

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 18, 2014

1:33 p.m.

MEMBERS PRESENT

Senator Mike Dunleavy, Chair
Senator Peter Micciche, Vice Chair
Senator Donald Olson
Senator Bert Stedman
Senator Johnny Ellis

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 159

"An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 99

"An Act correcting a reference to the Alaska Industrial Development and Export Authority revolving fund; limiting the use of the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund for certain loans and loan guarantees and allowing the development fund to be used as security for a bond guarantee; and amending the definition of 'qualified energy development.'"

- HEARD & HELD

SENATE BILL NO. 140

"An Act creating the Arctic infrastructure development program and fund in the Alaska Industrial Development and Export Authority."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 159

SHORT TITLE: AIR AMBULANCE SERVICES

SPONSOR(s): SENATOR(s) STEDMAN

02/05/14 (S) READ THE FIRST TIME - REFERRALS
02/05/14 (S) L&C
02/18/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 99

SHORT TITLE: AIDEA: DEVELOPMENT LOANS

SPONSOR(s): SENATOR(s) MCGUIRE

04/05/13 (S) READ THE FIRST TIME - REFERRALS
04/05/13 (S) L&C
02/18/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 140

SHORT TITLE: AIDEA: ARCTIC DEVELOPMENT PROGRAM/FUND

SPONSOR(s): SENATOR(s) MCGUIRE

01/27/14 (S) READ THE FIRST TIME - REFERRALS
01/27/14 (S) L&C, FIN
02/18/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

CHRISTIE JAMIESON, Staff
Senator Bert Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 159 on behalf of the sponsor.

MARTY HESTER, Acting Director
Division of Insurance
Department of Commerce, Community and Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions and provided information related to SB 159.

SHELLY DEERING, Regional Manager
Airlift Northwest
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 159.

CHRIS MARTIN, Executive Director
Airlift Northwest
University of Washington

Seattle, Washington

POSITION STATEMENT: Testified in support of SB 159.

JESSE LOGAN, Staff
Senator Lesil McGuire
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 99 and SB 140 on behalf of the sponsor.

MARK DAVIS, Deputy Director
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Provided supporting testimony on SB 99.

SENATOR LESIL MCGUIRE
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 99 and SB 140.

KEN COLLISON, Chief Operating Officer
Ucore Rare Metals

POSITION STATEMENT: Provided supporting testimony on SB 99.

STEPHEN TRIMBLE, President
Trimble Strategies, LLC

POSITION STATEMENT: Stated support for SB 140.

STEPHEN KLINE, Managing Principle
First Infrastructure Inc.

POSITION STATEMENT: Provided supporting testimony on SB 140.

CHRIS HLADICK, Manager
City of Unalaska
Unalaska, Alaska

POSITION STATEMENT: Testified in support of SB 140.

RON LONG, Assistant City Manager
City of Seward
Seward, Alaska

POSITION STATEMENT: Testified in support of SB 140.

ACTION NARRATIVE

[1:33:12 PM](#)

CHAIR MIKE DUNLEAVY called the Senate Labor and Commerce Standing Committee meeting to order at 1:33 p.m. Present at the

call to order were Senators Stedman, Micciche, Olson, and Chair Dunleavy. Senator Ellis arrived soon thereafter.

SB 159-AIR AMBULANCE SERVICES

[1:33:36 PM](#)

CO-CHAIR DUNLEAVY announced the consideration of SB 159. "An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

[1:33:55 PM](#)

CHRISTIE JAMIESON, Staff, Senator Bert Stedman, sponsor of SB 159, introduced the bill on behalf of the sponsor. She read the following sponsor statement into the record: [Original punctuation provided.]

Since January 2009, Airlift Northwest, the Seattle based provider of lifesaving air medical transport services, has offered the popular AirCare membership program to residents of Southeast Alaska. Over 1,600 Southeast households are enrolled in the program. Air medical transportation is expensive and insurance may not cover all the costs. The purpose of the AirCare program is to cover all out-of-pocket expenses such as deductibles and coinsurance amounts that may not be covered by the primary payer. As an AirCare member, only your insurance company receives a bill. Airlift Northwest is secondary to all payers and works directly with your insurance company for claims processing. The AirCare program directly helps fund Airlift Northwest so they can transport critically ill or injured patients to hospitals with levels of care not locally available.

