

AK.

POWER

AUTHORITY

Alaska State Legislature

MEMBER
HOUSE JUDICIARY COMMITTEE
HOUSE LABOR AND COMMERCE COMMITTEE
HOUSE SPECIAL COMMITTEE ON LOANS
HOUSE FINANCE SUBCOMMITTEE FOR
NATURAL RESOURCES, FISH AND GAME
AND ENVIRONMENT CONSERVATION



KETCHIKAN
3855 EMERGREEN
KETCHIKAN, ALASKA 99901
HOURLING SESSION
POUCH V
JUNEAU, ALASKA 99911
(907) 465-4644

House of Representatives

REPRESENTATIVE
RON WENDTE

MEMORANDUM

WHO IS RESPONSIBLE FOR FINANCING OF TYEE LAKE?

To: Representative Furnace, Chairman
Labor and Commerce Committee
House of Representatives

From: Representative Ron Wendte *R.W.W.*

Date: March 9, 1982

Re: Review of Alaska Power Authority

In recent weeks, there has been much discussion concerning Alaska Power Authority, the Tyee Hydro Project, Susitna, etc. in legislative committees and in the news. The Alaska Power Authority (APA) and hydro power in themselves are viable concepts. However, the questions surrounding APA leave considerable doubts in the mind of the public. I believe that we, in the House Labor and Commerce Committee, should begin a review of the Alaska Power Authority in order to outline what the problems are and to make recommendations to resolve those problems.

Because Tyee is only nine months from completion and has been very nearly an APA project from inception, I feel that it would be an extremely good example for review.

It is my suggestion that the Labor and Commerce Committee appoint a sub-committee of one-month duration to look into Alaska Power Authority and the Tyee Project with a final report and recommendations due on April 15, 1983. Because of the vast amounts of material and the workload already placed on most staff people, I would also suggest that an aide or researcher be hired to serve as staff to the sub-committee during that one-month.

The Sub-committee should do an overview of Tyee that would consist of the following points:

- 1) Were the proper feasibility studies done, in particular, were they rechecked when the original cost estimates of the project were shown to be too low?

- 2) Did APA look carefully at alternative sites, smaller projects, or even alternative power sources?
- 3) Has APA followed legislative mandate in all annual reports and project status reports?
 - a) On the basis of what information did the Legislature approve the funding of Tyee?
 - b) Have the statements made to the Legislature been consistent with development of information on Tyee as the project progressed?
- 4) Was management thorough in using correct contracting procedures?
 - a) The problem of wrap-up has been discussed and legislation has been recommended. However, further study should be done on wrap-up as one element of the total project and what impact wrap-up had on cost over-runs and contracting procedures.
 - b) What were the trade-offs in the decision to not relieve the engineer of responsibility for the project?
- 4) What procedures are used in developing cost estimates and how thorough is management in checking those estimates?
 - a) What is the explanation for significant differences in the various estimates on the project costs?
 - b) Do we know with certainty at this time what the final costs of the project will be?
- 5) Did the project costs get out of control and, if so, at what time did the project costs get out of control?
 - a) What steps were taken to control the escalating costs of the project?
 - b) There are excessive numbers of change orders in the Tyee project. Were all of these necessary and what could have been done to prevent this problem?
- 6) Has the Legislature been at fault by constantly changing the ground rules by which APA operates or allowing too much latitude in the operation of APA?
- 7) What has been the specific impact of each legislative change

as the Tyee project progressed (i.e., "Blackmail Clause, SB 25 and 26, HB 9, etc.)?

- 8) What steps are necessary to resolve the crisis we face with the Tyee project?
 - a) Do the problems with Tyee apply to other APA projects?
 - b) Who should bear the burden for the cost over-runs -- the utilities, municipalities (customers) or the State of Alaska?

And finally and most importantly,

- 9) What recommendations or legislation should be adopted by the Labor and Commerce Committee to prevent these problems from arising again?

