

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 9, 2015

3:18 p.m.

**MEMBERS PRESENT**

Representative Shelley Hughes, Vice Chair  
Representative Jim Colver  
Representative Gabrielle LeDoux  
Representative Cathy Tilton  
Representative Andy Josephson  
Representative Sam Kito

**MEMBERS ABSENT**

Representative Kurt Olson, Chair  
Representative Mike Chenault (alternate)

**COMMITTEE CALENDAR**

OVERVIEW: DEPARTMENT OF COMMERCE~ COMMUNITY & ECONOMIC  
DEVELOPMENT - DIVISION OF CORPORATIONS~ BUSINESS & PROFESSIONAL  
LICENSING

- HEARD

OVERVIEW: ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

SARA CHAMBERS, Acting Director  
Division of Corporations, Business, and Professional Licensing  
Department of Commerce, Community, & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Presented a PowerPoint overview of the  
Division of Corporations, Business, and Professional Licensing  
(DCBPL), Department of Commerce, Community & Economic  
Development (DCCED).

TED LEONARD, Executive Director

Alaska Industrial Development & Export Authority (AIDEA)  
Department of Commerce, Community, & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented a PowerPoint overview of the Alaska Industrial Development and Export Authority (AIDEA).

**ACTION NARRATIVE**

[3:18:26 PM](#)

**VICE CHAIR SHELLEY HUGHES** called the House Labor and Commerce Standing Committee meeting to order at 3:18 p.m. Representatives Tilton, Kito, Josephson, Colver, and Hughes were present at the call to order. Representative LeDoux arrived as the meeting was in progress.

**OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT - DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING**

[3:19:57 PM](#)

**VICE CHAIR HUGHES** announced that the only order of business would be an overview by the Department Of Commerce, Community & Economic Development, Division of Corporations, Business, and Professional Licensing.

[3:20:07 PM](#)

**SARA CHAMBERS**, Acting Director, Division of Corporations, Business, and Professional Licensing (DCBPL), Department of Commerce, Community, & Economic Development (DCCED), offered to give a PowerPoint overview to review some of the concerns that were raised by the legislature and the department. She briefly mentioned components of the division, including business licensing, corporations, professional licensing, investigations, and administration support [slide 2]. She said the division licenses businesses and ensures that corporations are registered in the state and file the appropriate biennial reports. The professional licensing section comprises approximately 84 percent of the division's function, with the investigation unit and administrative assistance section providing support to the board and non-boarded professions.

[3:22:27 PM](#)

MS. CHAMBERS presented a brief timeline to highlight some of the issues the division faces. In 2010, Commissioner Bell joined the administration and appointed Don Habeger as division director. In 2011, she was hired as the professional licensing manager. The Legislative Audit Division conducted a special legislative audit that identified concerns on the division's fee setting methodology, indirect cost allocation methodology and investigative case management. The legislature appropriated \$3.4 million in 2012 to offset an historical overpayment of indirect expenses by professional licensing programs. The division assessed indirect costs without allocating indirect expenses to the business licensing or corporation sections of the DCCED. Essentially, the one-time appropriation repaid the professional licensing programs for the overpayment, but the division also agreed to reconcile expenses for the past 10 years to ensure the accuracy of the division's finances and accounting.

[3:25:38 PM](#)

REPRESENTATIVE LEDOUX asked whether the \$3.4 million appropriation was refunded to licensees or if this appropriation went from one governmental agency to another.

MS. CHAMBERS answered that the appropriation reimbursed professional licensing programs for the indirect allocation costs [for administrative support to the boards]. After allocating indirect costs appropriately, some programs were in further deficit, even with the infusion of funds from the appropriation, she said, but in other instances the appropriation created a surplus that put some programs in good standing and will benefit future fee-setting for its licensees. For example, in an instance in which a program began with \$100,000 surplus, the appropriation may have increased the surplus to \$200,000, which would "stave off" any increases to professional licensing fees for the next biennial cycle.

[3:28:35 PM](#)

REPRESENTATIVE LEDOUX asked for further clarification on the net effect of any savings to the state, the public, or to licensees. She agreed it's nice to have the books in order, but ultimately she was interested in the ultimate benefits to license holders or the state.

MS. CHAMBERS advised members that the division experienced a serious trust issue with its 20 boards since boards didn't have

any confidence in the indirect cost allocation figures. She explained that licensees must cover 100 percent of their program costs, including the division's cost to administer their boards and conduct any investigations. The appropriation offset the incorrect indirect costs, she said, but other issues surfaced as a byproduct of the process.

[3:31:15 PM](#)

REPRESENTATIVE LEDOUX asked whether the \$3.4 million went to the licensees.

