

SENATE FINANCE COMMITTEE  
March 16, 2016  
1:37 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

John Springsteen, Executive Director, Alaska Industrial Development and Export Authority (AIDEA); Mike Catsi, Director, Business Development and Communications, AIDEA; Brenda Applegate, Controller, AIDEA; Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

SUMMARY

ALASKA ENTERPRISE AGENCY ANALYSIS:

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY  
ALASKA ENERGY AUTHORITY

Co-Chair MacKinnon discussed the schedule.

^ALASKA ENTERPRISE AGENCY ANALYSIS: ALASKA INDUSTRIAL DEVELOPMENT and EXPORT AUTHORITY

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Co-Chair MacKinnon directed attention to an email sent by her staff, containing 12 questions (copy not on file) asked of the enterprise agencies. She explained that each agency had taken a different approach when considering the questions. She noted that the presentation being discussed quoted the questions.

JOHN SPRINGSTEEN, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA), stated that he would be happy to answer questions as he was discussing his presentation. He added that he had additional staff present to answer questions of the committee.

Mr. Springsteen discussed the presentation "Alaska's Development Finance Authority" (copy on file).

Mr. Springsteen turned to slide 2, "1a) What is your Strategic Vision?"

Mr. Springsteen addressed slide 3, "1a) Strategic Vision":

- Create an investment-ready project portfolio for the state of Alaska.
- Develop formal project finance banking relationships with strategic investment partners.

Mr. Springsteen informed that AIDEA was a recipient and conduit for a variety of Alaska-based business opportunities and development plans. He furthered that a number of sizeable projects came across AIDEA's desk, and the authority played an important role in vetting the projects and working with project proponents to move ideas from the early stage to being investment-ready. He thought that the next step for AIDEA was to prepare a portfolio of investment-ready projects, and act as an intermediary between project proponents and sources of project financing. He mentioned banking relationships with strategic investment partners.

Mr. Springsteen continued to discuss slide 3, and specified that AIDEA had existing relationships with domestic and foreign financing partners on a project-by-project basis. He thought it was important for AIDEA to improve and increase regular access to partner capital; whether it was through private equity, pension funds, hedge funds, or foreign banks. He believed AIDEA would benefit from more

formal arrangements through ongoing cooperation agreements with potential project financing partners.

Senator Bishop asked if the project partners included federal lending agencies.

Mr. Springsteen answered in the affirmative. He explained that AIDEA engaged federal agencies for funding for large capital projects in the context of a public-private partnership. He continued that AIDEA considered the public benefit of a public funding source, and qualified that AIDEA was geared more toward private funding sources to drive state development.

Senator Bishop asked if Mr. Springsteen was familiar with the federal program involving new market tax credits.

Mr. Springsteen answered in the affirmative, and stated that AIDEA had the ability to offer new market tax credits.

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Senator Dunleavy referred to the second bullet on slide 6:

- AIDEA provides affordable, long-term asset financing for growing and diversifying Alaska's economy, and for expanding job opportunities for Alaskans.

Senator Dunleavy wondered if Mr. Springsteen could point to projects that were successful and that functioned to diversify the economy.

Mr. Springsteen referred to the Red Dog Mine road and ports; the Skagway Ore terminal, and the Ketchikan shipyard. He relayed that AIDEA had partnered with the federal government on the Camp Denali Readiness Center, at the joint base Elmendorf-Richardson. He summarized that the examples were projects that AIDEA had invested in, and were providing returns and jobs for the state. He went on to list the loan participation program, which supported commercial and industrial businesses throughout the state. He added that AIDEA had the ability to offer different types of conduit bonds, whereby it accessed financing and facilitated financing for different businesses. The activity was similar to AIDEA functions in the beginning, when it did not have a budget of its own to invest.

Senator Dunleavy asked what Mr. Springsteen considered to be the largest, most successful project that gave a return on investment.

Mr. Springsteen gave the example of the Red Dog Mine road and port.

Senator Dunleavy asked if the road was developed in the 1980s or 1990s.

Mr. Springsteen informed that the Red Dog Mine road was built in the mid to late 1980s, and was operating starting in the 1990s.

Mr. Springsteen turned to slide 5, "1b) Value to the state of Alaska":

AIDEA's mission is established by Statute. The Authority was created by the legislature as a "public corporation" to advance the economic prosperity of Alaskans by diversifying the Alaska economy and promoting the creation and retention of Alaskan jobs (See AS 44.88.070)

With this background in mind, staff believes the Board must counterbalance two competing interests:

- Provide an adequate financial return to the State in the form of a cash dividend, as contemplated by the Statute, versus
- Ensure the Authority retains the financial capability to achieve its economic development mission of the State.

Mr. Springsteen showed slide 6, "1b) Value to the state of Alaska (cont'd)":

- AIDEA provides a sustainable and objective economic development platform on which all opportunities are vetted for their economic and financial feasibility.
- AIDEA provides affordable, long-term asset financing for growing and diversifying Alaska's economy, and for expanding job opportunities for Alaskans.
- AIDEA is a prudent caretaker of the state of Alaska's financial assets, growing the state's initial revolving fund investment of \$332.5 million into \$1.67 billion.

Co-Chair MacKinnon asked what tools were used to consider a purchase price when AIDEA valued an asset.

Mr. Springsteen qualified that AIDEA went through a due-diligence process, and carried the value on its books under generally accepted accounting principles (GAAP); so if there was orderly divestiture or acquisition, it would use fair market value metrics.

Co-Chair MacKinnon asked if realized earnings were captured on an annual basis, or if AIDEA booked unrealized earnings.

Mr. Springsteen relayed that under the Governmental Accounting Standards Board (GASB), AIDEA was required to report mark to market value.

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Mr. Springsteen read slide 7, "2) When was the Agency created and how much state funds were invested?"

Mr. Springsteen showed slide 8, "2) AIDEA Creation." He recounted that AIDEA had been created in 1967, and hoped it would reach its 50th anniversary the following year.