Since its inception, the AirCare program was offered to Alaskans under a regulatory exemption it received from the Alaska Division of Insurance. However, after an organizational restructuring, the Division of Insurance deemed the program no longer exempt from insurance regulation as stated in AS 21.87.010 under which Airlift Northwest was providing the program. As a result, the Division of Insurance ordered Airlift Northwest to cease enrolling new members. Airlift Northwest is allowed to honor their existing memberships but is not allowed to renew expired memberships.

If Airlift Northwest wants to continue offering the AirCare program, then the program must either be fully insured by a health insurer authorized by Alaska or Airlift Northwest must obtain a certificate of authority pursuant to AS 21.09 to transact health insurance in Alaska. Since Airlift Northwest operates under the umbrella of University of Washington's medical system, becoming a licensed insurer in Alaska is not an option for them.

Senate Bill 159 will exempt air ambulance services from the state's insurance code, thereby allowing Airlift Northwest to continue offering the AirCare program to Alaskans.

[1:37:33 PM](#)

SENATOR OLSON asked the reason for the restructuring that eliminated the regulatory exemption.

SENATOR STEDMAN suggested the Division of Insurance answer the question.

SENATOR OLSON asked what other medevac services in the state would be affected by this legislation.

MS. JAMIESON offered her understanding that Apollo [MT] from Fairbanks would also be affected and they haven't voiced an opinion on the legislation.

SENATOR OLSON asked if Apollo MT is owned by an Alaskan company or an outside entity.

MS. JAMIESON said she didn't know.

SENATOR OLSON asked if Airlift Northwest and Guardian are ineligible to receive a certificate of insurance in Alaska because they're owned by outside entities.

MS. JAMIESON said she didn't know.

[11:39:19 PM](#)

SENATOR ELLIS joined the committee.

SENATOR OLSON

MARTY HESTER, Acting Director, Division of Insurance, introduced himself.

SENATOR OLSON asked why the division undertook a regulatory change that eliminated the exemption.

MARTY HESTER clarified that it wasn't the division that changed regulations. The division was approached by another company that wanted to offer similar membership agreements and operate under the same exemption as Airlift Northwest. The division deemed that the new company did not meet the Title 21 exemption. After inquiry, the division subsequently determined that Airlift Northwest no longer qualified for the exemption that was offered in 2008, because in 2010 the company restructured to become a nonprofit under the University of Washington.

Airlift Northwest is considered a municipality under Washington statute and they petitioned the Division of Insurance to be considered a municipality under Alaska statute or a nonprofit medical service corporation under AS 21.87.010. After discussions with Department of Law, the division deemed that Airlift Northwest neither qualified as a municipality under Alaska statute nor as a nonprofit medical service corporation because they weren't offering a medical service. The company was in fact offering a benefit by waiving deductibles and coinsurance of members that purchased the agreements. Thus, the Division of Insurance contacted Airlift Northwest and asked the company to cease and desist.

SENATOR OLSON commented that it sounds as though it was a reinterpretation of AS 21.87.010.

MR. HESTER clarified that Airlift Northwest changed structure in 2010 to become a nonprofit under the University of Washington. Responding to further questions, he restated the forgoing explanation.

SENATOR OLSON asked if Airlift Northwest aircraft are designated as public use aircraft since they're a municipality under Washington statute.

MR. HESTER said he wasn't sure.

[1:45:01 PM](#)

SENATOR OLSON offered his view that anybody who flies a sick person to get medical care is offering a service. He opined that the division did the people of Alaska a disservice by issuing the cease and desist order. He asked if it's true that medevac services are no longer available.

MR. HESTER clarified that the division's determination was that an air ambulance service provider can't offer the membership agreement. They can still operate, but they can't offer the benefit to not balance bill the additional cost.

SENATOR OLSON reiterated that this is working against the public interest and putting some people in dire straits.

