

SB

1004

SFIN

FILE

SB 1004

was referred to the
Senate Finance
Committee

Hearing(s) were held

The bill did not move
from Committee

FISCAL NOTE

STATE OF ALASKA
2004 SPECIAL SESSION

Fiscal Note Number: 1
Bill Version: SB 1004
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title General Obligation Bonds for RDU Revenue Programs Services
University Projects Component Treasury Management
Sponsor Rules Committee
Requester Governor Murkowski 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	205.0	30.0	21.0	16.0	8.0	6.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		3,850.9	3,850.9	3,850.9	3,850.9	3,850.9
TOTAL OPERATING	205.0	3,880.9	3,871.9	3,866.9	3,858.9	3,856.9

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	205.0	3,880.9	3,871.9	3,866.9	3,858.9	3,856.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	205.0	3,880.9	3,871.9	3,866.9	3,858.9	3,856.9

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 \$39.3 million in general obligation bonds to pay for cost of design, construction, and major maintenance of University of Alaska facilities.

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 \$205.0 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 fund bond proceeds following the bond sale.

Prepared by: Deven Mitchell, State Debt Manager Phone 465-3750
Division: Treasury Division Date/Time 6/21/2004/3 21 PM
Approved by: Tom Boutin, Deputy Commissioner Date 6/21/2004
Agency: Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2004 SPECIAL SESSION

BILL NO. SB 1004

ANALYSIS CONTINUATION

However if state general obligation bonds for other purposes (such as Transportation 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 \$3.9 million per year beginning in FY 2006. With current interest rates, annual debt service would be reduced to \$3.7 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.

BILL ANALYSIS
DEPARTMENT OF REVENUE

Section 1: Pledges the full faith, credit and resources of the state for payment of principal, interest and premium of not more than \$39,304,000 of bonded debt as allowed by Art. IX, Section 8, of the Constitution provided that a majority of the qualified voters voting on the question must approve the debt unless the purpose is repelling invasion, suppressing insurrection, defending in war, or meeting natural disasters. Refinancing pre-statehood debt is also an exception to the voter requirement but there is no longer any pre-statehood debt outstanding. Section 1 also requires issuance in accord with AS 37.15 which directs terms and procedures for debt issuance.

Section 2: Establishes a fund to receive the bond proceeds. Provided the bonds are issued as tax-exempt bonds under the Internal Revenue Code, the Code requires that proceeds must be kept in this state fund until spent, and that earnings of this fund be subject to rebate of arbitrage earnings to the IRS.

Section 3. Lists the public projects to be funded with bond proceeds. All of the projects are University of Alaska projects.

Section 4. Provides that up to \$400,000 is appropriated for issuance costs, and to be reimbursed from bond proceeds. A breakdown and explanation of estimated issuance costs can be provided by the Department of Revenue/State Bond Committee.

It's worth noting that if both bond bills passed, and if all bonds were issued at one time, the issuance costs would aggregate to less than \$400,000 for all bonds, and the issuance costs would be only incrementally more for all bonds than they would be for only one issue. However this language is necessary to provide for an instance where only one bond issue was approved and an instance where all bonds were not issued at one time.

Section 5. Provided the bonds are issued as tax-exempt bonds, so long as some bond proceeds are unspent they must be invested, and the investment earnings are subject to rebate of arbitrage earnings to the IRS. This section provides for investment costs and the cost of complying with arbitrage requirements provided the funds are appropriated.

Section 6. Provides for reimbursement of planning costs from bond proceeds once bonds are issued.

Section 7. Allows the any bond proceeds not needed for project completion to be used to redeem bonds. If there are bond proceeds not needed for project completion and all bonds have been redeemed, the amount can be used to reimburse the general fund for debt service paid on the bonds.

Section 8. States the question to be asked of voters in the next general election so far as whether the general obligation is approved for these projects in the amount of \$39,304,000.

Proposed University of Alaska G.O. Bond Projects

1. Integrated Science Facility (Anchorage) \$9,500,000

Design and construction of a new Integrated Science Facility, which incorporates the existing science facility into expanded instructional, student, and administrative space. The project is in response to a critical shortage of fundamental core science, instructional, and laboratory space. Current facilities are insufficient and inadequate to meet the current demand of 450 science majors and 4,000 non-majors each semester. The new facility will feature state-of-the-art science academic labs and technology associated with distance delivery. The facility will be designed to incorporate program growth in integrated sciences, including integrated science instruction for majors and non-majors, environmental studies and systems research, biomedical research, and complex system studies to prepare students to meet the employment needs of the State of Alaska.

