

**SB**

**163**

<TARGET><BILL>SB 163</BILL><SUBJECT>SB  
163</SUBJECT><COMM>SFIN27</COMM></TARGET>

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version CS SB 163 (FIN)  
 Fiscal Note Number \_\_\_\_\_  
 () Publish Date \_\_\_\_\_

Identifier (file name) SB163CS(FIN)-DOR-TRS-04-09-12 Dept. Affected Revenue  
 Title G.O. BONDS FOR STATE TRANSPORTATION Appropriation Taxation and Treasury  
 Allocation Treasury  
 Sponsor Rules by request of the Governor  
 Requester (S) FIN OMB Component Number 121

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>	<b>FY13</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Personal Services							
Travel	20.0		20.0		20.0		
Services	1,255.0		1,255.0		1,284.7		
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous			11,100.0	23,600.0	23,600.0	36,392.0	36,392.0
<b>TOTAL OPERATING</b>	<b>1,275.0</b>	<b>0.0</b>	<b>12,375.0</b>	<b>23,600.0</b>	<b>24,904.7</b>	<b>36,392.0</b>	<b>36,392.0</b>

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF		11,100.0	23,600.0	23,600.0	36,392.0	36,392.0
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1008	G/O Bonds (Other)	1,275.0	1,275.0		1,304.7		
<b>TOTAL</b>		<b>1,275.0</b>	<b>0.0</b>	<b>12,375.0</b>	<b>23,600.0</b>	<b>24,904.7</b>	<b>36,392.0</b>

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Updated fiscal note following new CS version D.

Prepared by Deven Mitchell, Debt Manager  
 Division Treasury Division  
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Department of Revenue

Phone 907-465-3750  
 Date/Time 4/9/12 1:00 PM  
 Date 4/9/2012

## FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. CS SB 163 (FIN)

### Analysis

The bill authorizes the issuance of a total of \$453,499,200 of general obligation bonds of the State of Alaska of which \$449,900,000 is for project costs and up to \$3,599,200 is for the costs associated with issuing the bonds. The bonds would carry the full faith, credit and resources pledge of the State and must be ratified in a statewide election. This is the strongest form of credit pledge available to the State and accordingly results in the lowest interest rates for borrowed funds. If the bill is approved, Alaska voters would consider the proposition in the November 2012 general election.

The bonds would be issued as either fully exempt (Non-AMT bonds) or tax exempt, subject to the Alternative Minimum Tax (AMT bonds) in a ratio estimated to be 80 percent Non-AMT and 20% subject to AMT. All of the bonds will be subject to limitations of the Federal tax code. While there are many restrictions imposed when taking advantage of tax exemption, two key limits are that an issuer must be able to track all funds to final expenditure on an allowed public capital project and that all funds resulting from the bond issuance are expended within three years of the bond sale. Due to these limitations it is anticipated that the authorization would require careful state oversight of the proposed municipal projects and result in multiple bond issues. For planning purposes six bond issues are assumed with three sale dates staggered over three years beginning with an initial issuance in February 2013 of \$150 million followed by a 2014 issuance of \$150 million and a 2016 issuance of the final \$153,499,200. The initial bond issues would be sized based on anticipated cash-flow with subsequent issues adjusted to actual cash flow.

The first bonds would be issued in February 2013, and sold in two series anticipated to total \$150 million. The current rate for a 20 year level amortization of Alaska general obligation bonds are at all time lows and estimated at 2.35% for tax exempt and 3.00% AMT bonds. The bonds would be structured to amortize AMT bonds first and followed by the Non-AMT bonds for a blended rate of 2.61%. This rate results in annual debt service of approximately \$9.75 million beginning in FY 2014 for the \$150 million. The borrowing rate is below the anticipated Constitutional Budget Reserve (CBRF) regular account rate of return of 3.4% and well below the assumed rate of return on the CBRF subaccount of 6.85%.