Mr. Springsteen showed slide 9, "2) AIDEA Revolving Fund Initial Capitalization (cont'd)":

- AIDEA was funded in the early 1980s with a \$166 million loan portfolio and \$23 million cash, which provided initial funding for what is now known as the Loan Participation Program.
- In the mid-1980s, to assist in the development of the Red Dog Mine, the Project Development Program was created and AIDEA received a loan portfolio and cash totaling \$143.5 million to support financing the DeLong Mountain Transportation System.

Mr. Springsteen read slide 10, "3)What is the current level of funding from the Legislature?"

Mr. Springsteen addressed slide 11, "3) Current Legislative Funding," :

- Operating Budget - \$0.00
  - AIDEA has historically self-funded its operations.
  
- Current Legislatively Assigned Projects
  - Interior Energy Project (\$57.5 M)
  - Ambler Mining District Industrial Access Project (\$17.0 M)
  
- Other Recent Capital Appropriations
  - Ketchikan Shipyard (\$1.18M)

Mr. Springsteen added that AIDEA was subject to the Executive Budget Act. He detailed that the appropriation for the Ketchikan Shipyard was to relocate an electrical substation.

Mr. Springsteen read slide 12, "4) What is the management structure of the Agency?"

Mr. Springsteen turned to slide 13, "4) Management Structure," which depicted a flow chart that showed different areas of program functions, management, and board and executive functions. He explained that staff reported to the AIDEA Board of Directors, which consisted of: the commissioner of Department of Revenue; the commissioner of the Department of Commerce, Community and Economic Development (DCCED); and five successful Alaskan businesspeople. He continued that he was in charge of administering and overseeing the authority on behalf of the board on a day to day basis. The finance and operations, or "back office" unit, provided administrative services and support services for AIDEA, including: accounting, IT support, human resources, procurement, compliance, and treasury. He described the "front office" unit, which included: business development, commercial finance, project development, asset management, and infrastructure development. Additionally, the front office leaders played key roles in suitability committees and investment committees. He specified that the Chief Financial Officer was critical in all bond issuances for the authority.

Mr. Springsteen turned to slide 14, "4) AIDEA \ AEA & Consolidated Shared Services." He relayed that AIDEA shared its back office with the Alaska Energy Authority (AEA). He noted that AIDEA covered 30 percent to 40 percent of back office costs, while AEA covered 60 percent to 70 percent;

and the ratio was equivalent to the use of the resource. He added that shared services provided benefits to the organizations in terms of managing schedules, providing a broader knowledge base, and separating duties to combat fraud.

Mr. Springsteen read slide 15, "5) How many employees work for the Agency? How are they funded?" and noted that he would discuss three consecutive slides to address the questions.

Mr. Springsteen showed slide 16, "5) Organizational Chart," and shared that AIDEA had 17 (filled) front office positions which were self-funded.

Mr. Springsteen reviewed slide 17, "5) Organizational Chart (cont'd)," and reiterated that AIDEA used and paid for 30 percent to 40 percent of back office shared services. He expanded that there were 32 (filled) positions in the shared services group.

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Co-Chair MacKinnon asked for the total number of positions.

Mr. Springsteen explained that on slide 17, there were 21 authorized positions for the front office, 17 of which were filled. He continued that for shared services there were 38 authorized positions, 32 of which were filled.

Mr. Springsteen turned to slide 18, "5) Organizational Chart (cont'd)," which showed a combined flow chart of AIDEA and AEA that illustrated shared services. Between the two authorities, there were 85 filled positions, 21 vacancies, and 106 total authorized positions.

Senator Bishop asked if the authority was currently recruiting or was fully staffed.

Mr. Springsteen stated that there were two positions AIDEA wanted to fill in the front line staff area, while two others might go unfilled.

Co-Chair MacKinnon asked if there was a way to re-prioritize agency functions or eliminate programs so that the positions did not have to be filled.

Mr. Springsteen commented that there was a balance between doing as much as possible with what was available, or cutting and doing less. He wondered if there was incentive as enterprise development to have a full staff to execute the mission of the authority.

Vice-Chair Micciche pointed out the 21 vacancies at the authority, and he thought there was potentially \$2 million in savings during a difficult time in fiscal history. He wondered why there was not a substantive reduction being considered until the state budget had an opportunity to recover.

Mr. Springsteen believed that AIDEA could execute cuts on behalf of the legislature. He continued that the authority was seeking direction regarding budget cuts. He expanded that if the judgement of the legislature was to focus more on enterprise development, he would request more staffing; however, if the judgement was to curtail some authority activities then AIDEA would adjust accordingly.

Co-Chair MacKinnon thought the matter would be addressed in a later slide.

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Mr. Springsteen read slide 19, "6) Does the Agency generate revenue?"

Mr. Springsteen discussed slide 20, "6) Excerpt from Annual Report," which showed a page from the AIDEA annual report entitled "FY15 Financials".

Mr. Springsteen showed slide 21, "6) Excerpt from Annual Report (cont'd)," which showed an enlarged section from the previous slide titled, "Revenues, Expenses and Changes in Net Position." He detailed that AIDEA's revenue consisted of loan interest, development project income, and investment interest in other income. He highlighted the line "Snettisham Project restricted income," which showed the project interest expense paid to bondholders, and AEA reimbursement for costs borne by AIDEA to cover AEA payroll and shared services costs.

Co-Chair MacKinnon asked Mr. Springsteen to look at the line entitled, "Net increase/(decrease) in fair value of investments." She acknowledged that it had been a tough

return year, particularly in the third and fourth quarter of 2015, and wondered if Mr. Springsteen could speak to the loss of almost \$5 million in funds.

Mr. Springsteen pointed out that the net decrease related to the GASB provision of mark to market, and was primarily driven by AIDEA's investment portfolio of cash as it evaluated a project for investment. He was unsure if he was using the correct accounting terms, but elaborated that the difference was due to realized but unrecognized gain or loss. He clarified that there were not actual cash gains or losses, rather the figure was just a reflection of where the portfolio was. He added that AIDEA had not sold or bought anything to recognize the gain or loss.

