

HOUSE FINANCE COMMITTEE
March 9, 2021
1:37 p.m.

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CALL TO ORDER

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

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Brodie Anderson, Staff, Representative Neal Foster

PRESENT VIA TELECONFERENCE

Chris Cooke, Chair, Board of Trustees, Alaska Mental Health Trust Authority; Mike Abbott, Chief Executive Officer, Alaska Mental Health Trust Authority; Alan Weitzner, Executive Director, Alaska Industrial Development and Export Authority, Department of Commerce, Community and Economic Development.

SUMMARY

HB 69 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

PRESENTATION: MENTAL HEALTH TRUST AUTHORITY FY 22 BUDGET AND RESERVES SUMMARY

PRESENTATION: AIDEA FY 22 BUDGET, RESERVE AND CREDIT SUMMARY

Co-Chair Foster reviewed the meeting agenda.

#hb69

#hb71

HOUSE BILL NO. 69

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 71

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

[1:38:37 PM](#)

Co-Chair Merrick MOVED to ADOPT the proposed committee substitute for HB 69, Work Draft 32-GH1509\B (Marx, 2/23/21).

Co-Chair Foster OBJECTED for discussion.

BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, explained that the only change in Version B of the bill was

conforming the original governor's bill to the committee's legal drafting manual and style used by Legislative Legal Services.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, Work Draft 32-GH1509\B for HB 69 was ADOPTED.

[1:40:14 PM](#)

Co-Chair Merrick MOVED to ADOPT the proposed committee substitute for HB 69, Work Draft 32-GH1509\I (Marx, 2/23/21).

Co-Chair Foster OBJECTED for discussion.

Mr. Anderson relayed that there was one substantive change along with other technical changes between Versions B and I of the bill. He detailed that the substantive change involved distributing salary adjustments originally included in the executive branch-wide appropriations in the governor's bill to the individual departments and agencies. He explained that the change aligned with the Office of Management and Budget (OMB) reports.

Co-Chair Foster stated Mr. Anderson was looking at Version I. He asked Mr. Anderson to share the location he was referring to.

Mr. Anderson directed members' attention to a Legislative Finance Division (LFD) document titled "2021 Legislature - Operating Budget Agency Summary - Governor Structure" dated 4/3/21 (copy on file).

Vice-Chair Ortiz restated the document title for verification.

Mr. Anderson agreed. He pointed to column 1, which reflected Versions A and B of the bill. He drew attention to the row titled "Executive Branch-wide Approps" in the amount of \$11.1 million (highlighted in yellow). He stated the item reflected the governor's original bill Version A converted to Version B. Column 2 reflected the structural salary adjustment changes by allocating the \$11.1 million to the appropriate departments. Column 3 was reflective of Version I of the bill. He highlighted that the executive

branch-wide appropriations total had changed to \$0.0 in column 3. He noted that between columns 1 and 2, the total was \$13.4 million reflected in column 3.

Co-Chair Foster observed that there were no changes to dollar amounts. The only change was where the dollars were directed.

Mr. Anderson replied in the affirmative.

Mr. Anderson continued to review the changes in Version I of the bill. He detailed that the technical changes in Version I of the bill corrected an appropriation order requested by OMB. There were some inadvertent changes that occurred during OMB's development and OMB had requested the committee change the language back to the previous year's budget structure. The information was reflected in a document labeled at the bottom as Legislative Finance Division by request of Office of Management and Budget dated 3/8/21 [titled "HB 69 OMB Requested Structure Differences"] (copy on file). The first column showed the departments and divisions, and the second column included the previous FY 21 appropriation in order of appearance in the bill. He relayed that when the administration first rolled out the FY 22 budget it had moved the divisions into a new location. He explained that OMB had subsequently asked LFD to revert back to the previous order in the FY 21 and historical structure.

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Representative Carpenter looked at the operating budget agency summary and observed that all of the numbers appeared to be the same with the exception of the Department of Health and Social Services (DHSS). He asked why there appeared to be an addition for DHSS with the salary adjustments.

Mr. Anderson answered that in Version I, there were two rows that included totals outside of the executive branch-wide appropriations, including DHSS in the amount of \$1.6 million and Judiciary in the amount of \$597,000. He explained that the larger numbers reflected in column 3 [for each of the aforementioned departments] included the amounts in column 1 in addition to the distributed amounts shown in column 2. He deferred to OMB for further explanation.

Representative Carpenter asked for verification that the \$2.3 million for DHSS in column 2 was included in the \$11.1 million.

Mr. Anderson replied in the affirmative.

Representative Rasmussen asked which pages in the bill reflected the changes listed in the operating budget agency summary.

Mr. Anderson responded that he would follow up with the information.

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Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, Work Draft 32-GH1509\I for HB 69 was ADOPTED.

[1:47:28 PM](#)

Co-Chair Merrick MOVED to ADOPT the proposed committee substitute for HB 71, Work Draft 32-GH1508\B (Marx, 2/23/21).

Co-Chair Foster OBJECTED for discussion.

Mr. Anderson relayed that the only change in version B of HB 71 was conforming the governor's original bill to the legislative legal drafting manual and style.

Co-Chair Foster asked if there were numerous small conforming changes or a handful of substantive changes.

Mr. Anderson answered that there were changes on most pages of the legislation, but they were small and technical and did not include anything substantive.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, Work Draft 32-GH1508\B for HB 71 was ADOPTED.

[1:49:20 PM](#)

Co-Chair Merrick MOVED to ADOPT the proposed committee substitute for HB 71, Work Draft 32-GH1508\I (Marx, 2/23/21).

Co-Chair Foster OBJECTED for discussion.

Mr. Anderson relayed there was only one substantive change between Versions B and I of HB 71. He explained the change related to distributing the salary adjustments specific to the mental health budget. He directed attention to page 2, lines 12 through 14 of Version I. He referenced the totals shown in black and the corresponding numbers underneath reflecting agency totals for the Department of Administration's legal and advocacy services. He detailed that compared to Version B, the totals were different. There were no structural changes to the bill. The purpose was to conform to OMB's reports that reflected the salary adjustments.

Representative Josephson asked for verification that the changes did not include the governor's amendments.

Mr. Anderson replied in the affirmative. He elaborated that subcommittees were in the process of addressing the governor's amendments that had been issued on [February] 15.

Representative Josephson asked for verification that subcommittees would address amendments but not supplemental items.

Mr. Anderson agreed. He added that supplemental items fell under the House Finance Committee's purview via the supplemental bill.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO OBJECTION, Work Draft 32-GH1508\I for HB 71 was ADOPTED.

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

^PRESENTATION: MENTAL HEALTH TRUST AUTHORITY FY 22 BUDGET AND RESERVES SUMMARY

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Co-Chair Foster asked members to hold questions until the end of the presentation.

CHRIS COOKE, CHAIR, BOARD OF TRUSTEES, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), introduced himself and the Alaska Mental Health Trust Authority (AMHTA) trustees. He provided a PowerPoint presentation titled "Trust: Alaska Mental Health Trust Authority: House Finance Committee," dated March 9, 2021 (copy on file). He shared that the AMHTA's purpose was to administer the Alaska Mental Health Trust, a perpetual trust aimed at improving the lives of its beneficiaries. He noted that beneficiaries were identified in AMHTA's enabling legislation. He shared that the corpus of the trust consisted of money and land, specifically the Mental Health Trust Fund, held by and managed by the Alaska Permanent Fund Corporation (APFC). The trust's land consisted of close to 1 million acres of Alaska land, managed by the Trust Land Office under the supervision of the Department of Natural Resources (DNR).

Mr. Cooke elaborated that from the resources the trust drew annual income on a sustained basis in a manner provided by its asset management policy to provide for the needs of beneficiaries pursuant to Alaska's comprehensive mental health program plan. The trust had a role as a funder of programs to improve the lives of beneficiaries. He reported that the previous year, the trust had granted more than \$21 million to its partners helping to fund community-based projects and initiatives, including significant trust income that went to state departments to assist statewide programs and accomplish system change efforts statewide. Additionally, the trust had a program for mini-grants to individuals to help improve quality of life, independence, and opportunity for beneficiaries. The trust was thankful for its statewide network of grantees and partners who lent their expertise and efforts to improving outcomes for trust beneficiaries.