Increased energy usage throughout the State, declining oil revenues and an eventual end to fossil fuels demand a workable energy plan for Alaska. Some corrections have been made within APA by changes in legislation, by the APA board and by the APA management. This review should not be a surgical procedure, but rather, an examination, diagnosis and cure.

35,800,000

271-18
ERIC YOULD

44.83.230 (2) p-23

44.83.176 operation p-29

Reports Needed

AFA	44.83.080 (3)	bylaws	P-2
	(4)	Rules & Regulations	P-2
	(10)	Contracts (copies of all entered)	P-3
	(16)(B)	Pledge made - where & on what Basis	P-3

44.83.100

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	44.83.380	Energy Program	P-27
	44.83.382 ^{d 384}	Power Development Fund	P-27
	44.83.388	Allotment to Projects	P-28

Dept. of Commerce	44.83.284	Long Term Energy Plan	P-23
	44.83.394	Revenue	P-29

B+A	44.83.105 (a)	Bonds	P-7
	44.83.170 (2)	Power Project Fund [to be Much]	P-14
→	44.83.185 (2-C)	Submission to Legislature	P-19
	44.83.195	Annual Audit	P-21
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*	44.83.191	Limitation on Bonds	P-21
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Legislature	44.83.105 (f)	certificate for capital reserve fund	P-7
	44.83.183 (c)	Project approval	P-19
*	44.83.200	Annual Report	P-21
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Regulation	44.83.170 (c)	Regulations - Power Project Fund	P-17
	44.83.177 (c)	Regulations - Feasibility Study	P-17



Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99801

MEMORANDUM

RAC

TO: All members of the Special Committee on State Loans
FROM: Representative Rick Uehling, Chairman
DATE: February 14, 1983
RE: Committee schedule for week of February 14

The House Special Committee on State Loans will meet on Tuesday, February 15, 1983, at 3:00 p.m., in Capitol Room 504 (Senate HESS Committee).

The first witness will be Bert Wagnon, Executive Director of Alaska Industrial Development Authority. Mr. Wagnon will present an overview of AIDA and its many individual programs. A copy of the AIDA annual report is attached.

The second witness will be Don Hostak, Director of the Division of Business Loans and Veterans' Affairs. Mr. Hostak will present an overview of his agency and the many programs it offers. Individual programs within the Division of Business Loans include Alternative Technology and Energy, Bulk Fuel, Child Care Facility, Commercial Fishing, Fisheries Enhancement, Historical District, Mining, Residential Energy Conservation, Small Business, Tourism, Veterans', and Water Resources Revolving Loan Funds. Although the Division of Business Loans and Veterans' Affairs has no pre-printed annual report, Mr. Hostak is preparing a special hand-out for the committee's use.

I look forward to seeing you at the meeting tomorrow.

Attachment: AIDA Annual Report

LOANS

2/14/83

REQUESTING WENTE

- LOANS / SHORT TERM FINANCING / HOW ARE THE DEBTS ARE GOING TO PAID
- 45-50 MILLION FOR PROJECT
- THEE PROJECT WAS DECIDED A UPON OVER - THOMPSON LAKE;
- OVER-RUN ON PROJECTS
- STATE AND CLEAR-UP
- DEBT SERVICE;
- DIRECT APPROPRIATION REQUESTED FROM LEGISLATURE - A.P.A.
- REVENUE BONDS; POSSIBLE - FLOAT REVENUE
- 100% INCREASE IN UTILITY RATES; City of Ketchikan
- IMPACT ON KETCHIKAN
- INTENT ON ALASKA POWER AUTHORITY
- ADDITIONAL CONTROLS ON ALASKA POWER AUTHORITY / WE CAN DEVELOP
- WHAT STAGE IS THE PROJECT IN RIGHT NOW!
- FINANCING PLAN! REVIEW / STAFF ASSIGNMENTS
- (BUDGET - AUDIT) INVESTIGATE;

Development of Hydro - project - alternative power project /
(SB-25) (SB-26)

~~Gotta~~ LOANS / WHERE ARE THEY GOING! TRUST Agreements!