Co-Chair MacKinnon remarked that in the past year, GASB required cities and states to start recognizing unfunded pension liabilities. She wondered if such information was reflected in the slide.

Mr. Springsteen referred the question to the AIDEA controller.

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Mr. Springsteen read slide 22, "7) Does the Agency return a dividend to the state? How much?"

Mr. Springsteen discussed slide 23, "7) Dividend History." He recounted that since 1995 AIDEA had returned an annual dividend to the state, and the total declared to date was approximately \$380 million.

Co-Chair MacKinnon asked if Mr. Springsteen had a percentage to quantify the dividend total as compared to total assets invested by the state.

Mr. Springsteen recalled that there had been \$332.5 million dollars originally invested by the state, and estimated that the total dividends constituted 130 percent of what was originally invested. He communicated that there was another view of how AIDEA had used the original investment, grown the net asset base, and returned a dividend. He

considered that after the original investment of \$332.5 million, current net assets of roughly \$1.3 billion, and a return of \$380 million in dividends to the state; there was a total of \$1.68 billion, which equated to about a 5 percent annual return.

Co-Chair MacKinnon asked if the state owned the projects, or did an entity borrow money under the umbrella of the state and own the projects.

Mr. Springsteen stated that there was a variety of structures and arrangements; and the net assets at AIDEA included investments, loan portfolio, and projects that it had directly financed. He added that the net assets did not include conduit issuances.

Co-Chair MacKinnon asked if the \$1.3 billion in net assets were owned by the state.

Senator Bishop commented that it would be interesting to see the total generation of cash throughout the different projects.

Vice-Chair Micciche stated he was enormously supportive of the mission of AIDEA, and surmised that the dividend had returned about 3 percent if averaged over ten years. He wondered if there was a way of quantifying the ultimate value of jobs and revenue that trickled down from the projects that AIDEA had sponsored. He recognized that the calculation would be a huge task.

Mr. Springsteen deferred the question to the business development and communications officer, who would have statistics regarding employment and economic multipliers.

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MIKE CATSI, DIRECTOR, BUSINESS DEVELOPMENT AND COMMUNICATIONS, AIDEA, stated that the authority could generate the data after a comprehensive evaluation of investments that had been made over the years. He noted that multipliers changed each year, for each region, and for each type of project and industry.

Vice-Chair Micciche remarked that AIDEA was created for a much larger purpose than returning a 3 percent average dividend over ten years. He wanted to understand the

history of the value of AIDEA, and how the authority quantified the value.

Mr. Catsi specified that the agency considered direct jobs created and retained (permanent and temporary), as well as indirect and induced jobs from each project. He thought the impact of every job created and impact of every million dollars invested was considerable, and created a ripple effect.

Co-Chair MacKinnon referred to slide 21, and pointed out the net decrease of \$4.9 million. She asked if the new recording of unfunded pension liabilities was included in the amount.

BRENDA APPLGATE, CONTROLLER, AIDEA, stated that AIDEA had implemented the new accounting standards regarding pension obligation in FY 15 along with the rest of the state. She specified that the pension obligation was reflected in the net income reported for the year, but was not included in the \$4.9 million decrease in fair value of investments. She noted that the pension obligation was included in general and administrative expense, and furthered that AIDEA had recognized a total pension expense of \$1.249 million for FY 15 (which did not include medical benefits).

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Co-Chair MacKinnon asked if the amount of pension obligation would be decreasing, and if AIDEA was contributing towards the obligation in a different way.

Ms. Applegate conveyed that the authority contributed a 22 percent pension obligation to the state every pay period. She relayed that there was a cost sharing plan. She was unsure if the amount would go up or down, but hoped that it would go down. She thought that AIDEA would get more information on its allocated portion from the state plan at the end of the year.

Co-Chair MacKinnon referred back to a bullet on slide 6:

- AIDEA is a prudent caretaker of the state of Alaska's financial assets, growing the state's initial revolving fund investment of \$332.5 million into \$1.67 billion.

Co-Chair MacKinnon wondered if a different number than what was reflected on the slide had been discussed at another point in the presentation.

Mr. Springsteen clarified that the \$1.67 billion indicated on the slide included both the net assets and the \$380 million that had been given in dividends to the state. When looking at an enterprise, AIDEA considered the initial capital provided; then the return on capital employed included the growth, assets, and dividend.

Vice-Chair Micciche asked for a description of the difference between the dividend in 2005 versus the dividend in 2011. He wondered what kinds of factors had resulted in the 300 percent difference.

Mr. Springsteen stated that multiple factors influenced the dividend amount, including mark to market accounting provisions. He remarked that AIDEA had not had a write-down of assets for an AIDEA-approved project since 2000. He added that general market conditions also impacted the dividend.

Co-Chair MacKinnon asked if taking on new risks or new projects affected the dividend.

Mr. Springsteen answered in the affirmative.

Mr. Springsteen read slide 24, "8) Is the Agency able to receive Federal funds? Is the Agency able to leverage Federal funds?"

Mr. Springsteen addressed slide 25, "8) Use of Federal Funds":

- AIDEA has the statutory authority to receive federal funds (see AS 44.88.080 - In furtherance of its corporate purposes, the authority has the following powers in addition to its other powers: (9) to accept gifts, grants, or loans from, and enter into contracts or other transactions regarding them with, a federal agency, an agency or instrumentality of the state, a municipality, a private organization, or other source).
- Importantly, AIDEA also has the ability to leverage federal tax-exempt financing as well as tax credit

programs (e.g. New Markets Tax Credits, Investment and Production Tax Credits).

Mr. Springsteen read slide 26, "9) What are your Agency's capital assets?"