Mr. Cooke stated that in addition to providing funds to nonprofit agencies, local communities, state entities, and individual beneficiaries, the trust provided leadership in matters of advocacy planning and implementing of the

comprehensive integrative mental health program plan for beneficiaries. The trust had supported many system-change efforts including reforms as to how the state's Medicaid program funded behavioral health and addiction services. Most currently, efforts were under development to ensure Alaskans experiencing a psychiatric crisis would have access to the right kind of services, at the right time, in the right place.

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Mr. Cooke stated that thanks to the leadership of the AMHTA board (all board members were long-term Alaskans and served voluntarily) and staff, the trust remained in a healthy financial position bolstered by strong performance in financial markets and in the lands and resources managed by the trust. The trust endeavored to develop its lands and resources to benefit its beneficiaries and to see that the resources were productively used in Alaska. He explained that the strong position allowed the trust to advance beneficiary priorities and balance the needs of current and future beneficiaries. He was proud of the work the staff had done over the past year during the COVID-19 pandemic and in supporting the trust's partners by carefully managing its assets and providing valuable help and support to beneficiaries. He thanked the committee for the opportunity to testify. He relayed that the trust's CEO Mike Abbott would provide additional detail. He shared that Mr. Abbott had been with AMHTA for several years and board members had seen dramatic improvement in the operations of the trust and its programs.

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MIKE ABBOTT, CHIEF EXECUTIVE OFFICER, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), turned to slide 3 and detailed that the trust existed to serve Alaskans in five basic categories including individuals with mental illnesses, intellectual and/or developmental disabilities, Alzheimer's disease and related dementia, traumatic brain injuries, and substance use disorders. He relayed that the trust did not keep a list of Alaskans it considered beneficiaries. He elaborated that with the use of population density assumptions (nationally and within Alaska), the trust believed one in seven to one in ten Alaskans would be eligible for AMHTA supports. He estimated the number to fall between 70,000 and 110,000 Alaskans. He

underscored the amount was a significant subset of the state's population.

Mr. Abbott discussed the trust's financial position on slide 4. He relayed that the trust had taken a number of steps to enhance its financial position since its inception in the mid-1990s. The chart on slide 4 showed steady growth as a result of two basic factors. First, the income derived from trust lands that had been invested and had grown the trust's invested assets. Second, the success of investment managers within APFC and the Department of Revenue (DOR) had allowed the trust to withdraw funds in the form of a percent of market value (POMV) style payout, while continuing to see appreciable growth in the total asset base. He highlighted that AMHTA was a perpetual trust; its work was to support current and future beneficiaries.

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Mr. Abbott provided a quick snapshot of FY 22 funding on slide 5. The trust derived its income from four basic types of activities (shown on the left side of the slide) totaling \$34 million in FY 22. The total reflected an increase of approximately 3 percent in revenues over the prior year. The right side of the slide showed that AMHTA revenues had grown between 2 and 5 percent annually, which was expected to continue in the future. He reported that income or earnings from invested assets (the trust's POMV) made up the majority of its revenues in any given year. Additionally, there were prior year funds carried forward and income from land management activity. The funding comprised the \$34 million it expected to spend in FY 22.

Mr. Abbott turned to the budget development process AMHTA used annually to plan for the allocation of trust assets and the recommendations the trust made to the administration and legislature for the application of general funds (slide 6). He believed the trust was unique in having the statutory opportunity and responsibility to make recommendations to the administration and the legislature and for the administration and legislature to support the recommendations or explain why they chose not to support the recommendations. He shared that the trust took the unique opportunity seriously and tried to use it judiciously.

Mr. Abbott continued to address the budgeting development process, which involved significant engagement with AMHTA stakeholders. He elaborated that the budget process culminated every summer and led AMHTA to submit a proposed trust budget with its recommendations for General Fund (GF) spending to the administration by the middle of September, which informed the governor's proposed budget [released] a few months later. He believed the trust's budget process finished earlier in order for the administration to have the benefit of the input in the development of its budget.

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Mr. Abbott moved to slide 7 showing a pie chart depicting the allocation of FY 22 spending. The orange and yellow portions of the chart accounted for approximately one-quarter of the total trust spend and included agency budgets for the Trust Authority and Trust Land Office, respectively. The two segments included a combination of operational and administrative spending. The Trust Authority was housed within DOR and the Trust Land Office was housed within DNR. The green segment reflected Mental Health Trust Authority Authorized Receipts (MHTAAR) accounting for one-quarter of AMHTA spending. He detailed that MHTAAR was the authorized receipt authority for state agencies to receive trust funds for trust purposes. He elaborated that typically between \$8 million and \$12 million in trust funds went to fund state agency efforts. The trust's proposed FY 22 budget included \$8 million in MHTAAR funds in several dozen different allocations, which were all included in the governor's proposed budget.

Mr. Abbott continued to review FY 22 spending on slide 7. The largest segment of the slide reflected authority grants shown in blue. The category was comprised of grants the trust made to external agencies including nonprofits, tribes, local governments, and other community organizations. The allocations were made unilaterally by the trust and the spending did not go through the legislative process. He noted that agency budgets and MHTAAR funds required legislative concurrence and were primarily incorporated in the mental health budget, but also in the capital and operating budgets.

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Mr. Abbott advanced to a comparison of elements in the trust's FY 22 budget with the governor's proposed budget on slide 8. He pointed out that the slide only contained allocations where there was a difference between the trust's recommendation and the governor's proposed budget. The three blue columns on the left of the table reflected the trustee approved budget. The middle blue column titled "GF/MH" included the trust's recommendations for GF spending. He pointed to the yellow column on the right side of the table and highlighted that with one exception, the governor did not accept any of the trust's recommendations for GF spending. Alternatively, the governor proposed the appropriation of trust reserves for each of the line items.

Mr. Abbott highlighted that the governor's budget also allocated \$6 million in AMHTA reserves to fill a shortfall in the Alaska Psychiatric Institute (API) budget. He noted that an additional \$6 million shortfall was included in the governor's supplemental budget. He reported that the proposal was a significant break from precedent; there had never been an administrative proposal or legislative action that would directly appropriate from trust assets. He shared that in a recent letter the AMHTA board had sent to the House Finance Committee, it had described a number of its specific concerns with the approach. He shared the two primary concerns. He explained that the use of trust reserves in the governor's proposal was essentially an overdraw from trust assets and would either require the trust to overdraw its assets or reduce trust spending in other areas. Additionally, the Department of Law (DOL) had advised the trust that the approach directly violated the expectations spelled out in the settlement of the litigation that resulted in the formation of the trust and would likely be a breach of the state's trust responsibilities. He relayed that additional detail was included in the trust's letter to the committee. He noted there was a bit more information further along in the presentation related to the reserves, which would provide additional context for the concern.

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Mr. Abbott addressed the work of the trust on slide 9. He detailed that the trust's work was generally divided amongst four focus areas and a couple of additional priority areas. The established focus areas were similar to its focus in the past several years. He reported that the

focus areas supported all of the trust's beneficiaries and were working in all areas of the state.

Mr. Abbott moved to slide 10 and reviewed trust grant impacts. He reported that some of the significant grant contributions in the past 12 to 18 months were in grants to expand substance use treatment capacity in Alaska, including \$300,000 to Akeela Inc to expand residential treatment in Anchorage; \$125,000 to SeaView Community Services Recovery Housing Program in Seward; and \$300,000 to Set Free Alaska's new residential treatment facility in Homer. Additionally, the trust had engaged in significant investments to prevent and end homelessness around the state including Bethel, Anchorage, and Juneau.

