FISCAL NOTE

STATE OF ALASKA
2004 SPECIAL SESSION

Fiscal Note Number: 1
Bill Version: SB 1005
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction):
Title: General Obligation Bonds for State Transportation Projects
Sponsor: Rules Committee
Requester: Governor Murkowski

Dept. Affected: Revenue
RDU: Revenue Programs & Services
Component: Treasury Management
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	381.9	49.9	34.0	24.0	9.0	6.0
Supplies	.					
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		7,552.9	7,553.7	7,555.0	7,556.0	7,556.3
TOTAL OPERATING	**381.9**	**7,602.8**	**7,587.7**	**7,579.0**	**7,565.0**	**7,562.3**

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	381.9	7,602.8	7,587.7	7,579.0	7,565.0	7,562.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**381.9**	**7,602.8**	**7,587.7**	**7,579.0**	**7,565.0**	**7,562.3**

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 $77.1 million in general obligation bonds to pay for state transportation capital improvement 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 and market conditions. In FY '05 up to $381.9 will be appropriated from the general fund of the state to forward fund the costs of issuing the bonds including rating agency, printing, public notice, travel, financial advisor, and bond counsel fees. In FY '06 and following the contractual charges are for money management fees and paying agent fees. The general fund will be reimbursed from bond proceeds following the bond sale.

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Division: Treasury Division — Date/Time 6/21/2004/3:13 PM

Approved by: Tom Boutin, Deputy Commissioner — Date 6/21/2004
Agency: Department of Revenue

(Revised 12/2003 OMB)

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ANALYSIS CONTINUATION

However if state general obligation bonds for other purposes (such as University projects) were approved at the same time, issuance of all bonds would likely take place at one time. In that instance, issuance costs would be largely combined. However, this fiscal note must contemplate issuance of only these bonds in order to provide for issuance costs in the event only this authorization is approved.

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. This structure almost always results in a net bond premium. The bonds would be remarketed, with the premium used to pay the underwriter's sales force and expenses.

Assuming an interest rate of 5.25% (approximately 50 basis points higher than current rates) and a 15 year term, level annual debt service would be approximately $7.5 million per year beginning in FY 2006. With current interest rates, annual debt service would be reduced to $7.3 million.

The interest rates in this fiscal note require the maintenance of the State's credit ratings through this additional bonds issuance, a probable scenario since adoption of a fiscal plan would be concurrent with voter approval of this bond authorization. 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.