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L. ANDREW ROBINSON

FEB 4 1983

January 26, 1982

REPLY TO:

The Honorable Joe L. Hayes, Speaker
Alaska House of Representatives
P.O. Box 1821
Anchorage, Alaska 99510

RE: Alaska Power Authority
Wrap-up Insurance
Contract
Our File: 4306-2

Dear Mr. Speaker:

Our office has completed its review and evaluation of the materials furnished us by the House Labor and Commerce Committee relating to the Alaska Power Authority's "wrap-up" insurance contract with Marsh and McLennan-Corroon & Black/Dawson & Co. as insurance brokers for the Alaska Power Authority and Pacific Marine as workers' compensation insurers. For reasons more fully explained below, it is our belief that a legislative lawsuit on the matter does not appear advisable at this time, even though one could argue that several state laws may have been violated.

Before explaining the basis of our opinion, a brief description of the process through which our analysis evolved is in order. In April of last year, we were given an oral briefing by Mr. Jeff Barry, Legislative Assistant for Representative Terry Martin, Chairman of the House, Labor and Commerce Committee. Mr. Barry brought with him a few basic documents which we reviewed. Legislative subpoenas were then issued by you, as Speaker of the House, to Marsh and McLennan-Corroon & Black/Dawson & Co. who had contracted to broker the wrap-up insurance and provide risk management services for the Alaska Power Authority. You also issued a legislative subpoena to Pacific Marine the insurance carrier selected by Marsh and McLennan-Corroon & Black/Dawson & Co. to provide workers' compensation insurance for the Alaska Power Authority projects. In May, we completed some basic research in the area of public finance, competitive bidding, monopoly and restraint of trade, and the general scope of powers of the Alaska Power Authority. We

also collected some background information concerning problems encountered with the Alaska Pipeline wrap-up insurance program.

It was determined that we should await receipt of the subpoenaed information before continuing further. This information was brought to us on July 19, 1982 by Mr. Barry. It consisted of four large boxes of documents which were not organized in any fashion and had not been indexed in any way. As a consequence, we had to review, sort and index the material and it proved to be very time consuming process. A summary of the contents of the boxes and the files in which they are now organized is set forth in the attached memorandum of August 26, 1982 by Mr. Wey Shea of our office together with two related memoranda of September 9, 1982. After reviewing the documents and categorizing them according to their importance, a brief summary of major documents and points was compiled. The legal authority cited by counsel for both the Alaska Power Authority and Insurance Brokers was studied and analyzed as were the legal briefs and memoranda surrounding the Alaska Pipeline decision issued by the Director of Insurance in April 1970. A summary of some of the select documents and a brief background summary was then prepared. A copy of the memorandum of October 6, 1982 with exhibits is attached for your perusal. An "Indemnity Agreement", Exhibit "F", to this memorandum is particularly disturbing since it appears to require the State of Alaska to indemnify APCOP (Marsh and McLennan-Corroon & Black/Dawson & Co.) for its own negligence. The problem is compounded since the agreement is unsigned and in draft form. It was one of hundreds of documents received pursuant to your legislative subpoenas which we examined.

Upon learning that legislative audit had compiled a report addressing the Alaska Power Authority wrap-up insurance program, we refrained from issuing our opinion until a copy of that report could be obtained and studied. The report was not delivered to us until November 10, 1982. After reviewing the report and documents subpoenaed, it would appear the problems identified and the questions raised in this matter would best be addressed through dealing directly with the executive branch or holding legislative hearings and adoption of remedial legislation.