Mr. Abbott highlighted the trust's longstanding commitment to expand and reform Medicaid. He detailed that the Medicaid expansion and reform work that began five to six years earlier was largely funded by the trust. He elaborated that the trust had made a \$10 million commitment to the state, which was expended over 4.5 years, which led to the expansion of Medicaid services and the Medicaid reform efforts, including the development of the Medicaid Behavioral Health Waiver (the 1115 waiver). He explained that the waiver had expanded the behavioral health services fundable through Medicaid. As a result of Medicaid expansion and reform, the state had increased the served population by 70,000 without increasing any additional state GF contributions. He relayed that a significant percentage of the base Medicaid served population as well as the expansion population were trust beneficiaries. He detailed that through Medicaid, beneficiaries often received the only services available to them. The trust continued to work with DHSS to increase the utilization of 1115 services and to increase providers' access to the systems, which would expand services to beneficiaries and other Alaskans.

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Mr. Abbott moved to slide 11 and discussed COVID-19 response grants. He relayed that about one year back the trust recognized the pandemic was having a significant impact on providers serving trust beneficiaries and as a result, it had reallocated funds in its FY 20 and FY 21 budgets to for approximately \$1.5 million in the form of grants to organizations permanently serving trust

beneficiaries. The trust had been able to get relatively small increments of \$25,000 or less out the door in several weeks to more than 70 providers around the state. The money typically arrived at the agencies before some of the other PPP [Paycheck Protection Plan] or Coronavirus Aid, Relief, and Economic Security (CARES) Act funding had arrived. He elaborated that the grants were often used as bridge funding for PPE [personal protective equipment] and/or for improvements in telehealth related technology and training, so that those operations were not obligated or forced to close their doors or reduce their service.

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Mr. Abbott addressed the trust's recent initiative to improve Alaska's psychiatric crisis care (on slide 12). He stated that currently a person could reasonably expect throughout most of Alaska that if they had a medical issue or physical health issue (e.g., a heart attack or broken leg) that the available emergency services would be fit for purpose. He elaborated the services had properly trained medical personnel with access to systems that would address the patient's emergency needs. He clarified that it was not the case for a behavioral health crisis. He elaborated that like most places around the country, Alaska did not do a good job of providing psychiatric crisis care.

Mr. Abbott communicated that AMHTA was committed to improving the situation. He expounded that the trust was working to bring in systems that had been proven to work in other parts of the country, scaled to the size of Alaska's communities and to working with local agencies and providers to create emergency response capability for individuals dealing with mental health issues. He was pleased to say that the trust's work in larger communities and in rural Alaska was well underway. The trust expected to invest upwards of \$10 million in the effort over the next several years in order to bring the programs online. He reported that long-term funding for most of the work would likely be available through Medicaid services as described in the behavioral health waiver. The trust saw its role as a start-up funder, as an agency that could provide funds to help improve systems to experiment with new service types and service delivery methods and to transition the services, when successful, to sustainable funding streams. He stated that Medicaid was a good example. The trust fully expected that psychiatric crisis

care would be [a successful] example the state would be able to look back on after several years.

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Mr. Abbott spoke about the Trust Land Office on slide 13. He relayed that the activity of the Trust Land Office in managing the almost 1 million acres of trust lands had been very successful in the long-term and in recent years. The slide provided a breakdown of the income the trust expected in FY 21. He informed the committee that the anticipated revenue was a significantly larger amount for FY 21 than was typical. He pointed to the land category near the bottom of the chart and stated that \$22 million was significantly more than the trust typically expected. He detailed that the FY 21 income included the sale of the trust's subport parcel in Juneau. He elaborated that the approximately 2.5 acre parcel was sold to Norwegian Cruise Lines a little over one year back for \$20 million. He explained that the revenue had cleared the trust's account in the current fiscal year. He noted were not many other \$20 million land parcels in the trust's portfolio.

Mr. Abbott continued to review slide 13. He relayed that AMHTA had work in every resource category in the state and was actively managing the trust lands in order to generate income, which was its primary land management objective. He stated that the Trust Land Office did a great job with the objective.

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Mr. Abbott addressed trust reserves on slide 14. He informed the committee that the trust maintained reserves in order to create a buffer to allow for trust spending in years where its investments did not meet performance expectations. The reserves enabled the trust to have meaningful programmatic spending even in years where its investment earnings were insufficient to fund its work. He relayed that the reserves and policies the trust used to manage them was described in the Trust Asset Management Policy Statement. He explained the document and reserves policy had been developed with the advice of Callan (the same advisor who worked for APFC and many other state funds). The trust's assets were managed by APFC and DOR. He stated that both agencies did a great job on the trust's behalf and through their work, the trust was able to

increase its annual spending. The reserves were managed along with the trust's corpus to generate investment earnings. He explained that the reserves helped build the POMV yield annually, just like the corpus did.

Mr. Abbott stated that in 9 of the last 24 years AMHTA would not have met its spending expectations if it did not have reserves, managed its funds on a year-to-year basis, and spent what its investments earned within that year. In five of the years, the trust would have had negative earnings and substantially less spending available for beneficiaries. He noted that the reality heightened the importance of the reserves. He likened the trust's reserves and corpus to the Permanent Fund. He believed the Permanent Fund and the trust funds were essentially the only two funds managed with a distinction between their earnings and their corpus. He explained that most of the other state funds were managed like endowments whereby the earnings and corpus were a single unit. The only way the trust fund grew was when the trust deposited funds as a result of land management activity or a trustee decision to transfer funds for inflation proofing. He detailed that the trust valued its reserves and relied on them to allow for a smooth and efficient process for building revenues for its beneficiaries.

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Mr. Abbott looked at the volatility the trust reserves experienced on slide 15. He explained that because, like the Permanent Fund, only the trust's reserves moved up and down with earnings, there was significant volatility even within short periods of time. He pointed to a chart on slide 15 and noted that 18 months earlier, the reserves had dipped below their target line. Since that time, the reserves had appreciated dramatically and grown significantly. He relayed that the target line had been established based on a recommendation from Callan, as equaling 400 percent of the trust's annual payout. He elaborated that the FY 21 annual payout was almost \$25 million, as a result 400 percent was slightly less than \$100 million. He highlighted that the trust's FY 20 year-end balance was \$160 million. The trust expected to end FY 21 with approximately \$175 million to \$225 million as a result of strong investment performance during FY 21. Currently, the balance was at the upper end of the range;

if the balance was sustained through the end of the fiscal year, it would be the year-end position.

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Mr. Abbott continued to discuss trust reserves on slide 16. He relayed that when reserves exceeded the target amount, the asset management policy statement obliged the trust to consider inflation-proofing the corpus. He noted it was also described as one of the statutory opportunities for the trust. He explained it was a process that had not taken place for several years but was currently taking place. He added that after the presentation had been submitted to the committee the previous week, the AMHTA finance committee had met and recommended to the full board a transfer of \$120 million from reserves into the corpus to satisfy the outstanding inflation proofing liability. He detailed that because the trust had not performed inflation proofing for several years, the liability had grown to the \$120 million level.

Mr. Abbott returned to a chart slide 4 showing the trust invested assets. He pointed to the bar on the right for FY 20 and highlighted that the blue portion of the bar represented the corpus and the orange represented reserves. He explained that if the trustee's endorsed the AMHTA finance committee's recommendation, the orange bar would decrease roughly by half and the blue bar would increase. The total height of the bar would remain the same. He detailed that the transfer would not impact earning potential because all of the funding was currently managed for the same yield. He explained that placing the funds in the trust corpus would ensure the assets would be available for future use by beneficiaries.

Co-Chair Foster thanked the presenters.

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Representative Josephson thanked the presenters for their presentation. He understood that the concept of a set-aside of lands for mental health needs dated back to the 1950s. He asked for verification the state had inherited a moral obligation on behalf of the federal government's responsibility during the territorial years.

