

HB

381

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FILE

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 381
(H) Publish Date: 1/18/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title: Tobacco Bonds RDU: Centralized Administrative Services
Component: Finance
Sponsor: _____
Requester: _____ Component No. 59

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This fiscal note will have a zero impact upon the Division of Finance, as these activities fall within the scope of the division's current responsibilities.

Prepared by: Kim Garnero, Director Phone: 465-3435
Division: Finance Date/Time: 12/23/05 2:00 PM
Approved by: Michael Tibbles, Deputy Commissioner Date: 12/23/2005
Agency: Administration

Tobacco Bond Refinancing

Fact Sheet

What are tobacco bonds?

Tobacco bonds allow the State to realize revenue now by selling its rights to future tobacco Master Settlement Agreement (MSA) payments to private investors.

What is the Master Settlement Agreement?

In November 1998 Alaska and 45 other participating states, along with the District of Columbia, Puerto Rico, the U.S. Virgin Islands, American Samoa, the Northern Mariana Islands and Guam entered into the \$206 billion 25-year MSA with the four largest tobacco manufacturers. The MSA resolved cigarette smoking-related claims, in exchange for payments to be made to the settling states, and the imposition of certain tobacco advertising and marketing restrictions. Annual payments are made to Alaska through the MSA based on a formula which includes adjustment for inflation and consumption.

How does the State sell its future MSA payments?

Through an AHFC subsidiary, the Northern Tobacco Securitization Corporation, the State issues bonds to private investors. The bonds are to be repaid by future MSA payments. Investors assume all of the risks associated with future tobacco MSA payments.

Why should the State sell its future MSA payments?

Selling tobacco bonds achieves multiple public policy objectives:

- Provides capital for needed State infrastructure projects (over \$200 million to date) and up to \$100 million in 2006.
- Transfers risk of diminished or eliminated future MSA payments from the State to investors.
- As MSA revenues are greater when consumption is high, by selling the settlement the State divests itself of a financial interest in the continued use of tobacco products.

Has this been done before?

Alaska has issued tobacco bonds twice previously. The 2000 Alaska Legislature, through HB281, authorized a \$116 million bond sale, which funded \$93 million in public school construction projects. The 22nd Alaska Legislature, through HB 234, authorized a \$135 million sale to fund \$110 million in public school, University of Alaska, and water and harbor projects.

Why now?

Due to a number of legal and economic factors, anticipated tobacco MSA payments are attracting more investors. This provides the State with an opportunity that was not available during the last several years.

The strong current market allows for a refinancing of existing tobacco bonds and at the same time, a further leveraging of the MSA. The proposed transaction will extend the sale of MSA receipts by between 15 and 20 years. This is similar to refinancing your home and at the same time extracting equity to build an addition.

How much will be generated from the sale?

Revenue realized will depend upon market conditions, such as interest rates, at the time of sale. Under current market conditions, Alaska could realize up to \$180 million in revenue.

What will the proceeds fund?

Governor Murkowski proposes using the first \$89.2 million in capital construction projects for the University of Alaska. The largest single project proposed is \$55 million for Phase III of the Integrated Science Facility at UAA. Revenue in excess of \$89.2 million would be used to help finance the construction of a new Department of Corrections facility in the Matanuska-Susitna Borough.

What happens when the bonds are paid?

The State will retain the residual value of the MSA payments. The proposed refinancing bond issue would have an expected life of between 25 and 30 years and once paid off any annual settlement payments will flow directly to the State.

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January 17, 2006

The Honorable John Harris
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Harris:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the financing of construction, major maintenance, and renovation of facilities for the University of Alaska; relating to the financing of construction of a correctional facility; authorizing the commissioner of revenue to sell the right to receive a portion of the anticipated revenue from a tobacco litigation settlement to the Northern Tobacco Securitization Corporation, with the proceeds of that sale to finance construction, major maintenance, and renovation of facilities for the University of Alaska and to finance the construction of a correctional facility; providing for the establishment of funds for deposit of those proceeds; and authorizing the issuance of bonds by the Northern Tobacco Securitization Corporation for the purpose of acquiring the right to receive a portion of anticipated revenue from a tobacco litigation settlement.

This bill is quite similar to previous measures that securitized a total of 80 percent of the tobacco Master Settlement Agreement revenue stream. See secs. 9 and 10, ch. 130, SLA 2000 and secs. 3 and 4, ch. 96, SLA 2001. This bill would securitize the residual revenue stream that reverts back to the general fund once the outstanding tobacco bonds authorized by the previous legislation are repaid. In other words, that 80 percent of the revenue stream from the settlement of *State of Alaska v. Philip Morris, Incorporated, et al*, No. 1JU-97-915 CI (Alaska Super. 1997) will remain securitized for a longer period. The bill anticipates that the state will realize at least \$89,250,000 in proceeds, with a possibility that additional amounts would be raised. The bill authorizes the proceeds to be spent on certain University of Alaska capital projects, and

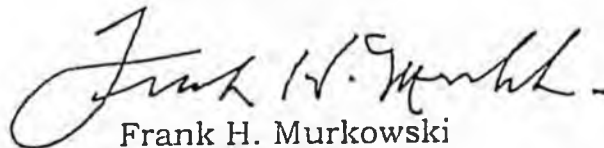
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The Honorable John Harris
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on a prison in the Matanuska-Susitna Borough, subject to appropriation for those purposes.

I urge your prompt and favorable action on this measure.

Sincerely yours,

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

Frank H. Murkowski
Governor

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