MS. CHAMBERS answered yes; that the reimbursement went to the licensing programs.

[3:31:38 PM](#)

VICE CHAIR HUGHES related her understanding that the reimbursement was made to boards, but checks were not issued to license holders. She asked whether a minimum amount was recommended in the audit report for a base level to prepare for potential investigations. She further asked whether the division put in place any safeguards so reimbursement didn't result in expenditures for extra projects, given that \$3.4 million spread over 20 boards would result in sizable funds.

MS. CHAMBERS answered that the details were worked out between the administrative services manager and the division and management was informed; however, in many instances the day-to-day staff had less of an awareness of the accounting actions. She recalled that spreading \$3.4 million among the 40 licensing programs affected programs through the accounting function. Further, the expenditure of funds requires adequate safeguards through the procurement and approval process, she said.

[3:34:43 PM](#)

VICE CHAIR HUGHES asked whether she could explain the difference in the number of programs since she mentioned 20 boards, but there are 40 licensing programs.

MS. CHAMBERS answered that the licensing programs are split between 21 boards and 22 non-board professions, including a few new programs authorized by the legislature.

[3:35:13 PM](#)

MS. CHAMBERS returned to the timeline, noting that in 2013, the division provided the legislature with its annual report, including a six-year review of the division's licensing programs.

MS. CHAMBERS reported that House Bill 187 was introduced to address some of the concerns. This committee recognized some of the problems programs face with fee-setting methodology and investigator cost-sharing. There has not been a standard recommendation in terms of providing safeguards for potential investigation, but the statute requires fees be set in consultation with the boards. This process allows the division and the boards to anticipate and forecast potential expenses over the next two-year cycle to help ensure the programs can operate.

[3:37:33 PM](#)

REPRESENTATIVE JOSEPHSON asked if the greatest power afforded the boards was the ability to write regulations that affect their professions, even though 22 programs do not have that authority. He asked whether boards receive any other benefits, such as travel costs.

MS. CHAMBERS answered that board governance varies widely depending on the statutes, but the boards meet in person for a specified number of meetings and hold additional teleconferences. The boards have the ability to initiate regulations, but they must follow the same procedures to promulgate regulations as any other agency. She reported that the division partners with boards on fee setting and regulations that apply to all programs, which she described as being a parallel process. The non-board program areas are administered by the division, with the commissioner and staff performing any public noticing, she said.

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MS. CHAMBERS highlighted the issues addressed in the Legislative Budget and Audit Committee (LB&A), including fee setting, indirect expenditures, board travel, and investigative procedures [slide 3].

MS. CHAMBERS outlined issues related to investigative procedures, including an awareness that board members are part of the "gate" to determine whether to initiate an investigation [slide 4]. Board members also provide guidelines for consent

agreement negotiations and make final decisions on license disciplines. The professional investigators use standard procedures and also use guidelines the boards establish to help ensure consistency in investigations.

[3:42:44 PM](#)

VICE CHAIR HUGHES asked whether the division's investigators are fulltime state employees or contract employees.

MS. CHAMBERS answered they are state employees.

VICE CHAIR HUGHES further asked whether this is the most economical method to obtain expertise for all the areas.

MS. CHAMBERS agreed it may take time for investigators to "get up to speed." However, the division has put into place some processes to help ensure this, including adding more "hands on supervision" and "quality control" for investigators. Several boards have unique processes, for example, the division's investigators may attend board-approved training specific to real estate appraisers. In addition, the division may bring in expert witnesses for situations that requires precise expertise and the board does not have the expertise or for professions administered by the division [in non-board areas]. Expert witnesses are vetted to ensure they have the expertise but do not have any conflict of interest.

VICE CHAIR HUGHES acknowledged this committee is not a finance subcommittee, but these are the types of questions the committee must also keep in mind.

[3:45:43 PM](#)

REPRESENTATIVE KITO disclosed that he also holds a professional civil engineer license. He stated that the Board of Architects, Engineers, and Land Surveyors (ALES) funded an investigator dedicated to the board since it has a fair number of investigations or unique ones. He suggested that House Bill 187 was an effort to control the costs of investigations and spread the costs among the licensees to avoid significant fee increases in any given year.

[3:46:38 PM](#)

MS. CHAMBERS, returning to the investigative procedures, reported that the division has put in place internal controls that have reduced legal expenses by 34 percent since 2011.

MS. CHAMBERS directed attention to other issues addressed in the Legislative Budget and Audit Committee, including board travel. The division resolved all of the issues raised by the committee. For example, board members are now able to coordinate travel through the division using the state travel agent, or associations are authorized to book travel through their processes. In addition, the legislature approved reimbursements for board travel to be credited to the boards.

