

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: SB 99
 (S) Publish Date: 3/17/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Correctional Facilities BRU Revenue Operations
 Component Treasury Division
 Sponsor Senator Bunde
 Requester Senate State Affairs Committee 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 | 5.0 | | | | | |
| Contractual | 30.0 | | | | | |
| Supplies | | | | | | |
| Equipment | | | | | | |
| Land & Structures | | | | | | |
| Grants & Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 35.0 | 0.0 | 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 | 35.0 | | | | | |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 35.0 | 0.0 | 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 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 for state prisoners. 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 \$30,000 in FY2004.

See attached page for additional discussion.

Prepared by: Deven Mitchell, State Debt Manager Phone 465-3750
 Division: Treasury Division Date/Time 3/7/03 4:57 PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/7/2003
 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 for state prisoners.

The agreement for the correctional facility and services would be for a minimum of 25 years and provide at least 1,200 prison beds. The lease shall have a capital component to pay for the facility and an operating component to pay for the cost of the City of Whittier to contract with private, third-party contractors to operate the facility for consecutive periods of five years. The legislation provides no requirement that tax-exempt financing be used for the facility, no maximum lease term, and no maximum project size in dollars or number of prisoners to be housed at the facility. The only security for bonds issued will be the pledge of State of Alaska's lease payments. This is a matter of concern to 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 anticipates involvement 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 last time 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's 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. To the extent that the state's credit is insufficiently represented, or the pledge of the state is perceptually weakened by funneling through political subdivisions of the state, the cost of capital will increase on the project, with the result being increased cost to the state. In addition, any negative event that occurs with this financing will have the potential to lower the state's credit rating on other bonds and increase the cost of future projects.

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

1. The City of Whittier will issue bonds in FY 2004
2. The City of Whittier will issue one series of bonds in an unidentified amount sufficient to build the correctional facility.
3. The required minimum term of 25 years for the bonds will result in a credit rating below the A1, A+, A+ that the state has achieved on other state-supported appropriation debt.