Mr. Abbott answered that prior to statehood, the federal government had established AMHTA, dedicated 1 million acres, and determined that revenue from the land would be designed to fund work and services for trust beneficiaries. He relayed that at statehood the obligation to manage the trust was transferred to the Alaska Legislature. He explained that it had led to litigation in the 1980s where trust beneficiaries had sued the state suggesting that the trust was being mismanaged. The litigation had settled in 1994 and the settlement established the trust's current structure.

Representative Josephson asked for verification that the federal government had passed the baton to the state and the state had a trust responsibility of its own relative to "this institution."

Mr. Abbott agreed.

Representative Josephson believed that if the state had a trust responsibility it should defer to the wise management of AMHTA. He considered it to be the nature of a trust responsibility. He asked if Mr. Abbott agreed with the statements.

Mr. Abbott agreed. Effectively, in 1994, with the concurrence of trust beneficiaries, the trust had delegated the responsibility for the day-to-day management to the trust authority, including the responsibility for the lands and funds making up the trust.

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Representative Josephson referenced a series of obligations to respect the concept created by the federal government and the institution created by settlement and law. He believed there was an obligation of deference. He asked if the state had ever reached into the trust reserves because it wanted to.

Mr. Abbott answered in the negative.

Representative Josephson stated there were three sums at issue [in the governor's proposed budget] including \$6 million for FY 22 the governor wanted to spend from trust assets, \$6 million in the [FY 21] supplemental for underfunding of API, and a smaller sum for mental health

from AMHTA recommendations. He remarked that typically the items would not be fully funded with trust reserves. Otherwise, he surmised they would not be called recommendations and the trust would add them to its own list of funded programs. He asked for comment.

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Mr. Abbott agreed. He relayed that in the budget detail provided by the administration, there was a stated intent to draw further from trust reserves in future years.

Representative Josephson surmised the administration was indicating that AMHTA should get used to the idea of the draws.

Mr. Abbott replied that it was the way the trust was hearing it.

Representative Carpenter asked about the \$3.5 million in lapsed funds from the FY 21 budget. He asked why the funds had lapsed and where they were currently located.

Mr. Abbott replied that typically out of the trust's \$30 million or so, between 5 and 12 percent of funds were not expended in a year allocated based on a variety of reasons. He reported that AMHTA was working hard to reduce the number. He highlighted some of the reasons the issue occurred. He explained that sometimes a state agency did not fully expend the authority given by the trust, the trust may underspend its budget, or grants may not be made in the anticipated manner. He elaborated that the lapsed funds stayed within trust control inside its operating account. The operating account was used to fund day-to-day operations and grant making.

Representative Carpenter asked for verification that the intent was to roll the lapsed funds into the FY 22 budget instead of putting them somewhere else such as reserves or fulfilling a requirement.

Mr. Abbott answered in the affirmative. He added that the amount varied from year-to-year. He noted it had been the trust practice for several decades.

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Representative LeBon referred to slide 8 showing the governor's proposed budget and the trust recommendation comparison. He remarked that the numbers did not add up. He observed that the trustee approved budget was approximately \$24 million, while the governor's proposed budget was about \$21 million. He looked at the various columns on the slide to reconcile the difference and referenced the governor's increase of \$6 million for an increase to client services at API. Additionally, there was a reduction to AHFC for special needs housing and housing assistance. He believed the difference between the two budgets was not \$6 million, but about \$3 million. He asked for the accuracy of his statement.

Mr. Abbott replied in the negative. He clarified that the list on slide 8 only reflected projects where there was a difference between the governor's proposal and the trust recommendations. He clarified that the MHTAAR columns were the only trust funds on the slide. The GF/MH columns referred to recommendations the trust made for General Fund spending and the same was true for AHFC. The trust typically made recommendations for the use of AHFC programmatic work as well. He explained that the blue columns [reflecting the trustee approved budget] and the yellow and gold columns [reflecting the governor's proposed budget] were not designed to be comparable.

Representative LeBon asked for verification that in the current presentation, AHFC was providing the funding for special needs housing and housing assistance.

Mr. Abbott answered that AHFC was providing substantial funding, along with some AMHTA funding.

Representative LeBon referenced the [governor's proposed] increment of \$6 million to support client services at API. He asked whose client services were being supported under the proposal. Additionally, he asked if AMHTA and API shared many of the same clients.

Mr. Abbott responded that the increment identified as supporting client services was in the governor's proposed budget. He believed it was generally how API's operating work was described, which included most of the agency's budget. He explained that the governor was not recommending AMHTA fully fund API, there were still substantial GF and other funding streams supporting API. He highlighted there

was one specific funding stream anticipated for FY 21 and FY 22 that would not materialize. Consequently, rather than backfilling with GF, the administration had proposed using AMHTA funds. He confirmed that many to most of the clients served at API would be considered trust beneficiaries.

[2:44:55 PM](#)

Representative Wool looked at slide 8 and stated his understanding that the trust was managed by APFC and was set up very similar to the Permanent Fund with an earnings reserve and POMV draw. He remarked that the trust had not ever exceeded the POMV draw. He elaborated that the governor's proposal was to pull \$10.2 million out of the trust reserves. He observed that the situation was similar to the issue facing the legislature where the governor had proposed overdrawing the 5 percent POMV draw from the Permanent Fund Earnings Reserve Account. He noted that the trust's draw was lower than 5 percent. He thought Mr. Abbott had referenced a legal opinion the trust had obtained regarding the overdraft. He asked for detail.

Mr. Abbott answered that the effect of enacting the governor's proposed [FY 21] supplemental and FY 22 budget would be to draw an additional \$16 million from the trust, which was over and above the established POMV. He stated that instead of the established draw of 4.25 percent, the governor's proposal would draw between 7 and 8 percent. He relayed the governor's proposed draw was not sustainable for AMHTA. He elaborated that if the action were to be taken, which was not the trust's recommendation, the trust would likely have to reevaluate the rest of its spending and make sufficient reductions in order to avoid overdrawing its funds to the extent that would otherwise be required.

Mr. Abbott addressed Representative Wool's question about legal guidance. He detailed that AMHTA's primary counsel was DOL. He elaborated that DOL had advised the trust regarding the impact of the proposed action on the state's trust responsibilities. He elucidated that the trust had not been given a chance to consider the [governor's] spending recommendations through its budgeting process. He did not know that the trust would have endorsed the proposal; however, it worked closely with state agencies on its budgeting work year-round. He explained that all of the MHTAAR increments on slide 8 and others not included on the

slide because there was no deviation between the governor's proposal and the trustee approved budget, were all worked out during the trust's annual budgeting process typically in June through August. He informed the committee that AMHTA did not learn about the proposal to use trust funds for API or any other purposes until the budget had been released in December. The trust did not get the chance to evaluate or coordinate with the administration on the proposals.

[2:49:08 PM](#)

Representative Wool noted that DOL advised AMHTA and also worked for the governor. He stated his understanding that DOL had told the trust the overdraw of \$16 million would break the trust's law. He noted that under the governor's proposal the POMV draw would reach 7 to 8 percent. He understood that if the draw was approved, the trust would have to subtract the \$16 million from other items it normally spent on.

Mr. Abbott replied that Representative Wool's statements were generally accurate. He did not want to speak for DOL. He referred to the letter sent to the committee, which he had signed and DOL had helped to prepare. He believed some or all of the spending proposed by the governor would have to be offset by commensurate reductions in the trust proposed spending.

Representative Johnson asked for verification that the proposed use of funds in the governor's budget had been a surprise to the trust and there had not been any collaboration with the trust on the \$6 million and other changes to the budget. She asked if it was uncommon to see a new proposal in the governor's budget.

Mr. Abbot confirmed that the proposal was a surprise and that it was uncommon.

Representative Johnson referenced slide 11 related to COVID-19 response grants. She stated the slide showed the trust received \$1.5 million in COVID response grants. She asked if there was more funding available or if the trust received as much as it could through available COVID grants. She wanted to give the governor the benefit of the doubt in thinking that some of his proposed DHSS funds may be able to be recovered or matched by federal funds. She

asked if Mr. Abbott could foresee any additional federal funding in the future that may be helpful.

