

SB

1005

SFIN

FILE

SB 1005

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 1005
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept Affected: Revenue
Title: General Obligation Bonds for RDU: Revenue Programs & Services
State Transportation 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	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						
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CHANGE IN REVENUES ()						
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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.

Prepared by: Deven Mitchell, State Debt Manager Phone: 465-3750
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

FISCAL NOTE #1

STATE OF ALASKA
2004 SPECIAL SESSION

BILL NO. SB 1005

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.

Proposed Surface Transportation G.O. Bond Package		<i>congestion</i> <i>resources/gasline</i> <i>supplement existing</i> <i>recondition</i> <i>new roads</i> <i>safety issue</i> <i>reduce cost to state</i>						
Project	Amount	Project Benefits						Description and scope of work
1 Anchorage - Abbott Loop Upgrade (Tudor Road to Abbott Road)	\$15,000,000	yes		yes				Supplements existing funding for a new roadway and bridges. Project was one of the November 2002 GO Bond Projects. The additional funding is needed to upgrade the intersection with Tudor Road and provide a project contingency. New alignment to be transferred to local ownership.
2 Anchorage - Lake Otis & Tudor Intersection Improvements	\$8,500,000	yes						Relieves congestion at one of the most congested intersections in the state. MOA has begun ROW acquisition with \$3 million of municipal funds.
3 Anchorage - Dowling Road East Extension	\$14,600,000	yes			yes			Extends Dowling Road east from Lake Otis to the new Abbott Loop Road. State traffic engineers believe that this project, combined with the ongoing Abbott Loop extension, will provide significant congestion relief on Lake Otis and at the Lake Otis and Tudor intersection. New alignment to be transferred to local ownership.
4 Fairbanks - Cowles Street and 21st Avenue Upgrade	\$1,200,000	yes			yes			Upgrades Cowles Street and 21st Avenue in the vicinity of the hospital. Project is needed to accommodate new traffic patterns resulting from hospital expansion. The total project budget is \$2,900,000 and FMATS anticipated to supplement project funds to achieve full scope.
5 Fairbanks - Van Horn Road - Cushman to Peger	\$6,100,000	yes	yes					Widens and upgrades the existing road, including shoulders, turn lanes, and other safety improvements. This road serves Fairbanks' primary industrial area and has a high volume of truck traffic.

Proposed Surface Transportation G.O. Bond Package			congestion	resources/gasoline	supplement existing	recondition	new roads	safety issue	reduce cost to state	
6	North Slope - Bullen Point Road EIS & Design	\$3,700,000		yes			yes			Enhances the economic viability of oil deposits located east of Prudhoe Bay on State land. The 50-60 mile road is from Prudhoe Bay east toward Pt. Thompson and ANWR.
7	Mat-Su - Bogard Road East Extension, EIS, design and ROW	\$6,600,000	yes				yes			Extends Bogard Road easterly to provide a new east-west route between Palmer and Wasilla and alleviate traffic problems on the Palmer Wasilla Highway. This is much less expensive than a major upgrade of the P-W Hwy. Requested funding will get the state through an EIS and ROW acquisition and get the project ready for STIP funding and construction. New and upgraded alignment to be transferred to local ownership
8	Kenai Peninsula - Area Road Paving	\$4,000,000						yes		Provides for a variety of road upgrade projects after which maintenance responsibility is to be transferred to the local government. If negotiations are not successful, the funds will be used to repave other state highways in the Kenai Peninsula area.
9	Aleknagik - Wood River Bridge Design	\$1,000,000				yes	yes			Connects Aleknagik with the Dillingham road system. Currently residents and school children cross the river by boat and snow machine with an average of one resident drowning each year due to an accident. The NEPA environmental assessment for this project has been recently completed and the department is waiting for funding. It is presently in the STIP as an potential earmark project estimated at \$12-14 million.
10	Sitka - Sawmill Creek Road	\$1,000,000		yes						Supplements existing funding from the 2002 GO Project which was not sufficient for full reconstruction of the roadway and paving.