MR. HESTER responded that part of the mission statement of the Division of Insurance is to protect the consumer. In conjunction with Department of Law, the division determined that the product that was being offered by Airlift Northwest did not meet the required exemptions under AS 21.87.010. He also pointed out that a product was still available to Alaskans when this decision was made. The division determined that it was protecting consumers by applying the statute as it was written.

SENATOR OLSON maintained that from a medical standpoint the decision is working to the detriment of the patient.

[1:48:28 PM](#)

SENATOR STEDMAN voiced concern that the lack of competition is driving the price structure of air ambulance services. He asked the division's opinion about altering the statute to allow further competition.

MR. HESTER responded that the division sees that SB 159 would provide consumer protections and allow additional business for products that Alaskans have asked for to be written in the state.

SENATOR STEDMAN said he takes that as a statement of support for the bill.

[1:50:06 PM](#)

MR. HESTER restated the division's mission statement to regulate the insurance industry to protect Alaskan consumers. He continued to say that consumers need products in Alaska and the state needs to be open for business to provide those products to Alaskans. SB 159 provides the protections that consumers need and allows the products consumers are asking for, he said.

SENATOR STEDMAN disclosed that he is a licensed life and health insurance agent.

[1:51:14 PM](#)

CO-CHAIR DUNLEAVY asked what happens to a member who needs a plane and one isn't available.

MR. HESTER said the products that were sold in the past did not guarantee service and any sold in the future wouldn't either. Companies may decide to offer reciprocity but he couldn't speak to the specifics because he hadn't seen those products.

CHAIR DUNLEAVY observed that something could be written into the agreement.

MR. HESTER agreed.

SENATOR MICCICHE referenced Section 2 subsection (c) on page 2, lines 6-9, and summarized that a third party isn't required to provide air ambulance service. He asked if state law requires somebody who is available to respond to a person who is in medical need.

MR. HESTER offered to follow up with the answer.

SENATOR MICCICHE asked if other companies currently operate under the existing exemption.

MR. HESTER answered no, but one underwritten company is offering the product and it is compliance with Title 21.

[1:54:08 PM](#)

SHELLY DEERING, Regional Manager, Airlift Northwest, Juneau, Alaska, introduced herself.

CHRIS MARTIN, Executive Director, Airlift Northwest, University of Washington, Seattle, Washington, introduced herself.

MS. DEERING said she is testifying in support of SB 159, which seeks to provide Alaskans with the ability to participate in membership programs for air medical transportation. She has been the regional manager of Airlift Northwest ("Airlift") for 21 years, and the company has been transporting patients from Southeast and other regions of Alaska for 32 years. She and the staff of 19 nurses and pilots live in Juneau. She explained that Airlift sold air care membership in Alaska from 2008 until November 2013 when the Division of Insurance asked the company to stop due to a restructure of Airlift Northwest and an interpretation of the regulations. Airlift currently has 4,066 members in the program that reside in Southeast.

She said the Division of Insurance has been supportive of getting legislation that would allow Airlift and any other air ambulance company to sell memberships to Alaskans. SB 159 does this and also gives important oversight to the Division of Insurance.

SENATOR MICCICHE observed that Section 1 appears to clarify that an air ambulance service provider would have to respond if it was available when there was a medical emergency, even if that company didn't have an agreement. He asked if his understanding was correct.

MS. DEERING stated that Airlift Northwest responds to any emergent request it receives. The question of insurance isn't raised.

SENATOR MICCICHE asked if she agrees that Section 1 requires that.

MS. MARTIN agreed and also confirmed Ms. Deering's statement that Airlift responds to any request for emergent transport. It doesn't matter whether the person has an AirCare membership or insurance. She noted that last year Airlift did over \$7 million in charity care.

SENATOR MICCICHE read Section 1.

[1:59:23 PM](#)

SENATOR STEDMAN disclosed that he may be an AirCare member.

SENATOR OLSON asked how Airlift Northwest is able to stay in business in light of the ruling in Alaska.

MS. MARTIN said the company has four bases in Washington state in addition to the base in Southeast Alaska, but the issue really isn't financial. It's the right thing to do for patients.