[2:52:45 PM](#)

Mr. Abbott answered that the trust was not currently proposing additional COVID funding from trust assets. He explained that the trust's goal in April had been to get a little bit of money out the door as soon as possible to provide early funding for agencies that were ultimately supported through a variety of other state and federal programs (e.g., PPP, CARES Act funding, etcetera). He elaborated that the state had run an excellent program that supported a number of nonprofits and other providers. He shared that the state had sought the participation of numerous other funders in the work, which the trust had participated in. He believed it had worked well for the state and recipients. He explained that if beneficiary-serving programs did not get their needs met through federal programming, the trust would definitely contemplate stepping back into the role. The trust was working closely with provider networks and individual providers to see that needs were addressed.

Representative Johnson appreciated the response.

Mr. Abbott thanked the committee for its interest in AMHTA and its purpose. He appreciated the consideration.

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AT EASE

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RECONVENED

^PRESENTATION: AIDEA FY 22 BUDGET, RESERVE AND CREDIT SUMMARY

[3:00:39 PM](#)

ALAN WEITZNER, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (via teleconference), addressed a PowerPoint presentation titled "AIDEA Overview, Budget Reserve + Credit Summary: House Finance Committee," dated March 9, 2021 (copy on file). He planned to provide abbreviated comments on the majority of the slides and

would stick to some of the more important slides for discussion. He referenced a letter from Alaska Industrial Development and Export Authority (AIDEA) addressed to the legislature dated January 8, 2021 including a review of Alaska Industrial Development and Export Authority's (AIDEA) FY 20 assets. The letter was provided annually to the legislature pursuant to AS 44.88.205. He detailed that AIDEA was created by the legislature as a public corporation. The authority was a political subdivision within the Department of Commerce, Community and Economic Development (DCCED) with a separate legal existence.

Mr. Weitzner elaborated that AIDEA was managed by an independent board composed of seven members nominated by the governor (five from the private sector and two delegated by the commissioners of DCCED and the Department of Revenue). The authority had been investing in Alaska since its establishment in 1967 and it operated as the state's development finance authority. The authority had initially been created to issue and finance conduit revenue bonds and had grown to incorporate a broad range directly investing in Alaska. The agency was self-sustaining and did not draw upon the General Fund. He elaborated that the agency used its returns to meet its operating costs and to reinvest in projects in Alaska.

Mr. Weitzner relayed that AIDEA had reported positive statutory net income and declared dividends to the state since 1995. The agency had declared dividends totaling \$439.7 million to date to the state's General Fund through the dividend statute. Overall, with AIDEA's bonds and loan programs, the agency had directed over \$3 billion into the state for economic development purposes. He noted that the \$440 million dividends to the state was beyond the agency's initial capitalization received from the legislature and through designated programs at the Department of Revenue (DOR) in the 1980s. The agency had grown its balance sheet from a very small base to the \$1.6 billion he would address in the presentation.

[3:04:22 PM](#)

Mr. Weitzner spoke to AIDEA's statute 44.88 on slide 3. He stated that AIDEA's purpose was to increase private investment within Alaska. The agency had been established to issue taxable and tax exempt bonds to acquire ownership interest in projects and to provide development project

financing. He highlighted that the statute identified it was in the state's interest to import private capital to create new economic activity. He stated that AIDEA filled its mission for economic development within Alaska by working primarily with the private sector for investment.

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Mr. Weitzner turned to slide 4 and reviewed AIDEA programs and projects as of FY 20. He noted that the projects worked in concert with the letter provided to the legislature dated January 8. He noted that the letter provided much more detail about programs and individual projects. He highlighted the impact of the COVID-19 pandemic. He elaborated that AIDEA initiated emergency programs through its board to address the pandemic and its economic impact on Alaska's businesses. He reported that AIDEA had been at the forefront of the state's response to the pandemic beginning with Governor Mike Dunleavy's state of emergency issued on March 11, 2020. The board had implemented emergency regulations and programs, one of which was adapted into the AK CARES program with DCCED. The agency had provided close to \$282 million in grant funding to slightly over 5,500 small businesses throughout Alaska.

Mr. Weitzner continued to review slide 4. He shared that AIDEA had adapted its business export assistance program to provide guarantees to Alaska's banks and credit unions for extending credit to existing borrowers.

Mr. Weitzner moved to slide 5 and discussed AIDEA programs. He stated that the emergency programs included the impact seen across all of the programs. He highlighted that the \$461 million loan participation portfolio had been impacted by requests for loan modifications. He reported that in working with local banks, the agency identified that a little over 80 out of 300 loans were modified; however, the 80 loans represented close to 44 percent of the total portfolio. The agency had been impacted by conduit revenue bonds. He explained that the program principally supported Alaska's access to the healthcare sector within the state. Over time, the agency had issued a little over \$1.6 billion in conduit revenue bonds, including close to \$200 million in 2020. He looked at the project finance category on slide 5 and stated that individual projects and developments had been impacted as well. The agency had been required to provide some modifications under some of the loans for

businesses heavily impacted, particularly within the oil and gas sector.

[3:08:25 PM](#)

Mr. Weitzner moved to slide 6 and continued to address AIDEA programs. He addressed infrastructure development, which included bringing larger project developments that were high-impact for Alaska. The agency initiated development and worked with the private sector in fulfilling the development to be construction-ready. He used the Ambler Access Project as an example. He spoke about the agency's sustainable strategy for energy transmission and supply (SETS) directed towards energy. The fund had funded the IEP [Interior Energy Project] in Fairbanks and the SSQ [Sterling Substation and Quartz Creek] line extension for the Bradley Lake project in collaboration with the Alaska Energy Authority.

Mr. Weitzner discussed the agency's small business loan programs administered through DCCED [slide 6]. The loans were directed towards rural communities as well as smaller businesses within the state that need additional support.

Mr. Weitzner turned to a map of Alaska on slide 7 showing AIDEA project and asset locations. The slide showed the impact of AIDEA's projects and loans in 2020. He shared that in fulfilling its mission for economic growth in Alaska, AIDEA had been a resource for many communities across the state. He detailed that much of the economic development and jobs supported by AIDEA's programs and project financing had resulted in responsible development of Alaska's natural resources and economic diversification projects. He explained that AIDEA acted as a catalyst for the economic development within communities. He stated that public funding gained from taxes on commercial real estate development through the agency's loan participation program or infrastructure and natural resource development through project finance activities significantly contributed to economic security within the communities.

Mr. Weitzner advanced to slide 8 and highlighted AIDEA's project investment and finance, which led to infrastructure development. He shared that currently under the different sectors within Alaska, AIDEA had invested a little over \$600 million in projects to date. He gave examples including the FedEx hangar at the Ted Stevens International

Airport in Anchorage, the Coast Guard addition to the JBER [Joint Base Elmendorf-Richardson] facilities, the Ketchikan shipyard, the Skagway ore terminal, and working with Hex LLC in the Cook Inlet. The program supported Alaska's industrial sector under a P3 [public private partnership] structure where AIDEA worked with private sector investment. He relayed that in some cases AIDEA owned and leased the facilities or provided lending to the operation. He stated that the direct investment was provided under a long-term capital basis. The agency analyzed the investment opportunity and approached investment from a risk management standpoint in its underwriting. Investments were based purely on feasible economic structures. He relayed that AIDEA was not structured by the legislature to provide subsidies. The agency provided opportunities for growth capital within the state based on supported economic structures that provided a return on the capital for future investment into Alaska.