2. School of Fisheries and Ocean Science Research Facility Design and Construction (Juneau) \$7,000,000

Located at Lena Point, the facility will provide long-term support for the School of Fisheries and Ocean Sciences and its academic and research mission. The facility is a three-story building consisting of approximately 41,500 square feet and programmed to provide space for 14 faculty members and their associated research assistants and graduate students. The academic space consists of two classrooms, one teaching lab, and a seminar room with a capacity for 120 people. The research space consists of 19 laboratories for a multitude of scientific disciplines, which range from computer labs for statistical analysis to wet labs with large salt-water tanks.

3. Biological and Computational Sciences Research Facility Design and Construction (Fairbanks) \$12,000,000

The Biological and Computational Sciences Facility will provide instructional and research lab space for Biology and Computational Science programs, the State of Alaska Virology Labs, and affiliated classrooms and offices. The Arctic Region Super Computer staff will also reside in this new facility. Phase I of the project, funded by the passage of the 2002 GO Bond, includes construction of the utilidor; a new Central Animal Facility (CAF) with provisions for an incinerator and necropsy lab; relocation of three existing structures on the proposed CAF site; and revised BICS programming/concept design. Phases II through IV in this request will complete the design, contract documents, construction, and build-out of the facility.

4. Safety Code and Americans with Disability Act Improvements (System-wide) \$2,941,000

Will fund crucial projects aligned with maintaining current operating effectiveness at the University of Alaska system. Projects will include code compliance, life health/safety renovations and repairs, as well as capital improvements dealing with Americans with Disabilities Act compliance.

- 5. Lucy Cuddy Center Renewal (Anchorage) \$1,000,000**

Will renew building infrastructure in a 30-year-old facility, which houses the Culinary Arts and Hospitality academic programs and is the dining venue for students, faculty, and staff on the west campus. Recent increases in student enrollment and changes in student dining plans have shifted dining patterns and increased utilization of the Cuddy facility dramatically. Upgrading the building to contemporary use will improve space efficiency, the ability to responding to growing student enrollment, and assist faculty in delivering cutting edge instruction. The Culinary Arts and Hospitality programs support major economic engines in the State of Alaska – hospitality and tourism.
- 6. Bristol Bay Classroom Expansion \$1,000,000**

Construction of an addition to the existing classroom facility, which will include new vocational instructional areas, administrative offices, registration and student support services, and an independent learning area.
- 7. Paul / Zeigler Classroom Renovation (Ketchikan) \$500,000**

Renovations include general building system upgrades; renovation and addition of classrooms for the dynamic and expanding curriculum offerings; faculty offices; and common study space for students.
- 8. Sitka Campus Improvements \$250,000**

Construct area separations and install code complying mechanical, electrical, and fire systems in the open hangar area of the Sitka Campus facility. This area currently serves a number of uses that are incompatible under current building and life safety codes. Vocational programs for welding, construction, and small engines are interspersed in this single area without fire separations. Other uses such as general storage, art, vehicle parking, and fire exits also coexist in the hangar.
- 9. Tanana Valley Classroom improvements (Fairbanks) \$1,000,000**

Replaces the aged mechanical and electrical systems within the old Fairbanks Courthouse, upgrades the exterior envelope, and completes seismic corrections, as well as revitalizes the interior spaces to meet TVC's rapidly expanding program needs.
- 10. Hendrickson Remodel and Renovation (Juneau) \$1,213,000**

Renew and remodel the Hendrickson Building and the Hendrickson Annex to provide more effective use of the space, provide building code mandated toilet rooms and fire sprinklers, and replace or renew building systems and finishes.
- 11. Homer Campus New Facility Classroom Construction \$500,000**

Completion of the Kachemak Bay campus classroom facility, which was begun with funds from the 2004 GO Bond package.

12. Prince William Sound Facilities Classroom Construction (Valdez) \$1,000,000

Construction of a classroom/theatre/museum addition to the existing PWSCC facility. Funds will supplement the 2002 General Obligation Bond package and allow the completion of the renovation of an existing facility as well as add classroom space and a theatre/museum complex in which a significant collection of Alaska historical artifacts will be housed.

13. Additional Rural Campus Needs \$1,000,000

Provide for the upgrade, renovation, and repair at rural campuses on an as-needed basis consistent with the Board of Regents on-going priorities to maintain rural campuses.

Total \$38,904,000