

## Constitutional Amendment Number 2 on the November 6, 2012, Ballot

### Background

#### Existing Constitutional Provisions

Amendment 666 of the Constitution of Alabama 1901 “was placed on the ballot and ratified by voters” in 2000.<sup>i</sup> Among other provisions, Amendment 666 gave the Legislature the authority to “issue general obligations bonds [including refunding bonds] for the purposes of (1) making substantial capital improvements to the state dock facilities at the Port of Mobile, (2) promoting economic development and industrial recruitment in the state, (3) providing local government match monies required to issue federal grant revenue bonds for road and bridge improvements and (4) providing funds to municipal governments for infrastructure improvements.”<sup>ii</sup> The State was allowed to issue up to \$350 million in bonds.<sup>iii</sup> The vast majority, \$285 million, was to be used for state dock facilities and economic development.<sup>iv</sup>

In 2007, the State ratified Amendment 796. This amendment increased the bond limit “to \$750 million” with no other major changes.<sup>v</sup> Approximately \$685 million of the revised limit was to be used for state dock facilities and economic development.

#### Proposed Constitutional Amendment

Amendment 2 on the November 6, 2012 ballot restructures the State’s general obligation bond issue under Amendments 666 and 796. While the State will still be limited to \$750 million of outstanding principle, the State may issue new bonds as principle is paid down.

### ISSUE SNAPSHOT

Alabama’s current General Obligation Debt is \$691,210,000 with a maximum of \$750,000,000.

Amendment 2 on the November 6, 2012 ballot gives the State the ability to refinance its debt and issue new general obligation bonds up to the limit of \$750 million as the principle on old obligations is paid.

Also, Amendment 2 allows the State to refund bonds. This is similar to refinancing a house at a lower interest rate. The State may “lower its interest payments by paying off bonds it has previously issued with newly issued refunding bonds that pay interest at a lower rate than the original refunded bonds.”<sup>vi</sup>

### Policy Consideration

The ability to refund bonds gives the State the ability to potentially decrease interest payments as the market changes. For example, if bonds were issued in 2001 at a 5% interest rate and the interest rate fell to 3% in 2012, the State could reduce interest payments by 2%. This could result in interest payment savings of up to \$15 million.<sup>vii</sup>

Amendment 2 does not alter the use of the State’s General Obligation Bonds. The State’s current General Obligation debt is \$691,210,000.<sup>viii</sup> As mentioned earlier, the State uses the majority of this

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money for economic development and state dock improvements.

Recent state economic development projects include providing tax incentives, developing infrastructure, and improving workforce education. With the help of these incentives Mercedes-Benz, ThyssenKrupp, and other businesses decided to locate their operations in Alabama. State leaders planned for the revenues generated from the increased business in the State to offset the cost of the projects.

As with any economic investment, the results of Alabama's economic development projects vary. In 1993, Alabama recruited Mercedes-Benz with an incentive package totaling at least \$253 million.<sup>ix</sup> Mercedes-Benz claims a total annual economic impact of \$1.5 billion and 10,000 direct and indirect jobs<sup>x</sup> and continues to hire more workers.<sup>xi</sup>

Contrarily, ThyssenKrupp, which received over \$1 billion in tax breaks and incentives<sup>xiii</sup> beginning in 2007,<sup>xiii</sup> reduced its workforce size of 1,653 by 197 employees in August 2012.<sup>xiv</sup> Furthermore, ThyssenKrupp is attempting to sell its plant in Calvert, Alabama as a result of losing \$1 billion during the first 9 months of 2012.<sup>xv</sup> ThyssenKrupp is in the process of selling part of its operation, the stainless steel unit, to the Finnish group Outokumpu.<sup>xvi</sup>

## Recommendations

One of Amendment 2's strongest features allows the State to strategically restructure its debt, most likely resulting in lower interest payments. The reduced interest payments will save Alabama money at a time of particularly tight budgets.

Alabamians who wish to see Alabama's state government continue to invest in economic development projects and continue to court additional

job creators should be mindful that Amendment 2 will essentially result in a perpetual \$750 million debt obligation.

Conversely, individuals rejecting Amendment 2 because of their desire to eliminate or reduce Alabama's debt, should recognize that doing so will limit Alabama's economic development efforts, including the job creation and revenue generation that may result from the successful operation of such programs in Alabama.