Mr. Springsteen presented slide 27, "9) Audited Net Book Values at 6/30/15":

- Development projects - \$296,528,000
- Other assets - \$37,002,000
- Snettisham Project assets - \$78,419,000

Mr. Springsteen summarized that AIDEA's net value of assets totaled approximately \$411 million. With the addition of the loan portfolio, the total was approximately \$600 million. He added that the numbers given were net book value; and in the case that an orderly liquidation was considered, fair market value would need to be applied.

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Co-Chair MacKinnon asked about AIDEA's total available bond debt capacity.

Mr. Springsteen stated that the question would be addressed later in the presentation.

Mr. Springsteen read slide 28:

- 10a) Does the Agency have bonding authority?
- 10b) What are bonds issued for?
- 10c) What is the current outstanding Debt?
- 10d) What is the bonding capacity?

Mr. Springsteen presented slide 29, "10a) Does Agency have bonding authority?":

- Yes, taxable and tax-exempt revenue bonds, such as Industrial Development Bonds, 501(c)(3) Bonds, and Private Activity Bonds.
- AIDEA also issues general obligation (GO) bonds.

Mr. Springsteen thought it was important to note that the AIDEA general obligation bonds were solely backed by AIDEAs assets, which were (by statute) separate from the state.

Co-Chair MacKinnon asked if there was a moral obligation by the state.

Mr. Springsteen answered in the negative.

Mr. Springsteen looked at slide 30, "10b) What are bonds issued for?":

- AIDEA may issue bonds to pay the cost of a project or development projects or in order to provide money for the authority's purposes under statute (AS44.88.080 (7)).

Mr. Springsteen discussed slide 31, "10b) What are bonds issued for (cont'd)?":

- AIDEA has issued 317 conduit revenue bonds for a total of \$1.36 billion. Bonds issued under this program include:
  - Aircraft/Aircraft facilities
  - Bulk Fuel storage and distribution
  - Hotels, motels, and lodges
  - Office space
  - Warehousing/storage
  - Retail
  - Hospitals/clinics
  - Processing/manufacturing facilities
  - Car rental facility
  - Hydroelectric dams
- Project Revenue Bonds
  - Snettisham Hydroelectric facility
- AIDEA General Obligation Bonds
  - Delong Mountain Transportation System
  - Water and wastewater facility
  - Fedex Hangar
  - Skagway Ore Terminal

Mr. Springsteen commented that for conduit revenue bonds, AIDEA was neither an owner nor guarantor, and was solely a facilitator. Bonds were backed only by the project, or facility revenue and assets. He discussed the Snettisham

Hydroelectric facility, which was owned by AIDEA but had bonds backed by project revenues and assets. He added that for AIDEA general obligation bonds, the authority's assets and revenues secured bondholders, and the bonds were separate from the state.

Mr. Springsteen turned to slide 32, "10c) What is current outstanding debt?":

- Outstanding Debt as of 6/30/2015:
  - Total Bonds - \$134,655,000
    - o Snettisham Hydro
    - o Red Dog Port Facility (Refunding)
    - o Loan Participation

Co-Chair MacKinnon asked if there were figures to quantify the foreclosure rate or lack of payment rate on some of the instruments the authority held.

Mr. Springsteen stated that AIDEA had a default rate on loans that was below that of the current market in the state. He offered to provide the committee with the exact figure. He added that AIDEA had not had a write-down on an AIDEA-approved project since 2000.

Senator Olson asked about the Red Dog Port Facility "refunding" that was indicated on slide 32.

Mr. Springsteen explained that the bonds for the Red Dog Port Facility were refunding bonds. He continued that AIDEA did an early bond issuance with a high rate; after which someone would issue a refunding bond to pay down the original bondholders in order to lower the rate on the bond. The reference to "refunding" on slide 32 had pertained to refunding high rate bonds with lower rate bonds.

Senator Olson asked what the affect would be on people within the borough who were involved in the facility.

Mr. Springsteen clarified that the agreement for the use of the Red Dog Mine Road and Port was separate from the bond issuances.

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Senator Bishop asked when the Snettisham bonds would mature.

Mr. Springsteen relayed that AIDEA had recently issued refunding bonds to save money for Snettisham users in Juneau. He offered to prepare a schedule of bond maturity for the committee.

Mr. Springsteen addressed slide 33, "10d) What is the bonding capacity?":

- AS 44.88.095 places a statutory ceiling of \$400 million per twelve month period on AIDEA bond issuances, excluding refunding bonds.
- Bonds over \$25 million require legislative approval.
- Bonds over \$10 million require local support.

Mr. Springsteen used the examples of the Bokan and Niblack mining projects in Southeast as instances of bonds over \$25 million requiring legislative approval.

Co-Chair MacKinnon asked for clarification regarding the statute referenced on slide 33 (AS 44/88.095). She wondered if AIDEA could issue \$400 million within any 12-month period, or if there was a cap of \$400 million.

Mr. Springsteen stated that within any 12-month period, AIDEA could issue only up to \$400 million in bonds.

Senator Bishop asked if AIDEA had a ceiling, and if so, what it was.

Mr. Springsteen stated that the ceiling was a "moving target" and dependent upon what projects had been provided with direct finance, and what amount of collateral and assets were on hand.

Co-Chair MacKinnon thought she understood that there was no ceiling limit, but rather \$400 million in authority over a rolling 12-month period.

Senator Bishop thought he understood the same thing, but suggested that Mr. Springsteen had provided a caveat.

Co-Chair MacKinnon referred to a debt/credit report that had been presented to the committee, which had indicated a total bond debt calculation of around \$7 billion. She was

trying to understand if the state's enterprise agencies were committing the state, while Mr. Springsteen had suggested AIDEA's debt was not an obligation of the state. She wanted to ascertain what the enterprise agencies were doing with credit and how it might or might not affect the state's credit rating.

Mr. Springsteen thought part of the value of AIDEA was that it had some independence and provided obligations only on its assets, rather than those of the state.

Vice-Chair Micciche asked to address slide 32, and thought that the outstanding liability on Snettisham was \$78 million.

