

SB

46

<TARGET><BILL>SB 46</BILL><SUBJECT>SB
46</SUBJECT><COMM>HFIN29</COMM></TARGET>

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version:	CSSB 46(FIN)
Fiscal Note Number:	1
(S) Publish Date:	4/15/2015

Identifier: SB046-DHSS-HCMS-2-20-15
 Title: MUNI BOND BANK LOANS TO REG HEALTH ORGS
 Sponsor: HOFFMAN
 Requester: Senate Finance Committee

Department: Department of Health and Social Services
 Appropriation: Medicaid Services
 Allocation: Health Care Medicaid Services
 OMB Component Number: 2077

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							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

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? No
 If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: Jon Sherwood, Deputy Commissioner
 Division: Medicaid & Health Care Policy
 Approved By: Sarah Woods, Deputy Director Finance & Management Services
 Agency: Health & Social Services

Phone: (907)465-5830
 Date: 02/19/2015 10:30 AM
 Date: 02/20/15

REPORTED OUT OF
SFC 04/15/2015

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

This bill would offer municipal bonds to tribal health organizations for the construction or remodel of tribal healthcare facilities, a low interest option that may encourage infrastructure development. As tribal organizations take advantage of this opportunity, the State may see an increase in provision of tribal healthcare services to Alaska Native Medicaid recipients, services which are claimable at 100% federal match as compared to the 50% federal match rate for the same service provision delivered in a non-tribal setting.

Based on past experience, the department expects it may be able to capture 10%, annually, of the value of the municipal bonds issued for a project, in general fund cost savings resulting from service provision at 100% federal match vs. the 50% match rate. However, the department cannot gauge the level of interest such a municipal bonds offer may garner from tribal organizations and thus, costs for this bill are currently indeterminate.

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 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates					
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES								
Personal Services								
Travel	15.0		5.0	5.0	5.0	5.0	5.0	5.0
Services	315.0		100.0	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	105.0

Fund Source (Operating Only)

1108 Stat Desig	330.0		105.0	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	105.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues

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

Phone: (907)465-3750
 Date: 04/15/2015 12:00 AM
 Date: 04/15/15

REPORTED OUT OF
SFC 04/15/2015

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.



Senator Lyman F. Hoffman

Senate Finance Committee - Co Chair

Alaska State Legislature • State Capital • Juneau, AK 99801-1182
Toll Free 1-866-465-4453 • (907) 465-4453 • Fax (907) 465-4523

Sponsor Statement

SB 46

Muni Bond Bank loans to Regional Health Organizations

SB 46 provides Regional Health Organizations direct access to the Alaska Municipal Bond Bank (AMBB) for the purpose of issuing debt, in an amount not to exceed \$250 million. In 2014, the Legislature passed SB 218 which allows AMBB to issue bonds on behalf of the University of Alaska for their new power plant. This bill aims to accomplish the same results for Regional Health Care Organizations.

AMMB is a public corporation of the State of Alaska established to aid Alaska municipalities in financing capital improvement projects. AMBB generates funding by selling bonds on the national market, and using the proceeds to purchase bonds from local governments. AMBB leverages its credit ratings into lower interest rates than municipalities would be able to borrow independently. These municipalities then pay principal and interest to the Bond Bank on their debt. Utilization of the State's moral obligation pledge has not cost the State as every loan that the AMBB has entered into over the last 40 years has been paid.

Currently, regional health organizations have *indirect* access to the Bond Bank by partnering with a municipality to apply to the Bond Bank on a conduit basis. All non-profits that want to issue tax exempt debt in Alaska must do so through a municipality on a conduit basis. However, even though the debtor is not the municipality, not all municipal governments are willing to consider using the Bond Bank on the behalf of a local non-profit due to the complexity of the bonding process.

Benefits of Utilizing the Bond Bank

The Bond Bank has an excellent loan record with 100% of loans repaid and in conjunction with state support, has received "AA+" credit ratings from both Standard & Poor's Ratings Services and Fitch Ratings. Strong credit ratings allow the Bond Bank to borrow money at favorable interest rates. Smaller communities are at a disadvantage in the financial markets. They may have lower bond ratings, and although credit worthy, have not issued bonds or notes, have little outstanding debt, or lack investor familiarity. Over the last 10 years, the Bond Bank has saved Alaskan communities approximately \$112 million, and has secured

Interim: PO Box 886 • Bethel, Alaska 99559 • (907) 543-3541
Email: Senator_Lyman_Hoffman@legis.state.ak.us
www.senatorhoffman.com