[3:48:42 PM](#)

VICE CHAIR HUGHES asked whether the division or boards have used video conferencing.

MS. CHAMBERS answered that board members prefer face-to-face conferences; however, staff have sometimes used video conferences or teleconferences for some board meetings.

[3:49:55 PM](#)

MS. CHAMBERS directed attention to the indirect allocation methodology [slide 6]. She stated that the division reduced its indirect costs by nearly \$1 million, by finding efficiencies and scrutinizing indirect costs. In addition, the division published its first annual report on professional licensing boards that provides a thorough explanation of the allocation of direct and indirect expenses.

[3:51:31 PM](#)

REPRESENTATIVE KITO asked for a listing of the indirect cost items that are billed to the boards and the percentage of the indirect allocation.

MS. CHAMBERS agreed to provide it.

[3:51:55 PM](#)

VICE CHAIR HUGHES asked whether the indirect costs are attributed to the boards, some to administrative services, or to the commissioner.

MS. CHAMBERS answered that the indirect costs include statewide costs from the Department of Administration (DOA) that filter to administrative services and to the commissioner. The division allocates those costs to the boards.

[3:52:57 PM](#)

VICE CHAIR HUGHES asked whether some of the indirect costs in license fees are attributed to administrative services division and the commissioner.

MS. CHAMBERS answered yes.

VICE CHAIR HUGHES asked how much of these costs was for overhead and whether these costs are the same for all the professions.

MS. CHAMBERS offered to provide indirect costs to the committee.

[3:53:22 PM](#)

VICE CHAIR HUGHES asked for an assessment of the indirect costs for boards and non-board licensing programs.

MS. CHAMBERS answered that there is no difference.

[3:53:40 PM](#)

VICE CHAIR HUGHES asked for the range of license fees for the 43 programs.

MS. CHAMBERS answered that several programs have the least expensive fees of \$50, but the most expensive [biennial] licensing fee is \$1,700 for midwifery fees.

[3:54:34 PM](#)

REPRESENTATIVE LEDOUX asked for clarification that the division does not license physicians and attorneys.

MS. CHAMBERS answered that the Alaska State Medical Board falls under the division, but attorneys do not.

REPRESENTATIVE LEDOUX asked for further clarification that licensing fees for midwives are more than licensing fees for doctors.

MS. CHAMBERS answered yes; fees for midwives are higher.

3:55:19 PM

REPRESENTATIVE JOSEPHSON expressed concern that the division may go overboard with its recordkeeping, such that staff must document all its time.

MS. CHAMBERS answered that most staff are assigned specific programs so their timesheets are focused on specific licensing programs. Some staff have multiple licensing functions and their time was entirely billed out to indirect costs since it would be too difficult to track the time.

REPRESENTATIVE JOSEPHSON pointed out that in the private sector in the practice of law, about five percent of their time is lost in tracking billable hours.

3:57:04 PM

REPRESENTATIVE KITO, speaking from his experience working for the Department of Transportation & Public Facilities (DOT&PF), reported that the department developed an indirect cost allocation plan. For example, the commissioner's office would estimate the amount of time spent on the Alaska Marine Highway System (AMHS) to generally allocate the commissioner's time. He offered his belief that the Department of Commerce, Community & Economic Development (DCCED) similarly tries to provide a reasonable assessment of the time spent for oversight of the division.

3:57:57 PM

VICE CHAIR HUGHES surmised that the professions paying \$50 versus \$1,700 for licensing fees would pay substantially less in indirect costs.

MS. CHAMBERS agreed that licensing fees must cover all costs, including indirect costs. Thus each program shares the indirect costs using the indirect cost allocation methodology. It varies depending on the number of staff that provide support, which has been refined in the last year to ensure the costs are defensible and transparent. For example, the direct expenses for the Board of Nursing would be spread over 18,000 licensees whereas direct expenses for midwives would be absorbed by a handful of licensees.

4:00:00 PM

VICE CHAIR HUGHES related her understanding that indirect costs are the same or similar for all programs. She asked for the percentage or dollar amount for indirect costs.

MS. CHAMBERS answered that the division estimated in 2014, the indirect cost was \$43 per licensee, which covered the cost of such items as electricity, heating, parking, and telephone service. Further, the Board of Nursing has nine staff members whereas one examiner might cover four other licensing programs. She acknowledged there is quite a bit of disparity and indirect costs may vary widely for programs.

[4:01:44 PM](#)

REPRESENTATIVE LEDOUX was uncertain how much staff time was required for the timekeeping. She asked how division staff calculates their time and whether the time is calculated similarly to the process law firms use, with staff assessing every 7-15 minutes to bill to a client, or if the costs are allocated more generally, similarly to how the DOT&PF's allocates its costs.

