

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version:	CSSB 46(FIN)
Fiscal Note Number:	2
(S) Publish Date:	4/15/2015

Identifier: SB046-DOR-TRS-4-15-15
 Title: MUNI BOND BANK LOANS TO REG HEALTH ORGS
 Sponsor: HOFFMAN
 Requester: Senate Finance

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Treasury Division
 OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2016 Request	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES	FY 2016	FY 2016					
Personal Services							
Travel	15.0		5.0	5.0	5.0	5.0	5.0
Services	315.0		100.0	100.0	100.0	100.0	100.0
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	330.0	0.0	105.0	105.0	105.0	105.0	105.0

Fund Source (Operating Only)

1108 Stat Desig	330.0		105.0	105.0	105.0	105.0	105.0
Total	330.0	0.0	105.0	105.0	105.0	105.0	105.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2015) cost: 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

CS added Joint Action Agencies (JAA) as authorized borrowers and diminished any regional health corporation (RHO) borrowing to 49% of the total project cost and \$102,500,000 for a single project. The addition of the JAA authority is expected to have minimal impact on the Bond Bank's costs. As the Bond Bank pools loans, and the only JAA loan that is known at this time is \$9 million in size, which results in an estimated incremental cost on a \$100 million bond issue of \$15,000. The amendment in 44.85.090 will lower initial borrowing expectation and extend that borrowing out over a number of years. Based on known borrowers it is anticipated that \$102.5 million would be issued in FY 2016 followed by annual borrowing of up to \$25 million per fiscal year through 2021

Prepared By: Deven Mitchell, Executive Director
 Division: Alaska Municipal Bond Bank Authority
 Approved By: Jerry Burnett, Deputy Commissioner
 Agency: Department of Revenue

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FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

SB 46 authorizes the Alaska Municipal Bond Bank Authority (Bond Bank) to consider making loans to regional health organizations. This will be the first time that the Bond Bank will have been authorized to lend money to an entity that is not a political subdivision of the State. The Bond Bank's participation in these loans would be expected to save significant amounts of interest expense for the regional health organizations. In the current market the benefit would be expected to be an interest rate reduction of 3-5 percent from existing financing alternatives. Assuming an interest rate reduction of just 3% results in nominal savings of approximately \$40 million from reduced interest expense on \$102.5 million of financing over a 20 year level debt service bond issue. To the extent bonds are issued based on this legislation, they will be moral obligations of the State of Alaska. In the event of a default by a regional health consortium that participates in this authorization the State of Alaska would be asked to provide for that debt service, and if the State failed to act on that request a loss of market access, investor confidence and current credit rating would be expected.

The bill creates a requirement that the Commissioner of The Department of Health and Social Services anticipates a state financial benefit and increase in the regional quality of care for a regional health organization loan request to be considered by the Bond Bank. This provision will require external state analysis of any proposed project and recognition of both financial and health care benefit to Alaska.

The bill creates a new Bond Bank lending limit in the principal amount of not to exceed \$205 million in total loans to regional health consortiums, up to 49% funding of any single project as long as the balance of the project is fully funded, and no more than \$102.5 million of funding for any single project. This is a new potential lending program of the Bond Bank and it is important to limit the exposure of the State until there has been an opportunity to gain history and work through the inevitable details of the program.

Bond Bank costs were derived by assuming that \$102.5 million of bonds would be issued based on this authorization for RHOs in FY 2016 followed by up to \$25 million per year in FY 2017 through 2021. The Bond Bank further assumes a JAA participation in a Bond Bank bond issue in FY 2016 of up to \$10 million. The Bond Bank anticipates incurring travel costs of up to \$15 thousand in FY 2016 and then up to \$5 thousand from 2017 through 2021. As the RHO program is developed the Board may meet in potential borrower communities to gain a better understanding of the nature of the project. There will also be a need to travel to meet with rating analysts, potential investors, and finance team members in the development of the RHO program. Professional services of up to \$330 thousand will be incurred in FY 2016 and up to \$100,005 from 2017 through 2021 as bond are issued. This amount includes an estimate of \$125,000 for a surety policy to meet the reserve requirement for each of the two anticipated bond issues. The additional services will include fees to bond counsel, independent registered municipal advisor, rating agencies, preliminary and final official statement production, and investor presentation forum costs. The residual service cost of \$2 thousand per year in 2018 to final maturity of bonds are trustee/paying agent fees for servicing the debt.

All costs incurred associated with the issuance of the bonds will be charged to the regional health organizations and paid from the proceeds of the bond issues of the regional health organizations.

If project financings are more rapid than anticipated or slower, the associated costs will flow to earlier or later years as they are 100% driven by bond issuance activity.