For planning purposes a more conservative, but still historically low rate of 4% was used, increasing the annual debt service estimate to \$11,100,000. If interest rates have increased at the point bonds are sold there would be a similar increase in the rate of return expectations in the CBRF regular account as it is comprised of fixed income securities that are actively managed.

It is estimated that \$150 million in bonds would be sold in February 2014 with estimated annual debt service of \$12.5 million beginning in FY 2015 followed by \$153,499,200 in February 2016 with estimated annual debt service of \$12.79 million beginning in FY 2017. This proposed schedule of issuance would be modified to match the actual expenditures on the authorized projects. A more conservative 5% interest rate was used to estimate debt service on these issues.

The costs associated with issuing bonds include underwriting, rating agency, attorneys, financial advisors, marketing and disclosure services, administrative, and printing. It is estimated that these costs will be less than 0.8% of the bonds issued, or a total of up to \$3,599,200 for the anticipated six series of bonds on three issue dates.

# Sponsor Statement

## SB 163

### General Obligation Bond for Alaska Port Projects

Alaska's future rests on responsibly developing our natural resources, and creating jobs and economic opportunities for our families. The State of Alaska has more miles of coastline than any other state in the union. Combined with our remote location, Alaska's economy is reliant on waterborne commerce to receive the goods we use and to export the resources we develop.

SB 163 authorizes the State of Alaska to sell \$350 million in general obligation bonds to fund infrastructure improvements for six port projects. With our AAA bond rating, Alaska receives a favorable interest rate on bond sales. With the current low cost of borrowing, the state realizes a greater rate of return on the general fund than it would have to pay when borrowing funds through a general obligation bond package.

The funds would be used to rehabilitate and expand six ports throughout the state. These ports are located in upper Cook Inlet, Bristol Bay, Kenai Peninsula, the Yukon River Delta and Ketchikan. Each of these projects has a pivotal role in Alaska's economy.

Alaska is unique in its economic dependence on ports. Very limited federal funding is available for port infrastructure. The use of general obligation bonds will help bring these projects to completion.

Governor Parnell is committed to working with the Legislature to develop Alaska's infrastructure. These projects will promote economic growth within their region, and to the economy of Alaska.

# Sectional Analysis

SB 163

## General Obligation Bond for Alaska Port Projects

*"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."*

Section 1: This section describes the amount and the purpose of the general obligation bonds. The purpose is to provide funding to pay for the cost of design and construction of identified municipal port projects. The principal amount of the bonds to be sold is not to exceed \$350,000,000 and must be ratified by a majority of voters in the state. The bonds shall be issued under the provisions of AS 37.15.

Section 2: This section establishes the Port Project Fund. If the voters approve the bonds, a special fund for the state shall be established that will be known as the *2012 Port Project Fund*. The fund shall include the proceeds from the sale of the bonds, but will not include the accrued interest and premiums.

Section 3: This section establishes how the funds will be awarded to the individually identified projects. The amount of \$350,000,000 will be appropriated from the 2012 Port Project Fund to the Department of Commerce Community and Economic Development to be awarded as grants under AS 37.05.315 (Grants to Municipalities).

Section 4: This section appropriates \$2,965,000 from the General Fund to the state bond committee to pay expenses associated with the issuance of the bonds. The amount authorized and expended in this section will be reimbursed to the state General Fund from the proceeds of the sale of the bonds. (Estimate \$900.0 in bond issuance cost in FY2013 – see fiscal note)

Section 5: This section establishes the lapse, redemption, and reimbursement of the appropriations in Section 3. Unexpended and unobligated balances of the appropriations are appropriated to the state

bond committee to redeem bonds sold. Amounts expended from the state General Fund related to pay redemption costs shall be reimbursed to the General Fund to the extent the money is not needed to redeem the bonds.

Section 6: This section establishes the ballot question that will be asked of voters to approve the general obligation bonds for the specified purpose.

Section 7: This section establishes an immediate effective date.