[3:12:32 PM](#)

Mr. Weitzner advanced to slide 9 titled "Financial Summary FY2020." He relayed that AIDEA's audited statements were provided to the legislature on January 8, 2021. He noted the audited statements were required to be provided annually by January 10 under AS 44.88.205 and AS 44.88.210. He highlighted that AIDEA had three distinct areas of investment. The first was the Enterprise Development Account for the Loan Participation Program in the amount of \$456.9 million. The second was the Development Project Finance area including projects funded under AIDEA's revolving fund and capital assets on the books under the revolving fund. He noted that projects were invested for a return, while capital assets were economic development projects residing on AIDEA's portfolio under asset management. He explained that AIDEA did not receive a return on capital assets. He used the Snettisham Hydroelectric Project [in Juneau] and the Alaska Ship and Dry Dock in Ketchikan as examples.

Mr. Weitzner continued to review the development project finance category on slide 9. Other projects included in the category fell under the SETS program. He detailed that the program was initially funded through an appropriation by the legislature of \$145 million; about \$125 million was invested into the Interior Energy Project or Interior Gas Utility in Fairbanks, which had been provided with zero

cost funding for the first 15 years and marginal 25 basis point return funding for the next 35 years. He characterized it as patient capital. He highlighted the Arctic Infrastructure Development Fund that was recently funded with a dedication of \$35 million from AIDEA's revolving fund in support of the Ambler Access Project. He detailed that AIDEA had recently concluded an agreement with Ambler Metals where AIDEA would commit up to \$35 million in matching funds (matching the company's \$35 million) for the final feasibility and permitting activities of development of the road.

[3:15:50 PM](#)

Mr. Weitzner reviewed other assets on AIDEA's balance sheet on slide 9 including capital reserves of \$398.9 million. He expounded that AIDEA had accumulated the reserves through its successful investments. The money had been accumulated in cash for reinvestment into the state for projects currently within AIDEA's pipeline. The capital reserves were currently AIDEA's only source of capital for future investment and ongoing projects.

Mr. Weitzner stated that when aggregating projects that were not providing a return to AIDEA, the long-term financing supported through the SETS fund for the Interior Gas Utility, and expenditures for the restructuring of the Mustang Project not currently providing a return, AIDEA had \$370 million in assets (out of the net \$1.4 billion) on the books not providing a return. Ultimately when looking at the revenues and cashflow portion of the slide, the net base was slightly above \$1 billion, which was producing the agency's revenue. The revenue was allowing the agency to meet its operating costs. He explained that through the dividend statute, AIDEA recognized and reported statutory net income and AIDEA's board would declare a dividend based on the income (somewhere between 25 to 50 percent of the statutory net income).

Mr. Weitzner relayed that over the last two years in 2019 and 2020 AIDEA's board had declared the full 50 percent dividend. The FY 20 dividend was \$17.3 million to be distributed to the General Fund in FY 22. He pointed out that in FY 19 and FY 20, AIDEA reported over \$80 million in each of the years; however, by accounting standards it included unrealized gains in investment securities (representing unrealized gains from the capital reserve).

The number was slightly under \$20 million in FY 19 and over \$20 million in FY 20. He pointed out that based on operations, AIDEA ran at a level of about \$60 million. The agency's operating expenses were fairly even at about \$30 million up to \$32 million. The agency's non-operating revenue expenses fluctuated relative to the underlying projects and in some cases when the projects were sold, which was the case in 2018 with Pentex informing the Interior Gas Utility there was an impact on AIDEA's operating income. He stated that ultimately AIDEA had statutory net income that was fairly stable at about the \$30 million level pending its investment in new projects and growing the asset/project base with the dedication of its capital reserves and bringing AIDEA's project pipeline to fruition for investment in the underlying projects. Typically, AIDEA had returned between 3.5 to 10 percent on the projects based on the risk margins assessed for investment underwriting. He noted it also depended on which program the investment was under - the Enterprise Development Account or project finance activities.

[3:20:32 PM](#)

Mr. Weitzner reported on AIDEA's bonding capacity on slide 10. The authority's bonding capacity was subject to and determined by the external credit rating agencies and AIDEA's current credit standing. He shared that prior to 2019, AIDEA held AA+ credit ratings from S&P and Aa3 from Moody's. He detailed that within 2019, Moody's had issued a downgrade lowering the rating to A2. Additionally, AIDEA had received a notification from S&P that it would review the agency's credit rating during 2019. He reported that AIDEA had taken the action of defeasing \$39.7 million in outstanding general obligations and closed out the credit ratings. The agency did not currently have a credit rating on the market. He explained that AIDEA would need to reinitiate the process in order to do any bonding.

Mr. Weitzner continued to address slide 10. The credit rating agencies had viewed the use of different reserves to meet the state's budget deficiencies and had highlighted issues attached to the options. The agency had presented to the credit rating agencies and the historical focus had been the use of the dividend statute in AIDEA transferring funding to the General Fund. He informed the committee that AIDEA's capacity in providing future financing opportunities was dependent on the credit rating agencies'

view of the current issues with the dividend statute, the use of reserves, and the availability of reserves for future financing and investment. He reported that AIDEA currently had bond authorizations that had been approved by the legislature for up to \$145 million to finance the infrastructure and construction costs of the Bokan-Dotson Ridge Rare Earth Elemental Project (up to \$125 million to finance the infrastructure) and construction costs of the Niblack project. He relayed that AIDEA had up to \$65 million to finance the expansion, modification, improvement, and upgrading of the Skagway ore terminal.

Mr. Weitzner reported that AIDEA was undergoing a review of its investment programs and portfolios for ways of accessing external credit and securitizations. The agency was looking at its loan participation program and seeking an asset-base security structure. There was and had been over \$1 trillion per year in these types of securities issued by different agencies like AIDEA for programs similar to the loan participation program. He stated that AIDEA was actively looking at ways of raising external sources of capital and augmenting its balance sheet and investment activities.

[3:24:04 PM](#)

Mr. Weitzner addressed the proposed FY 22 fund draw in the governor's budget on slide 11. He referenced the proposed fund draw within the governor's budget. He highlighted that AIDEA supported the governor's operating budget. He noted that the authority passed Resolution G-2101 in January 2021 showing the organization's support of the governor's proposed operating budget. He referenced page 54 of the governor's budget where AIDEA was identified as declaring the dividend for the General Fund. He noted the dividend amount was \$17,305,000 for FY 22. The original amount was a placeholder pending AIDEA's board declaration for the dividend.

Mr. Weitzner referenced the fund capitalization item under Section 22, item (x) in the governor's budget, which was equal to 15 percent of all revenue from taxes levied by AS 42.55.011 that was not required to be deposited in the Constitutional Budget Reserve (CBR). The governor's budget appropriated the amount estimated at \$60 million to the oil and gas tax credit fund (AS 43.55.028). He noted that the \$60 million was an estimated figure and related to the

royalties to be received on Alaskan crude oil production in FY 22. He reported that the estimate of \$60 million was made at the current forecast of \$48 per barrel. He remarked that the oil market had recovered since the estimate had been put in place; oil prices continued to fluctuate and were currently above \$60 per barrel. The Department of Revenue had provided its fall 2020 forecast presentation to the House Finance Committee on February 22, 2021. He referenced slide 21 in DOR's presentation where the department highlighted that a \$1 increase in the Alaska North Slope crude price led to an approximate \$25 million to \$30 million increase in unrestricted general fund (UGF) revenue. He pointed out that given the increase in oil price, the appropriation may not be needed, depending on the use of funds. He noted that if the fund draw occurred, it would come from AIDEA's capital reserves of \$398.9 million.

Mr. Weitzner continued to review slide 11. He stated that AIDEA's capital reserves were its primary source of capital for new and ongoing investments. He stated that an alternative use (opportunity cost) of the \$60 million was in the investments AIDEA would be making in current and future projects within the state. The returns on AIDEA's projects ranged from 3.5 to 9 percent. Additionally, projects created or retained jobs for Alaskans and generated local/state tax and royalty income. He reported that the reinvestment into communities contributed to the Permanent Fund, particularly in the natural resource projects.