Mr. Springsteen answered in the affirmative.

Vice-Chair Micciche asked for a breakdown of the other items in the outstanding debt category, to include Loan Participation, and the Red Dog Port Facility.

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Ms. Applegate provided details on the total outstanding bond debt of \$134,655,000 on slide 32. She stated that as of June 30, 2015; outstanding debt for the Snettisham Hydroelectric project was \$69,955,000. She clarified that there were other non-bond liabilities related to the project that brought the total to \$79 billion. She continued that the Red Dog Port Facility refunding bonds were in the amount of \$52,185,000; and bonds related to Loan Participation were in the amount of \$12,515,000.

Mr. Springsteen read slide 34, "11a) Can you identify any other state entities or private corporations in Alaska that may provide the same or similar services as your Agency?"

Mr. Springsteen showed slide 35, "11) Similar Agencies":

- There are no state agencies or authorities that provide the same set of financing tools as AIDEA.
- On a national basis, AIDEA is unique in its ability to:
  - Work with banks
  - Issue its own bonds

-Participate in public-private partnerships through multiple methods

Mr. Springsteen elaborated that AIDEA had a limited amount of overlap with AEA's Power Project Loan Fund (PPF), under which it made energy-related loans. He continued that PPF could be offered at below market rates and terms. In contrast, AIDEA's energy loans were indexed at market rates or were made under its loan participation program in conjunction with Alaska banks and credit unions where commercial underwriting standards applied. He added that AIDEA did not offer grants; and did not offer any housing financial instruments, so did not compete with private residential mortgage lending or with Alaska Housing Finance Corporation (AHFC). He noted that AIDEA small business loans were administered by DCCED.

Mr. Springsteen read slide 36, "11b) Is your agency subject to the state procurement code?"

Mr. Springsteen turned to slide 37, "Procurement Regulations":

- Yes in a limited fashion. The state procurement code, AS 36.30.015(f) reads:  
- "...the membership of the Alaska Industrial Development and Export Authority, notwithstanding AS 44.88.085, ...shall adopt regulations under AS 44.62 (Administrative Procedure Act) ...to govern the procurement of supplies, services, professional services, and construction for the respective public corporation and board. The regulations must reflect competitive bidding principles and provide vendors reasonable and equitable opportunities to participate in the procurement process and must include procurement methods to meet emergency and extraordinary circumstances. Notwithstanding the other provisions of this subsection, ...the Alaska Industrial Development and Export Authority, ...shall comply with the five percent preference under AS 36.30.321(a)."

As directed by the state procurement code AIDEA has established regulations under the Alaska Administrative Code Title 3 Chapter 100

Mr. Springsteen specified that that AIDEA adopted regulations to establish competitive bidding processes and to deal with extraordinary circumstances.

Co-Chair MacKinnon thought that AIDEA was largely operating outside of the state procurement process.

Mr. Springsteen concurred, and noted that flexibility in procurement was desirable as AIDEA worked with private industry to develop in the state.

Mr. Springsteen read slide 38, "12) Does the Agency have any outstanding liabilities the Legislature should be aware of?"

Mr. Springsteen discussed slide 39, "Outstanding Liabilities":

- Total Liabilities at 6/30/2015 - \$205,271,000
  - Bonds
  - Pension Liability
  - Advances from State of Alaska
  - Liabilities from restricted assets
  - Operational liabilities
  - Loan Guarantees (contingent liability)
- Commitments to fund projects and loans at 2/29/2016 - \$66,506,000

Co-Chair MacKinnon asked how much in advances AIDEA had from the State of Alaska.

Mr. Springsteen went back to slide 11, pointing out that current legislatively assigned projects included an appropriation for \$57.5 million for the Interior Energy Project, and \$17 million for the Ambler Mining District Industrial Access Project. Additionally, there had been an appropriation of \$1.18 million for the Ketchikan Shipyard project in 2015.

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Senator Bishop asked for the fund balance on the Ambler Road project. Mr. Springsteen shared that the fund balance was roughly \$8.5 million, with \$3.6 million approved in accord with the first part of the environmental impact statement process.

Co-Chair MacKinnon asked if there were similar totals for the Fairbanks Energy Project.

Mr. Springsteen deferred to the Interior Energy Project team lead - Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, DCCED. He conveyed that Mr. Therriault was testifying in another committee, and offered to provide the information at a later time.

Mr. Springsteen conveyed that additional slides were part of an appendix, and solely for the committee's review.

Senator Bishop asked for a high-level prediction of what AIDEA was considering for bringing new revenue to the state.

Mr. Springsteen stated that AIDEA continued to look at mining prospects, as well as oil and gas development opportunities. He continued that AIDEA had made some investments to support tourism in the state. He used the example of the Icy Point Strait dock, a cruise ship dock for which the authority had loaned funds. He mentioned early-stage ideas such as a fish processing project that AIDEA was discussing with the Division of Economic Development at DCCED. He summarized that there were a number of concepts that the authority continued to follow, while it considered timing as conditions were improving in mining and other markets.

Vice-Chair Micciche referred to slide 41, "Analysis & Decision-Making," and envisioned that AIDEA had many projects in different phases. He thought that if the legislature were to freeze important developments in the state, it would exacerbate the need for recovery from low oil prices. He reiterated that he was supportive of AIDEA's mission, and wondered if there were promising projects working through the phased approach. He inquired if AIDEA cultivated investors in the state, or waited for people with development ideas to approach the authority.

Mr. Springsteen explained that AIDEA had been engaged in more proactive activity, while soliciting cooperation with other investors as well as looking towards different development opportunities in the state. He mentioned Administrative Order 281 (issued by the governor), and

asserted that AIDEA was looking forward to increased collaboration for asset review with the Department of Natural Resources and the Department of Administration.