<sup>i</sup> ALABAMA STATE TREASURY, HISTORY OF THE ALABAMA TRUST FUND, <http://www.treasury.state.al.us/content/Documents/History%20of%20the%20Alabama%20Trust%20Fund%2006222012.pdf>.

<sup>ii</sup> Ala. Const. amend. 666, § 1., available at <http://alisondb.legislature.state.al.us/acas/CodeOfAlabama/Constitution/1901/CA-569853.htm>.

<sup>iii</sup> *Id.* at § VIII.

<sup>iv</sup> *Id.* at § X.

<sup>v</sup> LEGISLATIVE REFERENCE SERVICE, SUMMARIES OF GENERAL LAWS ENACTED AND CONSTITUTIONAL AMENDMENTS PROPOSED BY THE LEGISLATURE OF ALABAMA AT THE FIRST SPECIAL SESSION, 2007 FEBRUARY 26 THROUGH MARCH 2, 2007, <http://lrs.state.al.us/publications/2007-special-session.html> (last visited Oct. 31, 2012).

<sup>vi</sup> MUNICIPAL SECURITIES RULEMAKING BOARD: ELECTRONIC MARKET ACCESS, WHAT IS AN ADVANCE REFUNDING?, <http://emma.msrb.org/EducationCenter/WhatsARD.aspx> (last visited Oct. 31, 2012).

<sup>vii</sup> Author's Calculations: If all \$750 million in bonds were issued at an interest rate of 5% and all these bonds could be refunded at a rate of 3%, then the total savings to the State would be \$15 million.

<sup>viii</sup> MORGAN KEEGAN, OFFICIAL STATEMENT OF THE ALABAMA INCENTIVE FINANCING AUTHORITY RELATING TO \$119,065,000 TAX-EXEMPT SPECIAL OBLIGATION BONDS, SERIES 2012-A (Oct. 2, 2012), A-16, [http://www.morgankeegan.com/NR/rdonlyres/204FC955-A4C0-4FDB-943F-AD92F3A67086/0/AL\\_ALIncentivesSpecialObligation100412.pdf](http://www.morgankeegan.com/NR/rdonlyres/204FC955-A4C0-4FDB-943F-AD92F3A67086/0/AL_ALIncentivesSpecialObligation100412.pdf).

<sup>ix</sup> SAVANNAH MORNING NEWS, *Ten Years after Mercedes, Alabama Town Still Pans for Gold* (2002), <http://savannahnow.com/stories/100902/LOCSWEET.shtml>.

<sup>x</sup> MERCEDES-BENZ, *MBUSI, the Entity...*, [http://mbusi.com/pages/corporate\\_home.asp](http://mbusi.com/pages/corporate_home.asp) (last visited Oct. 31, 2012).

<sup>xi</sup> DAWN KENT, *Alabama's Honda, Mercedes-Benz and Hyundai plants get busier*, THE BIRMINGHAM NEWS (July 26, 2012), [http://blog.al.com/businessnews/2012/07/alabamas\\_honda\\_mercedes-benz\\_a.html](http://blog.al.com/businessnews/2012/07/alabamas_honda_mercedes-benz_a.html).

<sup>xii</sup> JOHN W. MILLER, *America's \$5 Billion Steel Mill for Sale: German Maker ThyssenKrupp Wants to Sell Alabama Plant*, THE WALL STREET JOURNAL (Oct. 1, 2012), <http://online.wsj.com/article/SB10000872396390444549204578022542102589134.html>.

<sup>xiii</sup> THYSSENKRUPP, COMPANY OVERVIEW, <http://www.thyssenkruppsteelusa.com/Company%20Overview.html> (last visited Oct. 31, 2012).

<sup>xiv</sup> WKRG STAFF, *TK Announces Layoffs in Calvert*, WKRG (Aug. 13, 2012), <http://www2.wkrg.com/news/2012/aug/13/tk-announces-layoffs-calvert-ar-4331846/>.

<sup>xv</sup> MILLER, *Supra* note xii.

<sup>xvi</sup> ELLEN MITCHELL, *Outokumpu to gain European Union approval in Innoxum acquisition*, AL.COM (Oct. 29, 2012), [http://blog.al.com/press-register-business/2012/10/outokumpu\\_to\\_gain\\_european\\_uni.html](http://blog.al.com/press-register-business/2012/10/outokumpu_to_gain_european_uni.html).