[3:28:16 PM](#)

Mr. Weitzner discussed responsible resource development AIDEA was undertaking. The upcoming slides addressed the 1002 Area lease sale, the Ambler Access project, and the West Susitna Access project. The topic addressed accessing Alaska's abundant natural resources and the associated economic development opportunity. He stated that Alaska was blessed with abundant natural resources; however, it was increasingly being limited in its access to those resources. He remarked that the development of Alaska's resources not only provided an important domestic resource for the country's demand for base and strategic metals such as oil and gas, but it also produced royalties to the state and contributed a portion of the royalties to Alaska's

future endowment in the Permanent Fund and provided needed funding to Alaska's communities.

Mr. Weitzner discussed the Section 1002 area lease sale and the leases AIDEA had won under bid. He was able to answer any questions the committee may have on the topic. Slide 14 answered some principal questions on the benefits of the sale. He noted that slide 15 reviewed the Ambler Access project and benefits. He thanked the committee for its time.

[3:30:26 PM](#)

Representative Josephson referenced slide 12 that called the projects responsible resource development. He stated that there were numerous Alaskans who had concerns about the responsibility of the Ambler project. He asked if the statement was fair. He stated there was significant criticism of the Ambler mining project from local and tribal constituencies.

Mr. Weitzner stated his understanding of the question.

Representative Josephson clarified his question. He understood that AIDEA wanted to support responsible resource development. However, there were constituencies to the west of the project and primarily to the southeast of the project that were profoundly concerned about whether the project could be developed responsibly.

Mr. Weitzner believed it was a fair statement that the communities had expressed concern about the responsible development for the Ambler Access project.

Representative Josephson referenced the shared expenses of \$35 million by AIDEA and \$35 million by Ambler Metals. He asked if it was true that Ambler Metals would not be paying the \$35 million because it would receive a credit related to the cost of tolling on the road. He asked if Ambler Metals would truly contribute \$35 million.

Mr. Weitzner responded that the company was committing \$35 million and would be funding the amount for the feasibility and permitting activities leading to the development of the road. The credit would only occur once the road was developed and in use. He explained that AIDEA and the state had committed funds to the road, which they would be

recovering in proceeds under the toll or use agreements from any parties using the road. He detailed that AIDEA would be recovering its investment in the road and would use the funds to reinvest in other projects. He stated it was similar to what Ambler Metals was looking to receive for its contribution for development of the road. Ultimately, the company would receive a credit or a reduced payment on the toll road.

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Representative Josephson appreciated the answer. He mentioned the Arctic Infrastructure Development Fund (AIDF) and asked if there was any concern with statutes that put a cap on the loan amount. He asked if it was being challenged or litigated that AIDEA had breached the cap on the amount under AIDF.

Mr. Weitzner answered that he did not believe there was a concern. He was not aware of any concern within AIDEA about the issue. He relayed that AIDEA would be owning the operating entity of the Ambler Access Road. He explained that AIDEA was directly investing funds into the project development with Ambler Metals. He elaborated that once a final investment decision had been made, the AIDEA board would be an owner. He clarified that AIDEA was not loaning funds to a third-party operator.

[3:35:57 PM](#)

Representative LeBon noted that Mr. Weitzner had mentioned AIDEA had been founded in 1967. He what the state had originally invested to capitalize AIDEA.

Mr. Weitzner replied that the initial capitalization for the establishment of the authority was minimal. He explained that AIDEA had been established as a conduit revenue bond issuer where AIDEA acted as the tax exempt or taxable authority for issuance of the bonds. He elaborated that later in the 1970s and 1980s a DOR loan pool had been transferred to AIDEA as the initial capitalization in the sum of about \$200 million, which had created AIDEA's loan participation program. Subsequently, with the development of the Delong Mountain Transportation System, there had been a transfer and appropriation of additional funds plus \$15 million in cash capital to AIDEA. In aggregate the

initial capitalization in appropriations by the legislature was \$309 million.

Representative LeBon stated that AIDEA had paid the money back and then some. He referenced slide 6 related to AIDEA programs. He shared that when he had worked in the banking sector, he had participated on loans with AIDEA and had a working knowledge of how the agency functioned. He looked at the small business loans category and discussed that AIDEA currently had two direct loan programs to help with long-term financing for startup and expansion for small businesses. He asked for detail. He asked if the program was squeezing banks out of the specific lending category. He asked how the program was different from what a bank could do for borrowers.

[3:38:34 PM](#)

Mr. Weitzner responded that one of the AIDEA's small business loan programs was the Rural Development Initiative Fund, which provided loans up to \$300,000 for the startup or expansion of businesses in communities with a population of 5,000 or less as long as they were not connected by road or rail to Anchorage or Fairbanks. Otherwise, the population cap was 2,000 for communities connected by road or rail. He relayed that very little financing was being provided to rural communities and AIDEA's program was one of the more important programs - administered by DCCED - providing financing for startups and initiating small businesses in-state. The second program was the Small Business Economic Development Program that provided fixed asset loans and working capital up to \$300,000. The fixed asset loans could go out to 20 years and were primarily for small businesses across Alaska as defined by the Small Business Administration. The loans required matching funds via private financing. The program worked in concert with the financial sector. He relayed that a large part of the funding went to commercial fishermen, who had limited access to financial capital within the state in some cases.

Representative LeBon asked for verification that from the commercial banking point of view in Alaska, AIDEA was filling a niche with the loan programs and was not crowding out the banking community from making loans. He assumed that if a bank wanted to make the loans, there was nothing to prohibit them from doing so. He asked if AIDEA was

pricing the loans at an interest rate that made them more attractive than what a bank could offer.

Mr. Weitzner answered that the loans did not compete with the financial sector within the state. He believed rates were fixed at prime plus [inaudible] percent. He elaborated that the loan rates were within what the banks provided in Alaska. He believed it came down to an issue of access to capital. He detailed that the programs were operated differently than reviews by the financial sector; therefore, there may be more opportunity for the borrowers to use AIDEA's loan program versus going directly to a bank. He added that one of the programs required that the borrower had been declined by the financial sector. He relayed that the programs were not structured to compete with Alaska's banks and credit unions.

Representative LeBon stated that in the early 1980s the state had a small business loan program. He shared that the program had required the borrower to submit a letter from a bank specifying the loan request had been declined. He relayed that he had small business owners coming to see him at the bank just to ask for the letter. He reported that borrowers had not wanted to present a loan proposal to him because at the time, the state's repayment terms, interest rates, fees, and collateral requirements were better than what the banking community could offer. He believed it had been a bit too political in its loan approval process and that a few too many marginal loans had been made. He stated that the entire program had ended after the shake out in the state's economy in the mid-1980s. He stated that he knew AIDEA was doing it right.

[3:42:57 PM](#)

Vice-Chair Ortiz turned to slide 13 related to the 1002 area lease sale. He noted there had been substantial media coverage when the lease sale had gone forward. He asked if it was the first time AIDEA had participated in a lease sale.

Mr. Weitzner answered that it was the first time AIDEA had directly participated in an initial lease sale program. He highlighted that from AIDEA had interacted with leases in its experience with the oil and gas sector in Alaska. He relayed that through the Mustang project, AIDEA had acquired or transferred leases within the area to an entity

wholly owned by AIDEA. He noted that the 1002 area lease sale was not the only process AIDEA had with oil and gas leases within Alaska; there were other situations that had occurred in Cook Inlet. He reiterated that the 1002 area lease sale was the first direct lease sale program with federal oil and gas.

Vice-Chair Ortiz looked at bullet 3 on slide 13 highlighting that AIDEA had submitted bids on 11 tracts worth just under the agency's authorized \$20 million. He remarked that the lease cost was annual. He asked what the annual cost would be for AIDEA to hold the leases.

Mr. Weitzner answered that AIDEA had an annual obligation of \$39 million in aggregate on the 10-year leases.

Vice-Chair Ortiz asked about the opportunity costs of the funds. He wondered what other areas the funds may have been used in if they were not tied up in the 1002 lease sale.