MS. CHAMBERS explained that the commissioner and administrative services allocate indirect expenses, similar to how DOT&PF calculates expenses. The division's staff tracks time on task; however, the nine staff working for the Board of Nursing would not track time since all their expenses are charged to one board.

[4:04:58 PM](#)

REPRESENTATIVE LEDOUX asked for further clarification on the difference between direct and indirect expenses.

MS. CHAMBERS identified direct expenses as ones attributable to a specific board, for example, time spent processing license renewals for one profession. Further, the front desk staff answers calls for all programs, but do not track their time; instead, front desk staff time is all billed as indirect expenses. In response to a question, she agreed that it doesn't make any sense for staff assigned to one board to track direct expenses.

[4:06:37 PM](#)

MS. CHAMBERS directed attention to fee setting, noting that the 2011 audit raised issues with respect to deficiencies in fee setting [slide 7]. The division has revised its fee setting including refining its methodology to forecast future expenses. Some programs have historical deficits and the division discussed amortizing this deficit over time, since it would be very difficult to overcome the deficit "in one fell swoop." The division worked with the LB&A, agreeing that it might take several biennial licensing cycles to achieve a surplus for some programs. In fact, the professional licensing unit recently ended up in a surplus position for the first time in several years. The division worked with the Legislative Budget and Audit on several other issues, including fee spikes created by unanticipated investigations or appeals, keeping in mind that programs can't predict investigations. Again, the division has been working to refine its indirect costs since these costs increase license fees. Further, she stated that the majority of revenue was collected every other year through the biennial license renewal process, which forces the programs to operate in a deficit for one year.

[4:10:43 PM](#)

VICE CHAIR HUGHES asked for the average annual cost for investigations and appeals for all the professions.

MS. CHAMBERS offered to provide the figures.

[4:11:20 PM](#)

MS. CHAMBERS highlighted that the division has acquired new licensing programs, including licensure of pawnbrokers, athletic trainers, massage therapists, and behavior analysts. The state currently licenses 67,000 professionals, up from 50,000 licensees in 2007.

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VICE CHAIR HUGHES asked whether the increase in licensure was due to population growth or from adding more boards.

MS. CHAMBERS answered that the increase in licensees was due to several reasons, noting that 12 new licensing programs have been since 1987, including nurse aides - consisting of a large number of licensees. She surmised that having an Alaska license also has a certain amount of cachet, so licensees maintain their licenses in Alaska, but may not practice in the state. She

recapped that the division has 43 programs, with 63 professional licensing or investigative staff.

**OVERVIEW: ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY**

[4:13:27 PM](#)

VICE CHAIR HUGHES announced that the final order of business would be OVERVIEW: Alaska Industrial Development and Export Authority

[4:13:57 PM](#)

TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA), Department of Commerce, Community, & Economic Development (DCCED), offered to provide a quick overview of AIDEA, discuss current projects, and to specifically discuss the jack-up rig, Pentex acquisition, and due diligence efforts.

[4:15:17 PM](#)

MR. LEONARD explained that AIDEA is the development finance authority for the State of Alaska and it represents one of the largest development authorities in the country. He reported that AIDEA was capitalized with approximately \$333 million and has repaid approximately \$356 million, with assets of \$1.1 billion. The AIDEA's mission is to promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment. AIDEA fulfills its mission by providing access to affordable long-term, asset financing, he said [slide 2].

[4:16:37 PM](#)

MR. LEONARD directed attention to AIDEA's seven different programs, including infrastructure development, energy development, project development loan participation, and conduit bonds [slide 3].

MR. LEONARD highlighted the tools that AIDEA has available to provide financing for Alaska businesses, projects, and infrastructure necessary to support Alaska's economic development. He offered that AIDEA can participate in loan participations or provide access to long-term capital for Alaska's businesses. In addition, AIDEA can provide direct loans, conduit bonds, where AIDEA acts as the conduit for

businesses to access taxable and tax-exempt bonds. Finally, the AIDEA can also provide investments to projects through direct ownership or by investing in a corporation or LLC that own the project or infrastructure [slide 4].

[4:17:50 PM](#)

MR. LEONARD directed attention to a map depicting AIDEA's seven assets: the Snettisham Hydroelectric Facility, the Ketchikan Shipyard, the Skagway Ore Terminal facility, an armory on the Joint Base Elmendorf-Richardson (JBER), the Federal Express Maintenance Facility, the Mustang Oil Processing Facility/Road, and the DeLong Mountain Transportation System. In addition, the AIDEA has a partial ownerships in the LLC that owns the Mustang Oil Processing Facility [slide 5].