[2:01:49 PM](#)

CHAIR DUNLEAVY opened public testimony. He found none. He commented that without air ambulance service, his wife and youngest child wouldn't have survived. He described the service as crucial to all Alaskans, particularly those in rural regions.

CHAIR DUNLEAVY announced he would hold SB 159 in committee.

[2:02:52 PM](#)

At ease.

SB 99-AIDEA: DEVELOPMENT LOANS

[2:03:39 PM](#)

CO-CHAIR DUNLEAVY announced the consideration of SB 99. "An Act correcting a reference to the Alaska Industrial Development and Export Authority revolving fund; limiting the use of the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund for certain loans and loan guarantees and allowing the development fund to be used as security for a bond guarantee; and amending the definition of 'qualified energy development.'" This was the first hearing.

[2:03:58 PM](#)

JESSE LOGAN, Staff, Senator Lesil McGuire, introduced SB 99 on behalf of the sponsor. He spoke to the following sponsor statement: [Original punctuation provided.]

The Sustainable Energy Transmission and Supply (SETS) Development Fund was created in 2012, AS 44.88.650-44.88.690, as a fund within the Alaska Industrial Development and Export Authority (AIDEA) to promote and provide financing for energy development in the state to alleviate unemployment and contribute to the state's economic welfare, economic diversity, and economic development. Under this statute AIDEA is authorized to use money in the SETS fund to assist in the construction, improvement, rehabilitation, and expansion of qualified energy developments.

SB 99 provides technical amendments to the SETS Development Fund within AIDEA. It has been determined that the statutes, as written last year, created an ambiguity in the one third capital cost limit as it relates to loans, loan guarantees and bond guarantees. The ambiguity arises in the current statutes as to whether the \$20 million loan limitation worked in conjunction as a one-third limitation on loan guarantees, or was independent of that limitation. Additionally, the statute was vague as it relates to AIDEA's authority to use the fund as a security for a bond guarantee. These amendments clarify these ambiguities.

AIDEA has received requests from project components and banks to utilize the fund in which AIDEA needed the authority to issue a bond guarantee for more than

one-third of project costs. This bill clarifies the types of financing and limitations for financing for qualified energy developments in the state.

[2:07:14 PM](#)

MR. LOGAN reviewed the proposed changes to the existing statute.

- On page 2, line 3, the word "loan" was deleted to reflect the correct name of the revolving fund.
- Page 2, lines 15-17, contains additional language that specifies that this section only applies to the SETS program and not any other within AIDEA.
- On page 2, line 17, the words "finance or participate in financing of" was deleted to clarify that paragraphs (1) and (2) of AS 44.88.690(a) found on page 2, lines 18-21, pertain only to loans and loan guarantees, and not general finance participation. The provision in paragraph (1) specifies that AIDEA cannot grant a loan for more than one-third of the cost of a qualified energy development project. The language in paragraph (2) clarifies that the loan guarantee cannot exceed \$20,000.
- On page 2, line 28, the term "project" was changed to "development" to clarify that "qualified energy development" means a development in the state, rather than a project.
- Section 3 on page 2 specifies that the program can be used for a security of a bond guarantee.

[2:09:40 PM](#)

MARK DAVIS, Deputy Director, Alaska Industrial Development and Export Authority, (AIDEA), stated agreement with Mr. Logan's description of SB 99. He added that the bill was requested by the financial institutions that AIDEA works with.

[2:10:33 PM](#)

At ease

[2:12:02 PM](#)

CHAIR DUNLEAVY reconvened the meeting and asked Senator Stedman if he had an amendment to offer.

[2:12:14 PM](#)

SENATOR STEDMAN moved Amendment 1, labeled 28-LS0741\A.3.

CHAIR DUNLEAVY objected for discussion purposes.