# ALASKAN-IZING THE FLEET

Bringing the Coastal Villages Region Fund CDQ vessels home to Alaska

## The Program

Coastal Villages Region Fund (CVRF) represents 20 Western Alaska communities, and with 35% of the total assets is the largest of the six Community Development Quota (CDQ) groups. Combined, the groups are a billion dollar business annually, employing 2300 people in wage and salary jobs paying \$32 million, with another \$25 million in ex-vessel payments to 1500 permit holders and 1700 crew.

CVRF harvests cod, pollock, crab, salmon and halibut in the Bering Sea and Aleutian Islands, and holds over \$300 million in CDQ assets.

## The Project

Currently, the economic benefits of homeporting largely bypass Alaska in favor of Puget Sound. Given sufficient infrastructure choices ships will follow their owners. The CVRF fleet owners desire to bring their fleet home to Alaska, and have partnered with Seward to further develop the Seward Marine Industrial Center (SMIC) support facilities including:

- ◆ Breakwater to protect mooring basin
- ◆ 2500' of moorage
- ◆ 20,000 sq. ft. of warehouse
- ◆ 5,000 sq. ft. of office
- ◆ 5-10 acres fenced storage
- ◆ Private sector vendors for fuel, provisions, training and services across marine trades.

## Why Seward?

- ◆ Year round ice-free port
- ◆ Road, rail and air access
- ◆ Fleet-capable drydock and ship repair
- ◆ History of fishing businesses
- ◆ AVTEC maritime licensing, training and certification
- ◆ Access to marine trades and services across all of South-Central Alaska
- ◆ Building onto \$30+ million of community bonded basic port infrastructure
- ◆ Regulatory process streamlined by adding onto currently permitted SMIC projects and activities
- ◆ Existing baseline geotechnical work

*"No single port can meet all the fleet's service, supply and repair needs. Seward's location will serve as the ideal hub for access to Anchorage, Cook Inlet, Prince William Sound and Kodiak port resources for the vessels".*

## Cost and Funding

Initial total cost estimate is \$55 million including a 31% contingency, which will be refined and lowered as the design is further developed.

Given the size of the project and the economic importance of Alaskan-izing the CDQ fleet, Seward is pursuing a combination of grant funding and debt service options, including:

- ◆ State: AIDEA, Legislative appropriation, Statewide Port Bond Package, ADOT&PF Harbor program
- ◆ Federal: USACE, "TIGER" grant, EDA, USDA Rural
- ◆ Local bonding
- ◆ Private sector w'hse, offices, housing and vessel services

## Benefits

In addition to construction jobs, the primary benefit is spending on vessel repair and maintenance and goods and services and jobs created and supported in Alaska rather than in WA.

Savings to CVRF are significant, including airfare to/from Seattle, and exemplified by average fuel savings of \$75,000 per vessel per round trip to Seward rather than Seattle. Savings will more than offset the sometimes higher cost of doing business in Alaska, and are expected to increase as economies and efficiencies of scale grow with the relocation.