[4:18:34 PM](#)

VICE CHAIR HUGHES asked whether these projects add up to \$1.1 billion.

MR. LEONARD answered that it was one leg of the three-legged stool. He explained that AIDEA has approximately \$400 million in direct loans; \$400 million in projects; and \$500 million in investments that allow AIDEA the ability to invest in projects, as well as providing debt capacity. Thus these assets are one portion of the asset base [slide 5].

[4:19:19 PM](#)

REPRESENTATIVE KITO asked whether the seven assets are salable assets.

MR. LEONARD answered that they could be salable assets. He explained that AIDEA holds several projects because they serve a public purpose, such as DeLong Mountain Transportation System since that system can be used more than Red Dog. However, he confirmed the assets are salable. For example, the Mustang Oil Processing Facility was structured for AIDEA to phase out of the investment in 5-7 years and the rig was also structured so AIDEA will be out within five. Thus it really depends on the economics AIDEA is trying to promote, as well as the community and the type of asset, he said.

[4:20:23 PM](#)

REPRESENTATIVE KITO asked whether these assets are revenue generating assets or if there is a mix.

MR. LEONARD answered that these seven assets are all performing assets. He characterized the Ketchikan shipyard as being more of an asset that is held, noting AIDEA receives about \$20,000-30,000 from the asset. However, the Ketchikan shipyard was purchased for \$2 million, and the federal government has put in about \$75 million so it is now valued at \$80 million. He offered his belief that the Ketchikan shipyard will become a performing asset based on the contracts as the new Alaska Class Ferries (ACFs) come into play.

[4:21:30 PM](#)

REPRESENTATIVE LEDOUX asked why the projects AIDEA was involved in were not being done by the private sector.

MR. LEONARD answered that it is based on the type of asset - infrastructure. For example, with the Delong Mountain Transportation System, a \$260 million asset, AIDEA was able to issue a 40-year bond to allow the private sector to use the infrastructure over a long-term period and repay AIDEA. Thus AIDEA has the ability to have patient capital. In addition, AIDEA can step in for a public purpose such as economic development. For example, AIDEA purchased the Skagway Ore Terminal, worked with the private sector to clean up the area, and then built a new ore terminal. Infrastructure funds can require 15-18 percent rate of return, but AIDEA's typical rate of return at 5-7 percent promotes more than one owner to invest, such as the aforementioned Skagway Ore Terminal, which has 4-5 users. Therefore those types of assets allow AIDEA to assist for a public purpose and to encourage economic development.

[4:23:41 PM](#)

REPRESENTATIVE LEDOUX suggested that the Federal Express [Corporation (Fed-Ex)] represents a large public enterprise. She asked for the reason the company would not just build its own facility.

MR. LEONARD answered that the state provided the infrastructure, which incentivized the company to come into Anchorage and the Anchorage International Airport System (AIAS). He said there are times where development finance authority can utilize the lower rate of return and patient capital to incentivize a private sector company. He related his understanding that FedEx

did not want to own a long-term hangar at the time so AIDEA's ability to build the Fed-Ex Maintenance Facility allowed the corporation to provide the economic development to the Municipality of Anchorage (MOA).

[4:24:56 PM](#)

REPRESENTATIVE LEDOUX asked whether Fed-Ex wasn't present prior to AIDEA building the facility.

MR. LEONARD was unsure, recalling that this became an asset in 2002, but he offered to provide information to the committee.

[4:25:14 PM](#)

VICE CHAIR HUGHES commented that partnering with the private sector is more apt to happen in Alaska rather than Lower 48 since the rate of return is lower.

MR. LEONARD agreed that is one main reason, but the legislature provided authorization to partner with LLCs and corporations and blending AIDEA's capital with more expensive private capital, it makes the projects more feasible.

[4:26:19 PM](#)

MR. LEONARD highlighted the breakdown of AIDEA's investments since FY 2001 [slide 6]. Since 2000, AIDEA has invested \$1.5 billion, with write-down on loans of approximately \$1.8 million, although AIDEA has not had any write-down on projects that it has invested in since 2000. Currently, AIDEA does not have any non-performing assets, he said.

[4:27:14 PM](#)

REPRESENTATIVE LEDOUX asked for further clarification on AIDEA's non-performing assets. She asked how many assets AIDEA has - similar to the Ketchikan Shipyard - that are not technically non-performing assets. She pointed out that the project consists of \$7 million in state funds and another \$75 million of federal funds, yet it only produces \$20,000 in dividends.

