State of Arkansas
Bureau of
Legislative Research

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MEMORANDUM

TO: Senator Williams

FROM: Richard Wilson, BLR

DATE: August 22, 2014

SUBJECT: Comparison of Bond Issues for the New Prison Proposal

At the State Agencies Committee meeting on August 19, 2014, I presented two scenarios that would possibly finance the new prison proposal with an increase in car tag decal fees, perhaps $2. The cash flow possibility from such an increase was explained by taking the average annual amount of decals issued and multiplying that number by $2 as follows :

2.67 million decals X $2 = $5.34 million available cash flow.

First Bond Issue :
A 15-year "AA" Tax Exempt Bond issue of $100 million at a current rate of 2.65% needs an annual cash flow of $8.17 million or $3.06 per decal.

Second Bond Issue :
A 20-year "AA" Tax Exempt Bond issue of $100 million at a current rate of 3.00% needs an annual cash flow of $6.72 million or $2.52 per decal.

After the committee meeting of August 19th, the BLR received the financing proposal from the DOC. This financing proposal was created by Stephens Inc. Public Finance and delivered to the DOC on May 23, 2014. They utilized an existing bond issue that does not require the entire amount of what the current extra decal fee ($1.50) is providing, thus they have created a new "wrap around" bond issue that will use previous available benefit added to an additional $2 increase in decals that would provide enough annual revenue to fund their bond issue. Their available funds for construction from the new issue would be $94.83 million.

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This DOC financing proposal is possible because their debt issue is a 30-year bond, however, the downside with a longer term is always the significant increase in financing costs as reflected below :

The 15-year issue from above would require a total of $122.55 million comprised of a $100 million principal amount plus $22.55 million in interest;

The 20-year issue from above would require a total of $134.40 million comprised of a $100 million principal amount plus $34.40 million in interest;

The new 30-year "wrap around" proposed issue from DOC/Stephens would require a total of $186.65 million comprised of a $96.75 million principal amount plus $89.9 million in interest.

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