AMENDMENT 1

OFFERED IN THE SENATE
TO: SB 99

BY SENATOR STEDMAN

Page 1, line 5, following "**guarantee;**":
Delete "**and**"

Page 1, line 6:
Delete "**development.'**"
Insert "**development'; and authorizing the Alaska Industrial Development and Export Authority to issue bonds to finance the infrastructure and construction costs of the Bokan-Dotson Ridge rare earth element project.**"

Page 3, following line 4:
Insert a new bill section to read:
"*** Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to read:
LEGISLATIVE APPROVAL; BOKAN-DOTSON RIDGE RARE EARTH ELEMENT PROJECT. (a) The Alaska Industrial Development and Export Authority may issue bonds to finance the infrastructure and construction costs of the Bokan-Dotson Ridge rare earth element project. The Bokan-Dotson Ridge rare earth element project shall be owned by the authority and financed under AS 44.88.172 - 44.88.177. The principal amount of the bonds provided by the authority for the Bokan-Dotson Ridge rare earth element project may not exceed \$145,000,000 and may include the costs of issuing bonds considered reasonable and appropriate by the Alaska Industrial Development and Export Authority.
(b) This section constitutes legislative approval required by AS 44.88.095(g)."

SENATOR STEDMAN explained that the amendment authorizes AIDEA to issue bonds to finance the infrastructure and construction of the Bokan-Dotson Ridge Rare Earth Element Project. He read the above amendment.

He highlighted the permissive language giving AIDEA discretion in its bonding authority, up to \$145 million. He also noted that he had an amendment to clarify some of the language in Amendment 1.

[2:15:09 PM](#)

SENATOR OLSON asked if AIDEA has an opinion on the amendment.

SENATOR STEDMAN replied he worked with AIDEA on the amendment, but would prefer to hear from them directly.

MR. DAVIS said AIDEA has no objection to the amendment, but would suggest additional clarification that AIDEA could use the bonds for ownership or financing.

SENATOR OLSON asked if the sponsor has an opinion on the amendment.

[2:16:08 PM](#)

SENATOR LESIL MCGUIRE, sponsor of SB 99, stated support for Amendment 1.

SENATOR MICCICHE asked the total in the SETS fund.

MR. DAVIS replied the SETS fund total is \$67.5 million. Responding to a further question, he explained that this authorizes the AIDEA Board, in its discretion, to issue SETS bonds that would be sold on the private market.

SENATOR MICCICHE referenced AS 44.88.095(g) and highlighted that this project wouldn't come back before the legislature. It gives AIDEA the authority to bond up to \$145 million.

MR. DAVIS agreed; this is asking for legislative approval for an upper limit.

SENATOR MICCICHE asked if it's typical that bonding authority at this level wouldn't come back to the legislature.

MR. DAVIS confirmed this is the process, and explained that the Skagway ore terminal was a similar project. AIDEA asked for and received authorization to issue up to \$80 million in bonds for that project, although the full bonding has not been used.

[2:18:21 PM](#)

CHAIR DUNLEAVY removed his objection. Finding no further objection, Amendment 1 was adopted.

[2:18:35 PM](#)

SENATOR STEDMAN moved [conceptual] Amendment 2. He explained that it amends Amendment 1.

CO-CHAIR DUNLEAVY objected for discussion purposes.

AMENDMENT 2

OFFERED IN THE SENATE BY SENATOR STEDMAN
TO: Amendment 1, 28-LS0741\A.3, for SB 99

Page 1, line 17:

Following: "Bokan-Dotson Ridge rare earth element"

Delete: "project shall be owned"

Insert: projects surface complex shall be owned or
financed"

SENATOR STEDMAN described the above amendment.

[2:19:36 PM](#)

SENATOR OLSON asked if other projects would be affected by the amendment.

MR. DAVIS replied that this authority is specific to the Bokan project. Amendment 2 clarifies that AIDEA has determined that it can only lend on the surface and could not use bonding for working capital or underground equipment that might be used in the mine. He noted that the idea of financing to ownership was his suggestion.

SENATOR OLSON asked for assurance this wouldn't encumber the Red Dog Mine and the connecting road.

MR. DAVIS replied this would not affect that mine; it only gives authorization for the Bokan project.

SENATOR MICCICHE asked if it's unlikely that a state agency would operate this project, although it's authorized under AS 44.88.172 - 44.88.177.