MR. LEONARD argued that in actuality the Ketchikan Shipyard is one of AIDEA's best performing assets in terms of economic development. The Ketchikan Shipyard facility provides over 200 jobs for Ketchikan. When AIDEA considers performing assets, it does not just consider dividend payment. The performing asset,

the Ketchikan Shipyard, does not cost the state any funds, but it represents huge economic development for the area. For example, it provides a shipyard for the Alaska Marine Highway System (AMHS), and the shipyard was just awarded a contract to build the two Alaska Class Ferries (ACFs), which will be built by Alaskans. He said that considering all of AIDEA's assets together, the corporation provides dividends, but again, while the Ketchikan Shipyard is not considered an income-generating asset, it is a very big economic development asset in the state.

[4:29:19 PM](#)

REPRESENTATIVE LEDOUX argued that money has a cost since money on the open market might earn "x" dollars, but AIDEA will earn "y" dollars, which is significantly less.

MR. LEONARD replied that as a development finance authority, AIDEA must generate funds to invest in the state and provide loans and capital for businesses and projects.

[4:30:29 PM](#)

MR. LEONARD emphasized that the aforementioned project is an asset and without AIDEA stepping in as the conduit for the federal government to invest in the Ketchikan region, there would be significantly fewer jobs in Ketchikan. He agreed that if AIDEA was an investment bank that it would be different; however, the Ketchikan Shipyard is a flagship asset in economic development.

[4:31:08 PM](#)

REPRESENTATIVE KITO asked for the economic viability of the Ketchikan Shipyard once the Alaska Class Ferries (ACF) are built. He suggested that unless the state continues to build ships, the shipyard will need to have projects to continue into the future.

MR. LEONARD apologized that he may have miscommunicated. While the Ketchikan Shipyard hasn't been a large cash flow performing asset for AIDEA, it generates sufficient funds as a viable business in Ketchikan. Vigor Alaska has been building ships, he said, and based on the investment, the shipyard is one of the state-of-the-art shipyard building halls in the country, consisting of a six-story structure that allows ships to be built inside. He cautioned that he did not want to communicate that this wasn't a viable asset since it definitely is one. One

of the reasons AIDEA exists is that it has the ability to take a long-term, patient capital view and hold assets to ensure that they are promoting the economic development needed in the state.

[4:33:21 PM](#)

REPRESENTATIVE LEDOUX related her understanding that the Ketchikan Shipyard builds more than ferries. She asked whether the shipyard was designed for or could be modified to build an icebreaker.

MR. LEONARD deferred to Vigor Alaska to answer, but offered his understanding that the shipyard can build ships over 200 feet, but he will furnish the committee with the response.

[4:34:01 PM](#)

REPRESENTATIVE LEDOUX asked whether this shipyard built the boat that Wasilla is dealing with now.

MR. LEONARD answered yes; the most current vessel completed was the Arctic Prowler, a fishing trawler.

[4:34:28 PM](#)

VICE CHAIR HUGHES asked whether the research vessel (RV) Sikuliaq, a research vessel was also built there. She acknowledged that someone in the audience is nodding "no."

[4:34:43 PM](#)

MR. LEONARD referred to AIDEA's 2014 activity overview, including completing the \$15 million National Guard Armory expansion for the US Coast Guard, completing construction of the Mustang Road and Pad for approximately \$20 million and committing \$50 million in funding for the Mustang Operations Center. The AIDEA completed construction of a steel fabrication facility at the Ketchikan Shipyard. In addition, AIDEA approved over \$43 million in loan participations, issued \$51 million in conduit revenue bonds to expand Fairbank's hospital, and issued \$23.1 million in loans to build out the distribution system in Fairbanks under the Interior Energy Project [slide 7].

[4:35:50 PM](#)

MR. LEONARD predicted that these investments will create or retain 1,046 jobs and 1,462 construction jobs [slide 8]. He

reported that AIDEA has \$149.4 million in investments funded and committed as part of the \$835.4 million in total project costs. He estimated that AIDEA's projects through this process will leverage approximately \$686 million of private sector investment.

[4:36:35 PM](#)

REPRESENTATIVE JOSEPHSON asked for the leaseholder of the Mustang Road and Pad project.

MR. LEONARD answered that there are several different investors, including Brooks Range Petroleum Corporation.

[4:36:58 PM](#)

VICE CHAIR HUGHES asked for further clarification that these activities are solely 2014 activities and not from previous years.

MR. LEONARD answered yes.

VICE CHAIR HUGHES said the number of permanent jobs is pretty impressive.

MR. LEONARD commented that 2014 was a very good year.