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- Adak
- Akiachak
- Akiak
- Akutan
- Aleknagik
- Amchitka
- Atka
- Atmauthlaug
- Attu
- Belkofski
- Bethel
- Chefornak
- Chernofski
- Chignik
- Chignik Lagoon
- Chignik Lake
- Clark's Point
- Cold Bay
- Dillingham
- Dutch Harbor
- Eek
- Egegik
- Ekuk
- Ekwok
- False Pass
- Goodnews Bay
- Ivanof Bay
- Kasigluk
- King Cove
- King Salmon
- Kipnuk
- Koliganek
- Kongiganak
- Kwethluk
- Kwigillingok
- Lower Kalskag
- Manokotak
- Mekoryuk
- Naknek
- Napakiaik
- Napaskiak
- Nelson Lagoon
- New Stuyahok
- Newtok
- Nightmute
- Nikolski
- Nunapitchak
- Oscarville
- Perryville
- Pilot Point
- Platinum
- Port Heiden
- Portage Creek
- Quinhagak
- Saint George Island
- Sant Paul Island
- Sand Point
- Shemya Station
- South Naknek
- Togiak
- Toksook Bay
- Tuluksak
- Tuntutuliak
- Tununak
- Twin Hills
- Ugashik
- Unalaska
- Unga
- Upper Kalskag

over \$1.5 billion dollars since inception to finance the construction of key projects; including schools, roads, utilities, harbors, hospitals, and other municipal facilities.

Yukon Kuskokwim Health Corporation (YKHC) Proposal

Regional health organizations in Alaska have been constructing new health infrastructure in coordination with the federal government's Indian Health Service's Joint Venture Construction Program (JVCP). JVCP is a competitive federal program whereby the regional health organization agrees to construct new health infrastructure and then the federal government will request additional staffing for the new facility from Congress.

Four JVCP projects have recently been built in Alaska. At this time, the federal government is considering two additional JVCP projects in Alaska, one of which is a large rural project with the Yukon-Kuskokwim Health Corporation headquartered in Bethel. YKHCs' project request was recently rated number one in the nation by the federal government out of thirty-seven other competitive JVCP applications.

YKHC is currently working with the federal government to renovate the existing Bethel hospital and construct a new primary care clinic costing approximately \$250 million. YKHC will pay for the construction. Federal standards call for Congress to fund approximately 200 new staff in relation to the cost of a construction project, which will also provide an economic opportunity in human capital for the region.

The JVCP will cost the State of Alaska no additional monies, and in fact the improvements are expected to save State funds. The JVCP will bring approximately 200 new permanent positions into Bethel region, paid for by the federal government. The JVCP will create hundreds of new construction jobs in Bethel and elsewhere, paid for by YKHC. The JVCP will improve access and quality of care for the residents of the entire Yukon-Kuskokwim Delta.

Construction in rural Alaska is expensive and therefore affordable financing becomes extremely important for large rural JVCP projects. For this large rural project to be affordable for YKHC, the low interest rates obtainable by the Bond Bank is necessary.

I request your support in passing this bill.



YUKON-KUSKOKWIM HEALTH CORPORATION

"Working Together to Achieve Excellent Health"

Date: November 25, 2014

Mr. Christopher Mandregan, M.P.H., Director
Alaska Area Native Health Service
4141 Ambassador Drive, Suite 300
Anchorage, AK 99508

Dear Director Mandregan,

The 2014 Joint Venture Construction Program represents a significant opportunity for Yukon Kuskokwim Health Corporation (YKHC) to address critical needs across the 58 tribes in our region. Our pre-application and final application clearly highlights our 1. Relative Need, 2. Ability to Fund Project, 3. Ability to Manage Project, as well as our 4. Ability to Complete Project on Schedule.

Relative Need - YKHC Need Score is the direct result of our large patient population, an aged deteriorating facility and its unique remoteness.

Ability to Fund Project - YKHC has been a long term financially stable organization. We have considered our reserves, tested the financial markets and are prepared to secure substantial project funding.

Ability to Manage the Project - The Steering Committee is in place, our planning team (Innova) is underway, our design team (Bettisworth North w/ ZGF) is selected and proceeding. Uniquely qualified, YKHC has internal staff with successful healthcare design and construction management experience with projects ranging up to \$3.5B in value. To assist the local project management, YKHC will partner/hire the services of Health Care Project Management team. For the past 15 plus years, YKHC has been licensed as a "force account" general contractor and has completed over \$250M in various capital projects. For this project, YKHC will Joint Venture with a larger experienced health care general contractor.

Ability to Complete the Project on Schedule - With the planning and design underway, funding resources aligned, and an experienced management team in place, YKHC is prepared to complete the new Primary Care Clinic and phased Hospital renovation on time and budget.



YUKON-KUSKOKWIM HEALTH CORPORATION

"Working Together to Achieve Excellent Health"

YKHC is excited to submit this application which promises to transform healthcare in our region for years to come. Our staff, as represented by Newton Chase, Vice President of Support Services at 543-6558 or 545-1958 or newton_chase@ykhc.org, are available for any questions, clarifications or concerns regarding this project application.

Sincerely,

Dan Winkelman
President/CEO