MR. DAVIS confirmed that those statutes, particularly AS 44.88.172(a), permit AIDEA to own or partially own or finance a project. However, AIDEA usually contracts projects out or seeks private partners so another entity operates the project.

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CHAIR DUNLEAVY removed his objection and Amendment 2 was adopted.

[2:24:04 PM](#)

KEN COLLISON, Chief Operating Officer, Ucore Rare Metals, introduced himself.

SENATOR STEDMAN asked Mr. Collison to describe the Bokan-Dotson Ridge Rare Earth Project.

MR. COLLISON explained that there are about 16 elements in the periodic table that are classified as light and heavy rare earth elements (REEs), but only the heavy REEs are rare and critical to both green energy and the military. Right now more than 95 percent of the heavy rare earths originate in China, so there is impetus to create a "Made in the USA" supply of rare earths. Ucore is part of that effort and has contracts with both the Department of Defense and the Department of Energy to further that goal.

MR. COLLISON said that a preliminary economic assessment of the Bokan-Dotson Ridge Rare Earth Project ("Project") predicts capital costs of \$221 million. Upon review with AIDEA, it was determined that \$191 million could be bonded, but AIDEA is only authorized to bond 75 percent of that. Thus, the \$145 million provided in Amendment 1.

He explained that the Project is a 1,500 ton/day underground mine that uses new technology so there will be no tailings left on the surface when the mine closes. The timeline calls for permitting to begin late in the first quarter of this year or soon thereafter. He expressed hope that the mine would be permitted more quickly than others since it's underground, has a very small footprint, and will have no tailings on the surface at closure. The feasibility study and the engineering for some of the major equipment will run concurrently and should be finished by year end. Down payments on the major equipment will be due shortly thereafter so that it doesn't hold up the project.

MR. COLLISON said this legislation will be a big help in developing the Project, and it will show the financial markets and the rest of the mining industry that Alaska is open for business. The state will also benefit from additional jobs. During the estimated 1.5 year construction, the onsite workforce will peak at about 300 employees, which will create about 125 indirect jobs. During operations there will be about 190 employees and that should create about 150 indirect jobs. Current estimates indicate that about 340 new jobs will be created in the state. In Alaska, the average income for somebody

in mining is between \$80,000 and \$100,000 so these are very good, year around jobs.

CO-CHAIR DUNLEAVY asked the predicted life of the mine.

MR. COLLISON replied it's 11 years but if mines like Greens Creek and Red Dog are indicative, it will last several times longer than that. It's promising that the ore body is open at depth and on strike and that the property has numerous other rare earth showings.

[2:29:30 PM](#)

SENATOR MICCICHE referenced a handout in the packets that specifically identifies Dy, Tb, and Y as heavy rare earth elements available at Bokan Mountain. He requested an expanded discussion of REEs.

MR. COLLISON identified the three REEs as dysprosium, terbium, and neodymium. He explained that one of their uses is to reduce the size of magnets, which is critical for things like hybrid cars and aviation engines. The Department of Energy has identified these three rare earths and inyttrium as the most critical for [military equipment]. The Department of Defense has identified them as "subject to interruption of supply, based on actions or events outside the control of the government of the United States."

SENATOR MICCICHE asked if the mine is economically feasible at the indicated resource quantities or if inferred resources have to be included.

MR. COLLISON replied the preliminary economic assessment was done on inferred resources, as is common. Ucore has since done more drilling and now has both indicated and inferred resources. Another drill program this coming summer will move the balance of inferred resources to indicated resources, and add some. It's necessary to have at least an indicated resource in order to do a feasibility study, so that's the intent this coming summer, he said.

CO-CHAIR DUNLEAVY stated that public testimony would remain open and he would hold SB 99 in committee for further consideration.

[2:31:55 PM](#)

At ease

SB 140-AIDEA: ARCTIC DEVELOPMENT PROGRAM/FUND

[2:32:48 PM](#)

CO-CHAIR DUNLEAVY reconvened the meeting and announced the consideration of SB 140. "An Act creating the Arctic infrastructure development program and fund in the Alaska Industrial Development and Export Authority." This was the first hearing.

