

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SB 231
 (S) Publish Date: 3/22/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Correctional Facility Expansion BRU Revenue Operations
 Component Treasury Division
 Sponsor Senator Green
 Requester Community & Regional Affairs 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	5.0				
Contractual	75.0	25.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	90.0	30.0	0.0	0.0	0.0	0.0

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	5.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond Proceeds	75.0	25.0				
TOTAL	90.0	30.0	0.0	0.0	0.0	0.0

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)

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 Division: Treasury Division Date/Time 3/20/02 9:40 AM
 Approved by: Larry Persily, Deputy Commissioner Date 3/20/2002
 Agency: Department of Revenue

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ANALYSIS CONTINUATION

The legislation authorizes the Department of Corrections to enter into leases with seven municipalities for new or expanded correctional facilities. The municipalities would fund these projects by issuing lease-revenue bonds. These bonds would require the municipalities to pledge the state's lease payments, to the extent they are appropriated, and provide a trustee bank with a title interest in the new or improved facility for the benefit of the bond purchasers. Although this legislation does not explicitly refer to the Department of Revenue, the department should be involved in the transaction as the state's credit is used each time a state lease payment is directly pledged to a bond sale. The state has made a concerted effort over the past 20 years to centralize the issuance of debt involving the state's credit through the State Bond Committee. It is noteworthy that in the case of the Anchorage jail -- the last time the legislature authorized a lease-revenue transaction -- the State Bond Committee approved the Municipality of Anchorage's transaction documents and terms of sale. The national bond rating agencies review and rate these transactions, and a lack of direct state involvement would draw concern during the state's annual ratings review.

In providing the cost estimates in this fiscal note, the following assumptions were made:

1. The municipalities will issue bonds in early FY 2003.
2. The municipalities will have to issue these bonds separately.
3. As state-supported appropriation debt, the bonds will be rated A1, A+ and A+, resulting in interest rates comparable to other state-supported COPs
4. The bonds will have 15-year terms.
5. The municipalities will issue the maximum amount authorized under this legislation (\$176,080,000) for projects, plus the cost of issuing these bonds (while there is no limitation, these costs are estimated at \$2,900,000).

The legislation requires at least one bond sale from each of the seven municipalities listed. This is an inefficient way to raise funds for these projects, as each transaction will have fixed costs of issuance. Rating agency, bond counsel, financial advisory, printing and other fees will be incurred seven times rather than one. This results in the bonds costing an estimated \$1 million to \$2 million more than other financing alternatives.

Due to the State Bond Committee's role in these transactions, the state's bond counsel and financial adviser will have to participate in drafting the legal documents, structuring the transaction, and working with the rating agencies for each of the bond sales. The cost of this effort is estimated at \$120,000 over fiscal years 2003 and 2004.

One technical issue with the legislation is the Spring Creek facility expansion. The legislation would authorize the City of Seward to sell bonds for an expansion of the Spring Creek prison. However, Spring Creek currently has certificates of participation outstanding and a title interest in the facility has already been given to the purchasers of these bonds. Similar to a home, you cannot give another first lien pledge to this facility without either paying off the existing obligations or obtaining consent from the bondholders (a very difficult proposition). Under the existing indenture, the City of Seward could not assume ownership of the Spring Creek facility or part of the facility.