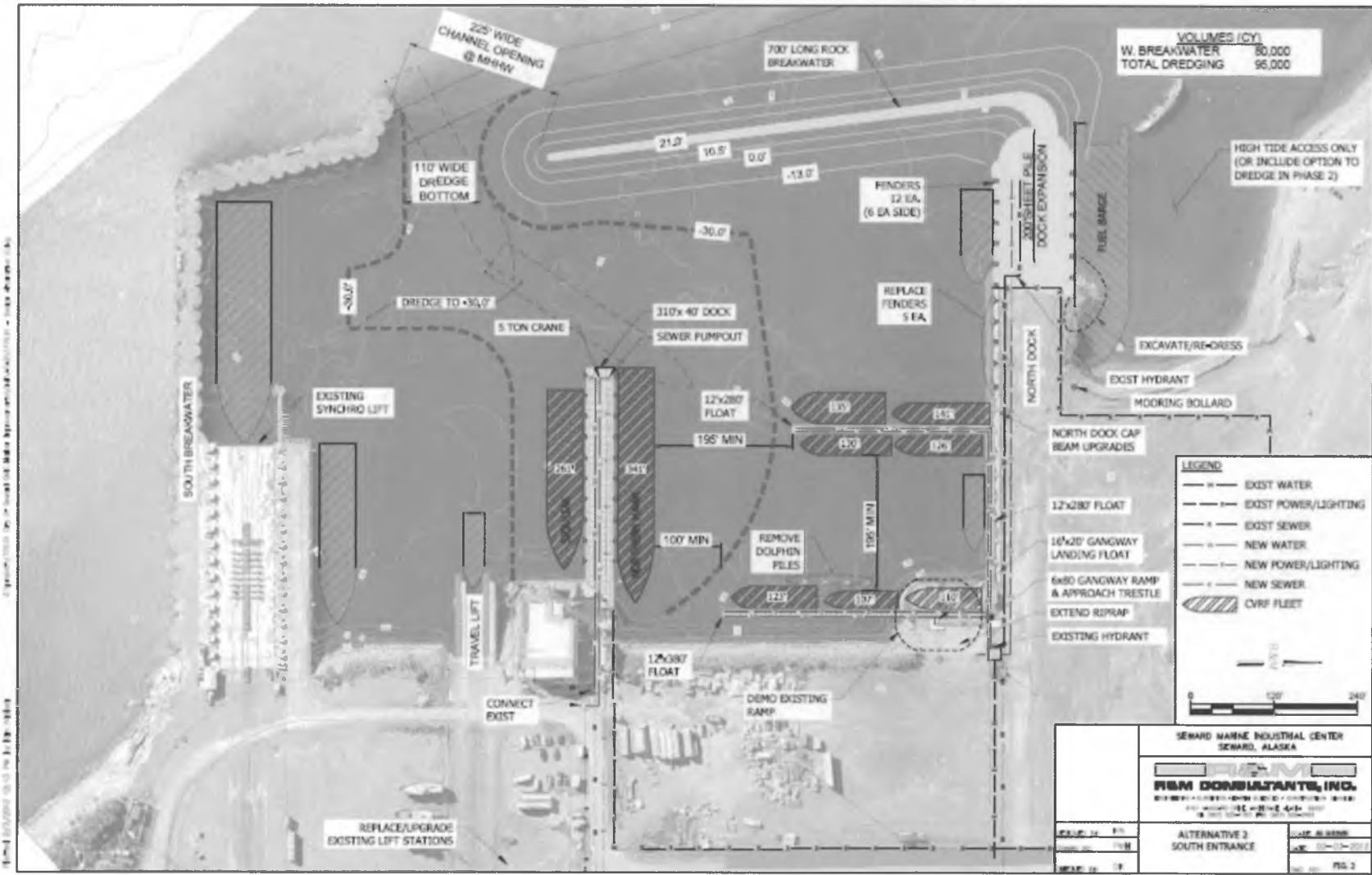
The harbor improvements will be critical in attracting other new business to Alaska, including exploration and support vessels for Beaufort and Chukchi O&G.

## The Future

The economic activity associated with homeporting the CVRF fleet will enable private sector development to existing, new, and new-to-Alaska businesses.

Sales and property taxes and fuel excise taxes will far outweigh moorage charges. These, together with lease fees, will support debt service and ongoing operations and maintenance of the public infrastructure so that future state and federal subsidies are avoided.

This project furthers the late Sen. Steven's vision in the Magnuson-Stevens Fisheries Act and CDQ amendments of achieving sustainable and diversified economies in Western Alaska, as well as bringing significant benefits to the state as a whole.



1:1000 SCALE (AS SHOWN) 1" = 100' (VERTICAL SCALE 1" = 10')  
 1:1000 SCALE (AS SHOWN) 1" = 100' (HORIZONTAL SCALE 1" = 100')