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Co-Chair MacKinnon commented that the committee was looking at systemic ways to change the way the state did business. She referenced Mr. Springsteen's comments about the desire to understand what the legislature was asking of AIDEA. She reiterated that the legislature was looking for system change and thought it had been alluded to in some of the questions that had been asked, including regarding bond debt totals. She was glad to know that AIDEA's endeavors were not creating additional pressure on the state's credit rating, and appreciated dividends that had been provided to the state. She expressed concern over pension liabilities, as well as high-paid positions in agencies.

Vice-Chair Micciche thought Co-Chair MacKinnon had stated the matter fairly. He commented that the legislature was asking every state agency to operate as efficiently as possible, and did not think that AIDEA should be excluded from the exercise. He thought it was important to look for efficiencies without compromising the ability to perform. He thought that there was a tendency for retraction from new investment during difficult economic times. He noted that Fortune 500 companies that operated at the highest levels were able to identify opportunities during economic downturns. His goal for AIDEA was to reevaluate any open positions.

Co-Chair MacKinnon asked Mr. Springsteen to make the committee aware of anything on AIDEA's books that reflected any projects or loans in default.

Mr. Springsteen agreed to provide the information.

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^ALASKA ENTERPRISE AGENCY ANALYSIS: ALASKA ENERGY AUTHORITY

SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, discussed the presentation "Alaska Energy Authority," (copy on file). She stated that additional AEA staff were available to answer questions. She noted that (AEA) had addressed the questions from the committee by grouping them into like categories within the presentation.

Ms. Fisher-Goad presented slide 2, "Alaska Energy Authority":

- AEA is an independent and public corporation of the State of Alaska, est. 1976
- 44.83.070: "The purpose of the Authority is to promote, develop, and advance the general prosperity and economic welfare of the people of the state by providing a means of financing and operating power projects and facilities that recover and use waste energy and by carrying out the powers and duties assigned to it under AS 42.45."

Ms. Fisher-Goad advised that one of the primary things that AEA had done upon its formation was to develop and own large-scale power projects. On a smaller scale, AEA had also developed district heating projects and small-scale electrical systems. Additionally, AEA managed the Power Cost Equalization (PCE) program, which had been in existence for over 30 years.

Ms. Fisher-Goad showed slide 3, "AEA Programs," which displayed lists of the programs, projects, and AEA-owned infrastructure that the authority managed. She detailed that many of the programs had (in ways) been in existence since the beginning of the AEA program. She thought power houses and bulk fuel tank farms had become a primary purpose of the authority in the early 2000s. She mentioned Denali Commission funds, the Renewable Energy fund, and the Emerging Energy Technology Fund program.

Ms. Fisher-Goad turned to slide 4, "AEA's Strategy, Purpose and Core Values":

- Purpose: To develop and deliver optimal energy solutions for Alaska's communities
- Mission: To reduce the cost of energy for Alaskans

- Core Values:
  - Respectful: Demonstrating high regard for communities, integrating local perspectives
  - Responsible: Being prudent and ethical stewards of Alaskans' resources
  - Innovative: Seeking new ideas and methods and adapting to changing conditions
  - Passionate: Enthusiasm for and commitment to our work team and improvement

Ms. Fisher-Goad remarked that AEA's return to the state was about managing the appropriations in existing programs, and making sure it was providing the best return to the communities that benefitted from energy programs and projects.

Ms. Fisher-Goad spoke about slide 5, "Rural Energy Systems":

- AEA is the state entity that serves rural Alaska from planning to construction of energy systems and from utility, bulk fuel and power house training to emergency response.

Ms. Fisher-Goad commented that AEA's rural energy systems were one of its more unique areas of operation, and one with a great deal of history and expertise within the state. AEA was the only entity to serve rural Alaska through planning and constructing energy systems for community utilities, bulk fuel, and powerhouses. She explained that once the infrastructure was constructed, AEA had programs with training, circuit-rider assistance, and emergency response when needed.

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Ms. Goad addressed the question of whether a private corporation or entity could provide similar services to AEA. She relayed that AEA funding was from federal or state dollars, and it utilized private contractors for work being done.

Ms. Fisher-Goad showed slide 6, "Communities Benefit from Rural Infrastructure Investments," and slide 7, "Contractors Benefit from Rural Infrastructure Investments," noting that of the last six Rural Power System Upgrade (RPSU) projects that AEA had done, almost 70

percent had utilized contractors through a competitive bidding process.

Senator Bishop had heard from private contractors that they would like to see more AEA project work within the private sector. He asked Ms. Fisher-Goad to comment on the matter.

Ms. Fisher-Goad stated that AEA did utilize contractors in the private sector, and furthered that she had a report with detailed information about the process that listed contractors that AEA had used in the past. She reiterated that 70 percent of projects used contractors after a competitive bidding process. She drew attention to the graph on slide 7, noting that the blue section was related to engineering firms, and the green sections were representative of the various parts of powerhouse modules.

Ms. Fisher-Goad continued that there were remote utility workers that were employed by AEA who worked and managed the projects on behalf of communities. She emphasized that AEA strove to use the private sector as much as possible and stated that the purpose of slide 7 was to demonstrate how much of the work went to the private sector to build projects. She discussed the ongoing work AEA did with communities and the significantly increased expense to pay a complete bid for a project. She thought AEA was maximizing private sector contractors as much as possible, and was looking at module labor as one area in to utilize more private contractors.

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Ms. Fisher-Goad continued to discuss RPSU projects. She discussed earlier work using federal funds from the Denali Commission, and noted that the powerhouses being updated at the time were wooden structures in rural Alaska. The Denali Commission had wanted AEA to work on development of steel-frame structures, for powerhouses to last for 50 years. She discussed work that AEA had done to develop a module that had a greater life span. She recounted building the modules in Anchorage using contracted work, and then moving the modules out to the community.

Co-Chair MacKinnon stated that there were assertions that individuals who went to work for AEA and then left the authority and became contractors, while charging more funds and taking jobs from the private sector. She wondered if

there was a code of conduct or code of ethics that would prevent such an occurrence.

