

CS SB 50 (NRG) Fact Sheet

AIDEA: Bonds; Programs; Loans; LNG Project

CS SB 50 NRG would amend provisions of AIDEA's authority to advance a liquefied natural gas production plant, and natural gas energy projects and distribution systems in the state. This broadening of authority would allow more flexibility to meet Interior Alaska energy needs via LNG or a small diameter pipeline. It would also increase the dollar amount limits for bonds under the loan participation program and development finance program without legislative pre-approval, as well as for bonds issued without local governing body or Regional Resource Advisory Council certified resolutions of consent on project location. Finally, the bill would repeal unused and unneeded bonding authority.

Structural Changes

1. Updates the dollar limitations that have been in several AIDEA statutes for 10 to 25 years. The proposed increases reflect adjusting the limits for inflation.
2. Amends provisions relating to AIDEA's authority to advance a liquefied natural gas production system and natural gas energy projects to allow AIDEA the flexibility to look at and consider multiples sources of natural gas rather than being limited to the North Slope in order to meet the goals of the Interior Energy Project. The Senate Energy Committee CS adds the possibility of delivering natural gas to Interior markets via a small diameter pipeline (12 inches or less).
3. Provides a clean-up of AIDEA's statutes by repealing eight outdated bond authorizations for which there is no longer any use, thereby eliminating an unnecessary issue for AIDEA in the credit markets.

Changes to Dollar Limitations of Bonding for Development Finance Projects

AIDEA supports economic development through several programs, one of which is providing project development financing for Alaska projects. AIDEA's statutes limit the amounts it can finance through the issuance of bonds for a project. The current statutes require the public corporation to seek legislative approval for bond financing of a project if it plans to issue bonds in the amount greater than \$10 million. The limitations in the current statutes were established 25 years ago in 1990 and have not been changed. As a result, due to inflation and rising construction costs, the size of projects that AIDEA can finance is much lower now than it was when these limitations were put in place 25 years ago.

SB 50 would amend AS 44.88.095(g) to authorize AIDEA to issue up to \$25 million in bonds for development finance projects without seeking prior legislative approval. A comparable increase is sought in AIDEA's requirement to seek approval for issuing bonds from a local governing body or Regional Resource Advisory Council - from the current limit of \$6 million to \$10 million.

Increasing the bonding limits under 44.88.095(c) and 44.88.095(g) would allow AIDEA the ability utilize bonds as a finance tool in funding small to midsize development projects. These limits have not been adjusted since 1990 and 25 years later should be adjusted for inflation and the cost of doing business in this state. Currently, based on the time it takes to go to the Legislature and obtain community approval for a bond authorization, utilizing bonds as financing tool for funding a small to midsize development project under these bonding limits is not feasible. Giving AIDEA the flexibility to utilize bonds as a tool in financing these development projects would allow AIDEA to

better manage its overall financial capacity and would allow projects to obtain a lower overall cost of capital.

Change to Loan Participation Limit

AIDEA is subject to dollar limits that it cannot exceed without obtaining approval from the Legislature or local governmental bodies. One of these limitations affects AIDEA's loan participation program under which it makes loans in conjunction with commercial financial institutions, such as banks and credit unions, for commercial projects and qualified energy projects. The current limitation restricts the size of the loan participation to \$20 million without the necessity of obtaining prior legislative approval. This limit has been in place since 2005 and has not been adjusted for inflation. The dollar amount would be approximately \$24.4 million adjusted for inflation.

SB 50 would amend AS 44.88.155 to authorize AIDEA to use up to \$25 million for a loan participation without the necessity of obtaining prior legislative approval. AIDEA's management and staff believe that increasing the limit on participation loans would allow AIDEA to provide more of the financing for large commercial projects and qualified energy projects and provide better financing terms for those projects.

Providing More Flexibility in Meeting Goals of the Interior Energy Project

Previous legislation from 2013 provided a funding mechanism for the Interior Energy Project (IEP). The goals of the IEP are to supply natural gas to Interior Alaska at the lowest cost possible; to as many Alaska customers as possible; and as soon as possible. Under the legislation, AIDEA financing for the development of a liquefied natural gas (LNG) plant for the IEP was restricted to the North Slope. AIDEA has determined that the goals of the IEP will be better served if AIDEA has the flexibility to look at and consider multiples sources of natural gas rather than being limited to the North Slope.

Proposed CS SB 50 (NRG) would amend AIDEA's authorization with respect to financing a liquefied natural gas production facility and affiliated infrastructure. It would remove the North Slope limitation and allow AIDEA to support construction of an LNG plant (or plants) anywhere in the state using any gas source that is economically feasible to support the IEP. The Senate Energy Committee CS also allows AIDEA to consider delivery of natural gas to Interior Alaska via a small diameter pipeline (12 inches or less).

Repeal of Outdated Bond Authorizations

AIDEA's statutes currently include several authorizations to issue bonds for projects that AIDEA long ago determined are not to be feasible or that did not move forward for other reasons. Also, in one case, the project did not need the full amount authorized. These outdated authorizations on AIDEA's books range from 1994 through 2004 and remain valid until repealed by the Legislature.

The presence of these outdated bond authorizations continues to be a topic of discussion with credit rating agencies when AIDEA presents potential bond issues to the credit markets. To eliminate any uncertainty, the bill proposes the repeal of these eight prior bond authorizations.

AIDEA's staff and financial advisors believe that it could be beneficial to our bond rating to repeal these authorizations as AIDEA moves forward to utilize its bonding capacity for future projects.