

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 561(FIN)
 (H) Publish Date: 5/4/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title G.O. Bonds for Transportation RDU Revenue Programs & Services
Projects Component Treasury Management
 Sponsor House Finance
 Requester House Finance Component No. 121

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service	5.0	72.0	72.0	72.0	72.0	72.0
TOTAL OPERATING	5.0	72.0	72.0	72.0	72.0	72.0

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	0.0	72.0	72.0	72.0	72.0	72.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
GO Bond Proceeds	5.0					
TOTAL	5.0	72.0	72.0	72.0	72.0	72.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Authorizes the issuance of \$1 million in general obligation bonds to pay for state transportation projects.

If the bill is passed by the legislature the proposal would be included on the ballot for voter authorization in the fall of 2004. Assuming voter approval the entire authorization of bonds would be issued in the spring of 2005. However, the State Bond Committee would determine the actual timing, amount, and term of the bond sales based on project demand, market conditions and the state fiscal outlook. HB561 provides that \$5.0 will be appropriated from the general fund of the state to pay the costs of issuing the bonds including rating agency, printing, public notice, travel, financial advisor, and bond counsel fees. Therefore that amount is shown in this fiscal note. Fiscal notes for GO bonds typically

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 Agency Department of Revenue

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ANALYSIS CONTINUATION

provide for issuance costs of 2% of the amount of bonds to be issued. Issuance costs can be significantly less than that percentage depending on the amount issued. However, GO bond issuance does have fixed costs such as the costs of purchasing ratings from 3 rating agencies and the cost of the Internet service that provides the auction.

This fiscal note assumes level debt service, a 20-year final maturity, and a true interest cost of 3.75%. Interest rates will change between the date of this fiscal note and any date that bonds might be issued. In order to illustrate sensitivity to interest rates; if the true interest cost increased to 4.00%, the annual debt service would increase to \$73.6 from the \$72.0 shown.

These bonds would be sold on a competitive basis with the bonds being awarded to the bidder offering the lowest true interest cost. The bidder would be given the option of purchasing bond insurance.

The interest rates in this fiscal note require the maintenance of the State's credit ratings through this additional bonds issuance, a possible but perhaps unlikely scenario absent a demonstrable additional revenue source in place prior to issuance. The State is currently on negative outlook from Moody's Investors Service. Standard and Poor's and Fitch Services have indicated mid-term concern related to the disparity between ongoing recurring revenues and expenditures, and the continuing and projected depletion of the State's short term reserves. If no steps had been taken to balance recurring revenues with expenditures by the time these bonds were issued, it is likely that the cost of capital would increase for all issuers of Alaska public debt when the state credit ratings were downgraded by at least one of the agencies.