Ms. Fisher-Goad expressed that she was hearing the assertion for the first time. She had been with AEA for 15 years, and could not think of an individual that had previously worked for AEA and later worked as an AEA contractor. She continued that she had a report that provided greater detail on the competitive bidding process, as well as more detail on the amount of bids and who was awarded. She thought the information would elucidate more background on AEA's work and its utilization of the private sector.

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Co-Chair MacKinnon asked if AEA did sole-source contracting, or if it had a competitive bid process that compared costs.

Ms. Fisher-Goad stated that AEA had several engineering contracts and some construction managers that had completed an up-front and competitive process. She furthered that AEA had a shared services procurement staff with AIDEA.

Co-Chair MacKinnon asked if similarities would be found if the current contracts were examined and compared to a state payroll list.

Ms. Fisher-Goad agreed to provide the relevant information.

Senator Bishop asked if AEA had a separation package that included a "no compete" provision for up to a year.

Ms. Fisher-Goad stated that all AEA employees would follow the Executive Branch Ethics Act, which would limit the work that an employee could participate in post-employment.

Co-Chair MacKinnon stated that the issue was brought to her attention when she served in the other body, and then again three years previously. She thought the issue was not new.

Ms. Fisher-Goad discussed the reasons for the generation of the report, which included the subject of competing with the private sector. She considered that AEA had a responsibility for the investment that the federal government and the state had made in the projects. She

suggested that AEA utilized the private sector, but did not compete with the private sector. She emphasized implementing a process, and applying public dollars in the most effective way possible to benefit the communities.

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Ms. Fisher-Goad presented slide 8, "Contractors Benefit from Rural Infrastructure Investments," which depicted a bar graph entitled "AEA Bulk Fuel Upgrade Combined Project Summary." She stated that the slide was similar to the previous slide in showing the amount of work that went to private sector contractors.

Ms. Fisher-Goad showed slide 9, "Procurement Delegations," which showed two flow charts representing AIDEA and AEA. The slide showed that procurement employees worked on both AIDEA and AEA. She continued that AEA was subject to the State Procurement Code for all its projects, such as the work for the Susitna-Watana Dam project or any of the AEA-owned assets. She continued that AEA also followed the Federal Acquisition Regulation (FAR) system of rules under the federally funded procurement process when working with federal funds.

Ms. Fisher-Goad continued on slide 9, and detailed that procurements done on behalf of grant recipients (such as bulk fuel and RPSU projects) would fall under AAC Title 3, Chapter 108 regulations. The regulations were adopted to elucidate the process, as the projects were not specifically subject to the state procurement code. She noted that AEA procurement regulations were in parallel to AS 36.30, and also followed the AIDEA non-exempt procurement rules. She explained that AIDEA had an allowance in the state procurement code that allowed it to adopt its own rules to meet specific needs.

Co-Chair MacKinnon asked if Ms. Fisher-Goad was making a distinction between procurements done on behalf of grant recipients, in order to fit a rural community issue.

Ms. Fisher-Goad stated that when AEA developed a grant agreement, primarily for bulk fuel and RPSU projects, it was not subject to AS 36.60 (as for non-grant projects); but rather to the AAC Title 3 Chapter 108 procurement regulations developed by AEA. She added that because such projects were grant agreements, AEA worked very closely

with the utility to ensure that it was working with consideration of the energy infrastructure. She discussed the level of service present on the grant projects, in which AEA was able to provide oversight and construction management if the community did not have the available staffing.

Co-Chair MacKinnon asked if a grantee could have its own procurement rules that had differences from state procurement rules.

Ms. Fisher-Goad related that there were specific issues that rural communities may have, and AEA was able to use a flexible approach in the procurement process to meet the needs of the community and the project. She used local knowledge of right-of-way access as an example. She reiterated that AEA used AAC Title 3, Chapter 108 as a guiding process.

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Senator Bishop asked if AEA had a project that included building a power plant for Kipnuk, Alaska.

Ms. Fisher-Goad answered in the affirmative.

Senator Bishop asked for the total dollar amount of the project.

Ms. Fisher-Goad stated that there were several projects happening in the area: a bulk fuel project, an RPSU project, and an integrated wind project being worked on by a private contractor. She agreed to get back to the committee with the total dollar amount subject to the Kipnuk project. She continued that there was a staff recommendation from the Denali Commission to include \$1 million in federal dollars to help fund the bulk fuel facility to ensure relocation took place. She explicated that there were some erosion issues present at the river, and the bulk fuel portion of the project was waiting for approval of the commission to complete funding for the project.

Senator Bishop requested to have the total cost of the power plant, with a breakdown of private contractor involvement and AEA involvement.

Co-Chair MacKinnon concurred, and also wanted to see information on the multiple projects that were in one community, in order to see how the projects were awarded.

Ms. Fisher-Goad spoke about slide 10, "Owning and Financing Energy Infrastructure":

- AEA has bonding authority and administers the Power Project Loan Fund, as well as owns the Bradley Lake Hydroelectric Project and the Alaska Intertie.

Ms. Fisher-Goad summarized that AEA had ownership and participated in financing of energy infrastructure.

Ms. Fisher-Goad turned to slide 11, "State-owned Railbelt Assets Benefit Ratepayers":

- AEA owns Railbelt energy infrastructure to the benefit of ratepayers
  - Bradley Lake Hydroelectric Project provides 10 percent of the Railbelt's power at some of the lowest costs (\$0.045 cents per kilowatt hour)
  - Alaska Intertie is a debt free asset that connects Northern and Southcentral utilities, resulting in \$60,000 in annual savings to Fairbanks customers

Ms. Fisher-Goad discussed slide 12, "AEA Power Project Loan Fund" which showed a spreadsheet entitled "Outstanding Loans and Loan Commitments as of December 31, 2015." She referred to earlier comments by Mr. Springsteen (AIDEA) concerning the Power Project Loan Fund (PPF); and specified that both the AIDEA Director of Commercial Finance, and the AIDEA Chief Financial Officer sat on the AEA loan committee. Further, AEA loan servicing was handled through AIDEA shared services. She noted that statute required technical, economic, and financial feasibility studies for PPF; and the technical feasibility was handled by AEA's subject matter experts. The AEA hydro-project manager provided expertise on certain projects, and remote utility workers and diesel experts also worked to help provide technical assistance and feasibility analysis needed for loans. She asserted that PPF was unique, due to the type of programs as well as the statutory requirements that AEA had to follow.

