance amount (project and cost of issuance) would be just \$17,895,000, which is what the departments of Revenue and Corrections estimate would be needed for the project. As these bonds would be sold using the competitive method of sale, the cost-of-issuance estimates do not include the underwriter's discount or bond insurance. Assuming an issuance October 2002, an interest rate of 4.7%, and a 15-year term, the annual debt service would be approximately \$1.7 million per year on a \$17,895,000 issuance. If the full \$19 million was issued under the same terms, annual debt service would be \$1.8 million.