[4:37:23 PM](#)

MR. LEONARD reviewed AIDEA's 2015 activity, such that AIDEA has approved and funded \$33.6 million in loan participations. Further AIDEA has approved an additional \$28 million in loans to build out the distribution system in Fairbanks, has issued \$8.1 million in conduit revenue bonds for a Juneau business expansion, and is in the construction mode for the Mustang Operations Center anticipated to be completed in the first quarter of 2016 [slide 9]. The AIDEA typically has 10 to 15 projects in the pre-feasibility to construction stage, he said.

MR. LEONARD offered that AIDEA anticipates investing \$70 million in Mustang Operations Center 1, LLC, an oil processing facility for the Mustang field, estimated to cost \$200-\$225 million and able to deliver 15,000 barrels of oil per day [slide 10]. He stated that AIDEA works to leverage private sector funds and in this instance, AIDEA anticipates leveraging about \$540 million over the life of the field.

[4:39:37 PM](#)

REPRESENTATIVE JOSEPHSON wondered why the royalty reduction and exploration development credits offered to Mustang weren't enough to make this viable. He asked for further clarification on how the project came about.

MR. LEONARD said that besides bringing lower cost capital, Brooks Range Petroleum came to AIDEA due to the corporation's ties to investment banks and infrastructure funds. Thus the relationships had ties to international funds willing to invest in this project since AIDEA had performed the due diligence. He characterized it as an instance in which AIDEA could be a conduit for Brooks Range Petroleum to find the necessary capital to make this field viable.

[4:41:00 PM](#)

MR. LEONARD highlighted several new projects that AIDEA is considering, including BlueCrest Energy, an onshore oil rig that would be used to tap the oil reserves in the Cosmopolitan field, which was one of the fields used by the Endeavor rig to discover a large oil and gas reserve in Cook Inlet [slide 11].

MR. LEONARD reported that AIDEA was in the due diligence phase of a \$50 million project with Furie Gas Production to build a mono-pod rig, pipeline, and onshore processing facility, estimated to produce up to 100 million cubic feet per day of natural gas production. He said AIDEA has currently been undergoing a rigorous due diligence to verify the project is one that warrants AIDEA's involvement, that it receive an appropriate rate of return, and will be repaid for its investment. These due diligence efforts can take months or even up to a year to accomplish, he said.

[4:42:36 PM](#)

REPRESENTATIVE KITO wondered if there has been any legislative change in legislation that changed AIDEA's risk profile.

MR. LEONARD acknowledged that some changes have allowed AIDEA to reduce its risk profile. In the past, in essence, AIDEA was required to own the full project and could lease it out. Over the past two or three years, AIDEA has acquired the ability to invest in corporations and not be the full owner. For example, with the jack up rig, AIDEA invested 20-30 percent of the total investment, plus investing through corporation helps to protect

AIDEA's assets. He acknowledged that this has changed AIDEA's risk profile by expanding the type of projects that AIDEA can invest in; however, through the due diligence structure, it has not increased the risk profile. Instead, it has reduced the risk profile by allowing AIDEA to invest in projects without having 100 percent ownership.

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REPRESENTATIVE JOSEPHSON asked for the size of AIDEA's Board of Directors (BOD).

MR. LEONARD answered that AIDEA's BOD consists of five private sector members plus the commissioners from the Department of Revenue and the Department of Commerce, Community & Economic Development.

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REPRESENTATIVE JOSEPHSON asked for further clarification on whether the final go ahead is a matter of public record.

MR. LEONARD answered yes; then elaborated that for all its projects AIDEA must perform full due diligence, provide the board with a finance plan, and obtain local government concurrence. He agreed that the whole process is a public process.

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REPRESENTATIVE JOSEPHSON, speaking from his experience with the Alaska Supreme Court, commented that the Board of Director process typically means that it is less likely to be a contentious process.

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MR. LEONARD pointed out a slide was missing, slide 13, that provides an update on the jack-up rig. He reminded members that AIDEA brought up a jack-up rig to drill for gas exploration. AIDEA's investment was \$23.6 million of approximately \$123 million total cost, leveraging approximately \$96 million of private sector capital between the overseas Chinese bank and Australia-based Buccaneer Energy Limited and Ezion Holdings Ltd. of Singapore. Some issue arose with the rig not modified in the Singapore shipyard, which required modifications in Homer to drill in Cook Inlet. He said that AIDEA acknowledged it is not

an expert in jack-up rigs, so through the new due diligence cost overruns would be borne by the common equity owners, which occurred. He reported that the jack-up rig drilled for one season, used to discover the Cosmopolitan field. Due to a lack of long-term commitment, AIDEA sold its share to Ezion Holdings Ltd so the rig could be moved. The rig was moved last December and AIDEA, received \$25 million. Based on the structure, AIDEA knew about the risks, and received a 6.6 percent rate of return while the state obtained a field discovery.