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Ms. Fisher-Goad addressed slide 13, "AEA Bonding Authority,":

- AEA has bonding authority to issue revenue bonds for capital projects
  - Prior to 1993, bonds were issued for AEA owned projects as part of the energy program for Alaska
  - No fixed bonding limit
- 44.83.100 160 outlines bonding authorities
  - AEA must have a revenue source to issue bonds, likely a power sales agreement for a power project
  - 44.83.110: AEA can issue an moral obligation
    - 44.83.110(h) moral obligations must be secured by a capital reserve fund with notice and annual reporting to the state bond committee and the Legislative Budget and Audit Committee
  - 44.83.100: AEA can enter into an agreement with a private developer to contract to repay the debt, including a provision to secure the bonds (similar to AIDEA)
    - Municipal bond bank sets private activity bonding capacity

Ms. Fisher-Goad stated that AEA did not have the ability to issue AEA general obligation bonds because it did not possess the assets or specific revenue source.

Co-Chair MacKinnon asked to go back to slide 11, and wondered how much the state paid for the Alaska Intertie, and what the return on investment totaled.

Ms. Fisher-Goad thought the asset investment of the intertie totaled \$124 million. She stated that AEA did not receive any type of revenue or return from the investment. The utilities that were subject to the intertie agreement paid for the management and the operation of the intertie.

Senator Dunleavy asked about the \$60,000 in annual savings listed on slide 11, and wondered if it was a result of Fairbanks having the opportunity to be part of a hydroelectric concept.

Ms. Fisher-Goad thought the number Senator Dunleavy referred to was provided directly from the Golden Valley Electric Association, and was strictly related to purchase from a Southcentral utility, and did not incorporate savings from power from the Bradley Lake Hydroelectric Project.

Co-Chair MacKinnon asked if the state owned an asset for which it was receiving zero value for. She acknowledged that customers were getting \$60,000 in savings from the intertie.

Ms. Fisher-Goad answered in the affirmative. She continued that the contractual relationship in many AEA projects were not structured for the state to receive a return on investment, and offered that the state provided low-cost stable power to benefit Alaskans.

Senator Bishop wondered about future replacement costs and thought it would be worth retaining a small portion of assets for the eventuality.

Co-Chair MacKinnon associated herself with Senator Bishop's comments.

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Vice-Chair Micciche summarized that the Alaska Intertie made natural-gas-fired excess electricity available to the Interior. He wanted to see the actual annual savings, and mentioned high fuel prices. He thought it was important to consider how to pay for projects when faced with different economic conditions.

Ms. Fisher-Goad was happy to work with the committee on statutory changes that would enable AEA to receive some kind of return on investment. She understood that when the program was developed, the primary objective had been to reduce energy costs and provide benefit and value directly to rate payers.

Vice-Chair Micciche brought up the concept of cost-recovery, and thought that without it, the ability to help further communities with infrastructure project needs would be diminished.

Co-Chair MacKinnon asked if there was a contract in state statute with regard to ownership and how the Golden Valley Electric Association was utilizing the resource for customers.

Ms. Fisher-Goad was not sure of the specifics of the structure of the Alaska Intertie, and stated she would provide the information at a later date. She pointed out a difference with the Bradley Lake Hydroelectric Project. She explained that the power sales agreement required an obligation for utilities to pay back the initial state investment equivalent to the bond/debt service. She recounted that in 2021, approximately \$12.5 million would be paid annually to the state against its original investment.

Co-Chair MacKinnon asked if the amount encompassed a rate of return, or was without interest.

Ms. Fisher-Goad thought the amount equated to a zero loan proposal from the funds that were originally invested.

Co-Chair MacKinnon asked Ms. Fisher-Goad to give the committee information regarding whether it was possible to modify the intertie contract. She mentioned the Bradley Lake Hydroelectric Project and also expressed curiosity about the kilowatt hour charge.

Vice-Chair Micciche wondered about the connection between AEA and the Power Cost Equalization (PCE) program. He asked if there was communication between the entities, and wondered if there could be adjustments made when AEA completed a project and brought down the cost of energy.

Co-Chair MacKinnon related that she had been discussing the issue with Senator Hoffman, as they both served on the Renewable Energy Fund Advisory Committee. She noted that Senator Hoffman was not present to offer comment, and she ventured that he would argue that the costs were very high and the PCE component was limited to 500 kilowatts. She pointed out that the consumer that used in excess of the limit of kilowatt hours would use a great deal more and pay a higher cost. She thought the matter would be a valid conversation topic, as would the subject of contracts.

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Co-Chair MacKinnon stated that the committee would review the remaining slides, and asked Ms. Fisher-Goad to provide a written response to the 12 questions that had been sent via email on March 11, 2016. She advised that she would distribute the response to committee members, and suggested that members send any remaining questions to her office so as to get answers from AEA.

Senator Olson asked about slide 12, on which \$232,000 was listed for a project in Newtok, Alaska. He wondered if AEA normally allowed financing to a community that would be moving to another site.

Ms. Fisher-Goad stated that it was anticipated that the assets could be moved to the new site when appropriate. She noted that the facility in Newtok was a well-run utility, and the community had done a very good job managing the powerhouse.

Co-Chair MacKinnon stated that there was good information in the remaining slides, and restated that she would get written comments from AEA.

Co-Chair MacKinnon discussed the schedule for the following day.

#

ADJOURNMENT

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The meeting was adjourned at 3:07 p.m.