[2:33:04 PM](#)

SENATOR MCGUIRE, sponsor of SB 140, introduced the legislation speaking to the following sponsor statement:

Globally, all eyes are on the Arctic. The World Economic Forum has recently identified Arctic Infrastructure development as one of the top Four (4) challenges facing the regions. Alaska's future is in the Arctic, and in order for Alaskans to capitalize on the incredible opportunities and overcome the significant challenges that this region presents, we must begin to build infrastructure now.

Aside from a few areas in Norway and the Russian Federation the Arctic as a whole remains vastly underserved by transportation, ports, communication, emergency response, defense and other critical infrastructure. For further development to occur, which Alaskans deserve, both public and private interests must come together to boost the investment in the Arctic.

For these reasons I have introduced Senate Bill 140, *Arctic Infrastructure Development Fund* ("AIDF"). SB 140 expands AIDEA's tool bag by extending the same authority for loans, loan guarantees, bonds and bond guarantees that it currently utilizes in the energy sector via the SETS fund (AS 44.88.650- 690) in order to develop Infrastructure in the Arctic. AIDEA used SETS to facilitate the financing of the Interior Energy Project. This tool helps to create the public-private partnerships that are needed to encourage large investment in capital intensive infrastructure.

Senate Bill 140 extends AIDEA's existing power to finance, or facilitate the financing of projects to the realm of Arctic Infrastructure by granting the Authority the ability to:

1. Insure project obligations and guarantee loans or bonds for projects.
2. Defer principle payments and capitalize interest.
3. Offer financing terms of up to 30 years.
4. Enter into lease agreements, sales-lease-back agreements, build-operate-transfer agreements and other agreements to finance Arctic infrastructure projects.

These powers already provide flexible terms that can reduce the ultimate cost of energy (via the SETS program) to consumers, and if it can work in the energy realm, it can work for infrastructure. However, SB 140 also requires legislative approval for investments that are more than one-third of a project's capital costs or if a loan guarantee exceeds \$20 Million. By subjecting certain investments to legislative approval, SB 140 maintains an appropriate level of due diligence for projects.

By making financing available we can empower communities and attract a global pool of investment that is an alternative to the traditional grant model that too often underfunds projects and leads to delays. Relying on credit also ensures that sponsors have some skin in the game and a stake in the project's success. Most importantly, we expand the arena of where Alaskan assets are working in order to grow our own economy. Currently, many of Alaska's savings accounts are invested in stocks and bonds that drive economic activity outside of Alaska. SB 140 suggests instead that some of those savings be invested here in Alaska through AIDEA, not as blank checks for development, but as investments for our future in Arctic Infrastructure.

For the purposes of this Act, I propose that this program and fund focus infrastructure development in the geographical definition of the Arctic as laid out in Arctic Research and Policy Act (amended 1990). That definition includes the area of the State of Alaska north of the Arctic Circle, north and west of the boundary formed by the Porcupine, Yukon, and Kuskokwim Rivers, all contiguous seas, including the Arctic Ocean, and the Beaufort, Bering, and Chukchi Seas, and the Aleutian chain.

With AIDF I am proposing that the State expand AIDEA's existing authority to finance, or facilitate the financing of, Arctic Infrastructure.

2:43:30 PM

SENATOR STEDMAN agreed with the bill sponsor that Alaska has to get aggressive in developing infrastructure in the Arctic because the federal government is lagging.

JESSE LOGAN, Staff, Senator Lesil McGuire, stated that after the bill was introduced the sponsor worked with AIDEA, the Arctic Policy Commission, and other stakeholders to identify ways to strengthen the bill and help the development of Arctic infrastructure. He noted the packets contain a sectional of the suggested changes.

SENATOR STEDMAN asked if the process will be to introduce potential changes and return with a committee substitute.

MR. LOGAN said yes.

CHAIR DUNLEAVY asked Mr. Davis if he had anything to add.

MARK DAVIS, Deputy Director, Alaska Industrial Development and Export Authority, (AIDEA), agreed with Mr. Logan that AIDEA is working with the sponsor's office on a possible committee substitute.