Proposed Surface Transportation G.O. Bond Package			<i>congestion</i> <i>resources/gasline</i> <i>supplement existing</i> <i>recondition</i> <i>new roads</i> <i>safety issue</i> <i>reduce cost to state</i>							
11	Southeast Alaska Road Construction	\$8,000,000		yes			yes		yes	Will implement one or more of the road segments of the new Southeast Alaska Transportation Plan. The plan includes many new road segments connecting USFS roads that will increase community access and access to resources.
12	Yukon-Kuskokwim Rivers Transportation Corridors EIS & Design	\$2,000,000		yes			yes			Supplements other funding to examine and build a resource transportation corridor from the Kuskokwim River north to the Yukon River, and take in the Donlin, Ophir, and other mining districts. Current funding for portions of this route includes \$4 million in the 2002 bond issue and \$10 million in the Federal 2004 Omnibus Appropriations bill for Donlin Creek Road.
13	Kodiak - Pasagshak Road Paving	\$1,500,000		yes	yes					Supplements other funding intended to reconstruct the 13 mile road to the Kodiak Launch Facility. The launch facility has national significance and is a major new economic activity in the state.
14	Noatak Airport to Red Dog Mine EIS and Design	\$3,500,000				yes	yes			Funds design of a new road to connect the Red Dog transportation system to the community of Noatak. Construction of this approximately 19 mile link will provide Red Dog with access to Noatak's airport and will give the village access to the Red Dog port.
14	Total	\$76,700,000								

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 \$77,100,000 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.

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 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 \$77,100,000.

Section 9. Immediate effective date for Section 8.

Section 10. Sections 1 through 7 above become effective when the lieutenant governor certifies that constitutional amendments relating to and limiting appropriations from the permanent fund under the POMV and this bond proposition were approved by a majority of the qualified voters who voted.

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June 21, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Therriault:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill authorizing the issuance of general obligation bonds to finance surface transportation capital improvement projects.

The projects included in this bill address a variety of important surface transportation needs across the state, ranging from congestion relief in Anchorage and Fairbanks, to safety improvements, betterment of driving conditions, and access to critical resource and industrial projects. Some of these upgrades are being included to facilitate transfer to local ownership.

Investment in transportation pays both short- and long-term dividends to the state's economy. Immediately, it would put Alaskans to work in the design and construction of these surface transportation projects. Long-term, it ensures that workers and commodities can move efficiently, and enables new economic activity to occur that in turn creates new family-wage jobs. As such, I consider this bond package a stimulus to the state's economy, and part of the budget solution.

One key advantage of this bill is that it provides an additional level of transportation financing during a period of reduced federal funding for highways. Since statehood, the flow of federal dollars has typically grown each year, but since 2002 this trend has changed and we now face two consecutive years of decline in federal funding levels. Supplementing the state's capital program with general obligation bond money would ensure that the state's infrastructure would keep pace with growth in traffic and other uses.

The Honorable Gene Therriault

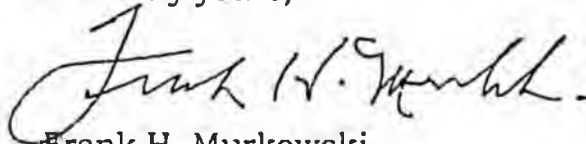
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I view this bond package as an important plank in the state's long-range financial plan. Ensuring that we have a sufficient and effective surface transportation system is an important duty of the legislative and executive branches. The bill also requires that the money in the bond package only be available once a constitutional amendment establishing the percent of market value approach to determining amounts available for appropriation from the Alaska Permanent Fund, and the bonds, have been approved by the voters.

I welcome your support of this important measure.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Frank H. Murkowski".

Frank H. Murkowski

Governor

Enclosure