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MR. LEONARD briefed members on the Interior Energy Project [IEP] status [slide 14]. He said that the IEP's goals were to provide low cost affordable gas as soon as possible to as many Interior customers as possible. In addition, this project would enhance the proposed natural gas pipeline and to lower the particulate matter 2.5 in the nonattainment areas of the Interior. Over the past year, AIDEA has been working with private sector on P3 to build a facility on North Slope pursued development of a North Slope supply of LNG with a private partner through a concession agreement format. He reported that the cost came in 20 to 30 percent higher than the original feasibility analysis, and the dramatic reduction in the cost of oil also happened so the equivalent of heating fuel was \$30/mcf and is now at \$20/mcf. However, AIDEA does not believe that it can stop moving forward on this project since oil prices won't stay at that level forever. Further, it is important for the Interior to find an alternative to heating fuel based on cost and health. As an update, the project came to the City of Fairbanks at \$13-14/mcf, with the cost of distribution at \$5-6, so cost at the burner tip is \$19-20 based on North Slope facility. Thus AIDEA has taken a step back to evaluate alternative sources of gas, which could include Cook Inlet.

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MR. LEONARD advised that AIDEA has set up a new team dedicated to this project, consisting of Alaska Energy Authority and AIDEA employees will concentrate on alternatives exist to ensure the lowest cost possible to make it through to the proposed natural gas pipeline.

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VICE CHAIR HUGHES asked whether the refocused alternatives happened since December.

MR. LEONARD recalled that this occurred after January 7, 2015, since the AIDEA worked with MWH Global through December 2014. In the agreement certain conditions had to be met for financial closure, including that the price had to meet the goals of the IEP, MWH Global had to obtain long-term contracts from the utilities as well as meet other conditions. Since those goals were not met, AIDEA canceled the concession agreement and reevaluated how to move forward, including refocusing to consider alternatives.

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REPRESENTATIVE KITO expressed concern that it appears that there are two separate efforts, finding the gas source and build-out of the local infrastructure. He said he was a little worried that if the build-out begins and supplying gas becomes challenging, that lots of infrastructure in Fairbanks will not have any gas supply.

MR. LEONARD answered that AIDEA is moving forward with the build-out since it will be needed at some point in time gas will become available for the distribution system. First, AIDEA believes Cook Inlet gas exists and gas on the North Slope exists; it is just necessary to ensure that it comes at a price that meets the goals. Essentially, AIDEA was given the Senate Bill 23 monies and the broad latitude on the length of time to pay back the rates that could be used. He acknowledged that this project is a challenging project and it is correct that four phases exist, including gas, transportation, storage, and distribution that all has to be built simultaneously to meet the community needs. Despite these challenges, AIDEA believes the project infrastructure needs to move forward since waiting will mean delaying gas by two more years. He has learned the importance of timing with this project due to the considerations or the window will be missed. He characterized it as an orchestrated build-out of all components so risk exists.

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REPRESENTATIVE KITO maintained his concern about not having gas for the distribution system. He asked for further clarification on the detriments of having the infrastructure waiting for gas.

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VICE CHAIR HUGHES pointed out that the press release on Pentex came as a surprise. She asked for an explanation of why that was necessary, why the legislature was not informed, and the long-term goal.

MR. LEONARD answered that as AIDEA got through the evaluation North Slope gas, AIDEA believes it must concentrate on the full chain, not just the gas, but to look at how to lower the cost of distribution and one way to do that is through integrated utility system, which was one of the things that AIDEA must consider. Structuring the letter of intent provides the framework to do the due diligence to see if what is being proposed will lower the costs, which are critical to the project. He described the roll out, such that this was the framework that they [Pentex] required and needed. As previously stated, AIDEA is still moving quickly, that the goal is to obtain gas as quickly as possible to provide Fairbanks. He described this as the start of the due diligence and not the end. He reported that the next AIDEA board meeting will be in February, and he regrets the press release was worded as it was. He said that how it was presented on his shoulders, but AIDEA believes it is very important to have an integrated system.

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REPRESENTATIVE COLVER asked him to highlight a couple of points. He related his understanding that AIDEA bought the holding company, Pentex, honoring Hilcorp's purchase of the Titan LNG plant. Secondly, the intent of acquiring the distribution system was that AIDEA already has \$23 million in equity financing of the distribution system. He said a lack of investment in one of the utilities exists, so the intent is not to expand the distribution network, but to get the infrastructure expanded for Fairbanks consumers. He suggested AIDEA provide information on how it is assisting utility that have capital constraints, which is a key component - the two utilities.

MR. LEONARD offered to provide more information at a later date.

[5:03:28 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:03 p.m.