This approach is especially applicable in light of the numerous factual, legislative and administrative changes since the initial wrap-up issue was addressed by us last April. Perhaps most important is the decision by the Alaska Power Authority to limit the wrap-up insurance brokerage by Marsh and McLennan-Corroon & Black/Dawson & Co. to the Tyee Lake construction. Initially Marsh and McLennan-Corroon & Black/Dawson & Co. had an open-ended contract with the Alaska Power Authority. Secondly, the recent Superior Court ruling in Barnes v. Palmer, et al., holding that the legislature and taxpayers lack

standing to challenge violations of the Alaska competitive bidding statutes. Thirdly, the revision of the competitive bidding statutes by the legislature effective last July. Finally, the election of Eill Sheffield as Governor and your success in dealing with the executive branch in Barnes. All of the foregoing affected our analysis and influenced our conclusion regarding the superiority of informal administrative remedies to judicial alternatives.

In addition to the standing problem in the Barnes ruling, the nebulous complex areas of the law that surround the Alaska Power Authority wrap-up insurance program are neither clear-cut nor easily determined. They overlap each other in various shades of gray rather than black or white definitive areas. Illustrative of this problem is that despite the overwhelming volume of material supplied, we find that a few of the possible legal violations could not be adequately analyzed due to a lack of relevant information; these issues included the questions of possible:

1. Fictitious group insurance violations.
2. Worker's Compensation insurance violations.
3. Anti-trust violations.

The key issue of lack of competitive bidding in contracting the wrap-up insurance brokerage with Marsh and McLennan-Corroon & Black/-Dawson & Co. is illustrative of the myriad of legal arguments which can be raised on both sides of this entire matter without arriving at a clear cut conclusion. The following analysis of competitive bidding is also illustrative of the complexity of the legal issues surrounding the Alaska Power Authority wrap-up insurance program.

The contracting provisions of AS 37.05, the Fiscal Procedures Act, were until July 22, 1982 applicable to only state agencies and departments which were defined in AS 37.05.320(2) to mean:

...department, officer, institution, board, commission, bureau, division, or other administrative unit forming the state government and includes the Alaska Pioneer's Home and the University of Alaska.... (emphasis added)

AS 44.83.020 declares the Alaska Power Authority:

...is a public corporation of the State in the Department of Commerce and Economic Development but with separate and independent legal existence. (emphasis added)

Further insight into the legal significance of the Alaska Power Authority is provided by the following citation in AS 44.83.010(3):

...establishing and operating power projects in the state will be accelerated and facilitated by the creation of an instrumentality of the state with power to construct, acquire, finance and operate power projects. (emphasis added)

Since the University of Alaska is also a public corporation like the Alaska Power Authority with separate and independent legal existence, one could argue that the specific listing of the Pioneer's Home and the University of Alaska in the definition section of AS 37.05.320(2) exhibits legislative intent to exclude all other public corporations having separate and independent legal existence. This conclusion would be based upon the statutory construction doctrine of "expressio unius est exclusio alterius" (the express mention of one thing implies exclusion of all other of similar nature). If the intent had been to make the University of Alaska only an example of the type of public corporations included within the definition it should have been phrased: "including all statutorially created public corporations such as the University of Alaska."

Despite the above, one could readily argue on the other hand that by being an "instrumentality of the State" the Alaska Power Authority is an "administrative unit forming state government". The addition of the word "authority" to the definition of a state agency in AS 36.98.080(5) effective July 22, 1982, made applicable to Title 37 by virtue of AS 37.05.230(10), makes a slightly stronger case for the applicability of competitive bidding laws to the Alaska Power Authority. However, it certainly does not totally negate the applicability of the expressio unius doctrine mentioned above.

Even if one were to assume the applicability of Title 37 to the Alaska Power Authority, it does not necessarily follow that any provision of that title has been violated since there are two very broad exclusions to the competitive bid requirements. It is provided in AS 37.05.230(1) that the competitive bids need not be required for "professional services" and the department may negotiate directly if it finds pursuant to AS 37.05.230(2) that it is in the "best interests of the state".