Mr. Weitzner replied that the funds would come from AIDEA's capital reserves. He detailed that \$20 million had been transferred from the revolving fund to the Arctic Infrastructure Development Fund in order to ensure AIDEA could encumber its obligation for the acquisition of the leases and obligations in the first year. He explained that on an ongoing basis, which would be reviewed by AIDEA's board, additional funds would have to be dedicated to the AIDF on an ongoing basis. The funding would come out of capital reserves and would otherwise go toward other investment opportunities in Alaska. He highlighted that with the decision made by the board for the opportunity in the lease tracts, AIDEA looked at the economic development aspects that came with the investment. He stated that if AIDEA was allowed to reach development on the oil and gas leases that were ultimately viewed to be 1.4 million barrels of oil per day through the Trans-Alaska Pipeline System (TAPS), it would bring engagement with local communities, employment, and tax based benefits, which made it one of the major investment opportunities for AIDEA within the state.

[3:47:06 PM](#)

Representative Wool asked about AIDEA's risk assessment on the [1002 area lease sale] project. He referenced Mr. Weitzner's statement that AIDEA looked at everything

through a risk lens. He noted slide 13 specified that AIDEA was the highest bidder on 9 out of 11 tracts. He asked if AIDEA was the only bidder on the tracts.

Mr. Weitzner answered that AIDEA had looked at the USGS record for the initial geotechnical studies available across the section 1002 area. He explained that the record had been updated in 2005 and 2010. Additionally, AIDEA had looked at the assessment of the Congressional budget office and an analysis conducted by a Congressional Resource Committee for the 2017 Tax Budget Act passed by Congress. He explained that AIDEA had used all of the information in aggregate regarding the economic development opportunity and the royalty stream that would be available to the state from AIDEA's development of the tracts. He confirmed that AIDEA was the highest bidder. He clarified that AIDEA had presented a minimum bid across the 11 tracts. He expressed that there was a very high optionality associated with the investment by AIDEA and with the development oil and the contribution in royalties to the state, AIDEA found that the benefits outweighed the initial investment.

Representative Wool referenced Mr. Weitzner's testimony it was the first time AIDEA had participated in a lease sale. He looked at AIDEA's other investments such as Red Dog Mine, IGU, the Ketchikan Shipyard, a hotel in Valdez, and the Ambler Road. He observed that in the other projects AIDEA partnered with a private entity. He remarked there was no private entity involved in the 1002 area lease sale. He thought AIDEA was speculative that it would be able to sell the leases in the future. He noted that two other oil companies had bid on the tracts, but none of the "big three" had submitted bids. He asked if it had concerned AIDEA. He noted that Mr. Weitzner had mentioned USGS and the potential oil going into the pipeline. He asked if AIDEA had also assessed that almost every available capital fund had already said they would not invest in the area. He asked if the information had been included in AIDEA's risk assessment. He considered that perhaps it was not a good investment, which was the reason other major oil companies were staying away. He asked why AIDEA had gone in solo without a P3 partnership.

[3:50:46 PM](#)

Mr. Weitzer responded to Representative Wool's question about the absence of a private partner in the project. He

associated the project with AIDEA's effort to include infrastructure development in its programs. He reported that AIDEA had not initiated the Ambler Access Project or any roads to resources projects (it was currently looking at to provide access to Alaska's resources) with partners. He elaborated that AIDEA had developed partners through the development of the road in the Ambler Access Project with the receipt of the joint record decision on the federal aspects of the route. He noted the joint record decision had been a key milestone and had initiated the conversations with Ambler Metals about the final stages for feasibility and permitting hopefully leading to an investment decision for the road. He noted it would take full agreement by all of the landowners along the route. He remarked there was significant work ahead.

Mr. Weitzner related the way AIDEA had engaged in the Section 1002 area in a similar way. He stated that AIDEA was established by the legislature to attract private capital and investment to Alaska. One of the agency's roles was acting as a key partner and understanding the requirements of the private sector structures they were looking to put in place and how project developments came together. The agency also acted as a go-between on difficult issues relating to land and other. He highlighted the initial way AIDEA had become involved in the FedEx hangar at the Ted Stevens International Airport. He explained that initially there had been some reluctance working with the Department of Transportation and Public Facilities (DOT) on land issues. He elaborated that AIDEA had acted as the go-between and had entered into the lease with DOT. Subsequently, AIDEA had built the hangar and leased it to FedEx. He reported that the hangar had been in consistent operation for 20 years.

Mr. Weitzner believed there was a similar role in addressing distinct conservation issues related to the state's rights under Alaska National Interest Lands Conservation Act (ANILCA) for Section 1002. He saw AIDEA playing the key role in responsible development of the area through engagement with the private sector. He viewed AIDEA's investment in the tracts as defining the key role.

Mr. Weitzner addressed Representative Wool's question about how AIDEA assessed the reluctance of external financial institutions and the decisions the institutions may be making about future investment in the Arctic. He reported

that AIDEA was focused on developing Alaska's natural resources and ensuring Alaskans had access to the resources and the associated economic development benefits currently and in the future. He furthered that AIDEA saw its role in addressing the concerns of the financial community by highlighting how Alaska had always responsibly developed its natural resources and identifying that Alaska had some of the strictest conditions and requirements of any other environment, particularly with oil and gas development on the North Slope. He stated it would be an education process to bring the parties in to work with AIDEA. He believed there should still be room for those parties to be investing in the State of Alaska based on the merits of the investment. He elaborated that in the case of the 1002 area, merits included the fact that development on the North Slope worked hand in hand with conservation.

[3:55:04 PM](#)

Representative Wool referenced the AIDEA dividend that ranged between 25 to 50 percent. He observed that AIDEA had paid a dividend of about 33 percent in 2018 and close to 50 percent in the past couple of years. He asked how the agency came up with the number.

Mr. Weitzner answered that the amount was determined through an analysis of the underlying operations and discussion with the board. He explained there was a definition and calculation that identified a maximum amount based on the statutory net income. The boundaries of 25 percent and 50 percent were provided in the conversation with the board. He reported there were areas of reserves that needed to be put in place as well, which AIDEA modified. Ultimately, the total dividend was declared by the board. He relayed that in 2019 and 2020 the full 50 percent had been declared.

Representative Josephson stated that the Senate Finance Committee held a hearing on March 1 and had learned AIDEA would do a cost-benefit analysis on the Ambler project. He noted that AIDEA had done an independent cost-benefit analysis for the Red Dog Mine decades back. He asked whether AIDEA would seek a similar cost-benefit analysis for Ambler.

Mr. Weitzner responded that the cost-benefit analysis would be done with independent support. He stated it was part of

the process, as it had been with the Delong Mountain Transportation System. He shared that AIDEA had an independent assessment on the cost-benefit analysis with the review for the record decision and the process would continue.

Representative Josephson shared that he had been co-chair of the House Resources Committee in 2018. He recalled that Ambler Metals had reported it could build the road independently and without use of state funds. He asked how AIDEA could have known that the project could not have been developed without its assistance. He asked if AIDEA had looked into the issue to see whether it had to make its own investment or whether Ambler Metals or Trilogy would front the costs.

Mr. Weitzner stated his understanding of the question related to Ambler Metals. He highlighted that the record of decision for the route, the right of way grants signed with the Bureau of Land Management, and the right of way permit with the National Park Service, resided with AIDEA. He noted that AIDEA was the applicant for the route. He furthered that if Ambler Metals were to seek to build a road independently, it would require going through a full permitting process, which would delay them for a lengthy period of time. He believed AIDEA's development agreement with Ambler Metals represented the fact that the entities were working in partnership on the existing route and record of decision that had been reached. The entities were working together on the road that AIDEA was looking to develop.

[3:59:28 PM](#)

Co-Chair Foster thanked Mr. Weitzner for his presentation. He reviewed the schedule for the following day.

ADJOURNMENT

[4:00:03 PM](#)

The meeting was adjourned at 4:00 p.m.