2:45:30 PM

STEPHEN TRIMBLE, President, Trimble Strategies, LLC and public member of the Alaska Arctic Policy Commission, stated support for SB 140, which would create an Arctic infrastructure program and fund within AIDEA. He described the Arctic as the future of Alaska and emphasized the importance of investing in infrastructure now in order to have a meaningful place in this new global frontier. Industry has responded to the call for public investment and now is the time to further public/private investment within Alaska. Enabling AIDEA with the powers provided by SB 140 is an investment in the future of Alaska.

2:47:11 PM

STEPHEN KLINE, Managing Principle, First Infrastructure Inc., a consulting firm based in New Jersey, said he is testifying as a professional in the financial field. He reported that he advises AIDEA on a number of matters, the regulations and procedures relating to the SETS fund in particular.

He related that he is a strong proponent of guarantee structures to stretch relatively scarce public sector dollars for the benefit of what are deemed to be worthwhile projects. Utilizing such a structure in support of Arctic infrastructure projects would be a wise use of the state's scarce public resources, he said.

[2:49:24 PM](#)

CHRIS HLADICK, Manager, City of Unalaska, Unalaska, Alaska, reported that he served on both the Northern Waters Task Force and the Arctic Policy Commission and is testifying in support of SB 140. He said that Unalaska is seeing explosive needs to accommodate the anticipated arrival of the oil companies. Infrastructure needs have been identified that will require public/private partnership and SB 140 provides another tool. He acknowledged that a lot of places need additional infrastructure, and pointed out that all the infrastructure development in places like Kotzebue, Nome or Port Clarence will have to pass through Unalaska/Dutch Harbor.

CO-CHAIR DUNLEAVY commented that he was impressed when he visited Unalaska.

SENATOR MICCICHE asked if the changes in Section 8 would include the ability for LNG storage and infrastructure needs.

MR. HLADICK said he didn't know.

SENATOR MICCICHE asked to hear from the sponsor after public testimony so she could answer the question.

[2:52:10 PM](#)

RON LONG, Assistant City Manager, City of Seward, stated that if the state is to succeed in the development of the Arctic, whether it's in fisheries, resource development, tourism, or response and monitoring capacity for foreign flagged vessels transiting the Bering Straits, it is critical to have a deep water port or ports to support the effort. SB 140 helps advance those goals. AIDEA's track record with Red Dog transportation infrastructure and Alaska Ship and Dry Dock speaks well of their ability to help move these projects forward.

He expressed hope that as the bill moves forward it would be amended to include provisions that will build on existing capacity within the state to support the staging and logistics necessary to make a number of port developments successful. He noted that when he attended an Institute of the North

presentation in Seattle on Arctic opportunities and challenges, a representative from a Washington state port declared that Bellingham would be the gateway to the Arctic. He warned that just as other nations are moving into the Arctic with active plans and resource commitments while the U.S. is trying to form an action plan, other states are looking for opportunities that should remain in Alaska.

SENATOR MICCICHE expressed appreciation for the recent tour of Seward's breakwater expansion. He observed that there are communities that are ready to support the Arctic, although all need a bit of infrastructure boost to ensure the safety of the services.

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CHAIR DUNLEAVY asked Senator Micciche to restate his question for the sponsor.

SENATOR MICCICHE expressed interest in helping with an amendment to ensure that the bill will consider energy infrastructure and projects in western and northwest Alaska.

SENATOR MCGUIRE said that has already been addressed both in SB 140 and the changes to SETS in SB 99. She described where these changes are found. Section 11, paragraphs (18) and (19) of SB 140 change the way "Arctic" and "Arctic infrastructure development" is defined so that all of Alaska can benefit from the new fund. On page 3, lines 1-4, of SB 99 it states that liquefaction, regasification storage, and natural gas are included in the definition of "qualified energy development."

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CO-CHAIR DUNLEAVY announced he would hold SB 140 in committee for further consideration. Public testimony would be opened at the next hearing.

[2:59:59 PM](#)

There being no further business to come before the committee, Chair Dunleavy adjourned the Senate Labor and Commerce Standing Committee meeting at 2:59 p.m.