

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSSSHB 55(STA)
 (H) Publish Date: 4/11/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Correctional Facilities BRU Revenue Operations
 Component Treasury Division
 Sponsor Representative Hawker
 Requester House State Affairs Component No. 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel	15.0	5.0				
Contractual	75.0	40.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	90.0	45.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	90.0	45.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	90.0	45.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would authorize the Department of Corrections to enter into an agreement with the City of Whittier for the purposes of acquiring correctional facility space and services for at least 1,200 state prisoners.

The legislation also would authorize the Department of Corrections to enter into agreements for expanded state prison facilities leased from the Fairbanks North Star Borough, the Matanuska-Susitna Borough, the City of Bethel and City of Seward for a total of 453 additional beds for state prisoners.

See attached page for further discussion.

Prepared by: Deven Mitchell, State Debt Manager Phone 465-3750
 Division Treasury Division Date/Time 3/11/03 6:33 PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/11/2003
 Agency Department of Revenue

FISCAL NOTE #2

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSSSHB 55(STA)

ANALYSIS CONTINUATION

The legislation authorizes the Department of Corrections to enter into leases with the City of Whittier for at least 1,200 prison beds (and services for the facility), and four municipalities for expanded correctional facilities to be leased by the state (Fairbanks North Star Borough, 100 beds; Matanuska-Susitna Borough, 107 beds; City of Bethel, 96 beds; and City of Seward, 150 beds). 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 debt service, 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. This is a matter concerning the Department of Revenue as the credit of the State of Alaska is used each time a lease is directly pledged to a bond sale and, as such, the Department should be involved in the debt issuance.

Over the past 20 years the state has made a concerted effort to centralize the issuance of debt involving the state's credit through the State Bond Committee. It is noteworthy that the Anchorage jail, which is the most recent instance when the Legislature authorized a lease-revenue transaction, was approved by the State Bond Committee, including all of the Municipality of Anchorage's transaction documents and terms of sale. The national bond rating agencies' primary contact during the review of the Anchorage Jail Revenue Bonds was the State of Alaska Department of Revenue. These bond rating agencies review and rate almost all transactions of the state, and a lack of direct state involvement will 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 FY2004 and FY2005.
2. The municipalities will bring no pledge of additional security to the financing(s), other than the state's credit and bond sale proceeds.
3. The municipalities will have to issue these bonds separately.
4. As state-supported appropriation debt, the bonds will be rated A1, A+, A+, resulting in interest rates comparable to other state-supported certificates of participation.
5. The bonds will have 15-year terms, with fixed-interest rates and level debt service.
6. The municipalities will issue the maximum amount authorized under this legislation (\$218,400,000) for the projects, plus the cost of issuing these bonds (while there is no limitation, these costs are estimated at \$4,368,000).*

The legislation requires at least one bond sale from each of the municipalities listed. This is an inefficient way to raise funds for projects as each transaction will have fixed costs of issuance. Rating agency, bond counsel, financial advisory, printing and other fees will be incurred four times rather than once. This results in bond issuance costs totalling an estimated \$1 million to \$2 million more than alternative structuring 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 \$135,000 over FY 2004 and 2005.

** If bond issuance costs are examined, there needs to be a discussion of the type of sale contemplated -- since issuance costs are ascribed differently with a negotiated sale of securities than with a competitive sale.*