Unfortunately at the time of the brokerage contract between the Alaska Power Authority and Marsh and McLennan-Corroon & Black/Dawson & Co. when the wrap-up insurance program in question arose, the statutes were not explicit as to what constituted "professional services". The phrase was not defined in Title 37. However, some insight may be

drawn from the definition set forth in the Alaska Corporation Act in AS 10.45.250(1), wherein it is stated that:

'Professional Services' means a type of highly skilled, technical, and specialized personal service rendered to the public by persons licensed by the state.

Insurance brokers are required to be licensed by virtue of AS 21.27.040. This fact, creates an argument that the insurance expertise provided by Marsh and McLennan-Corroon & Black/Dawson & Co., falls into the professional service exclusion of AS 37.05.230(1) and, was not subject to the competitive bidding requirements until the enactment of the "Professional Service Contract" statutes in Title 36 effective July . , 1982, which provide in AS 36.98.080(2):

'Professional Services' means professional, technical, or consultant services that are predominately intellectual in character and that

(a) include analysis, evaluation, prediction, planning or recommendation; and

(b) result in the production of a report of the completion of a task.

AS 36.98.030 effective July 22, 1982 specifically governs the procedure for "Solicitation of Proposals". However, irrespective of the enactment of Chapter 98 of Title 36 governing "Professional Service Contracts", a serious question still exists as to whether under any statutory definition of "professional services", the legislature intended to include the activities engaged in by insurance brokers Marsh and McLennan-Corroon & Black/Dawson & Co. on behalf of the Alaska Power Authority. It appears the activities in which the brokers have engaged are much broader in scope than the mere giving of "analysis and recommendations" or the "production of a report or task" as set forth in AS 36.98.080(2), supra. The insurance brokers have entered into contracts for everything from public safety to legal services to public relations on behalf of the Alaska Power Authority project at Tyee Lake. Thus, while their insurance brokerage services to Alaska Power Authority, may fit within the professional services exclusion, it is arguable whether the legislature intended or even envisioned insurance brokers entering such a broad range of contracts on behalf of the State.

The intended scope and meaning of the "best interests" exception of AS 37.05.230(2) adds even greater uncertainty to the competitive bid issue. The State has only issued guidelines concerning the use of

this exception and has not transformed these guidelines into actual regulations. The guidelines require:

The Commissioner of Administration or his designee may consider waiving the requirement of issuing invitations to bid when it can be substantiated by the requested department and confirmed by the department of administration that such action would be in the best interest of the State. To be considered, a request for waiver must be fully justified on an individual basis. A previously approved waiver will not be justification for additional purchases of the same item. Request for waiver may not be approved, regardless of the situation where it is apparent that poor or no planning was exercised or as a routine expediting service. (Emphasis added) (Department of Administration, Purchasing Regulations, Chapter 3, Section 6)

As near as we could determine from the documents provided us, the Alaska Power Authority did not comply with the requirements of the above-cited guidelines. However, there is no judicial precedent in Alaska for determining whether such failure negated the availability of such exemption. While a line of case authority can be found mandating the presentation of objective criteria on which to base such a finding there does appear to be data of record from which the State arguably could conclude that it was in the "best interests" of the State (Alaska Power Authority) to follow the procedure in question. This argument centers around the fact that Marsh and McLennan-Corroon & Black/Dawson & Co. have been providing insurance coverage to the State of Alaska and that it was therefore logical to have those insurance brokers handle the Alaska Power Authority wrap-up insurance program. While we would not reach a similar conclusion, we cannot say with any degree of certainty that a court would concur in our belief.

Given the nature of the argument that can be raised on both sides of the issue and the inordinate amount of time required for judicial litigation, it would seem that executive or legislative action would be a much speedier remedy. While such remedies may not change the Tyee Lake contract, the availability and practicality of judicial remedies for the Tyee Lake contract is quite questionable. In fact, given the Superior Court's ruling in the case of Barnes concerning the lack of legislative and taxpayer's standing to challenge State violation of the competitive bidding laws, one cannot even be certain that a court would decide the issues in question unless they were raised by one of the aggrieved bidders on the Tyee Lake project.

The other issues identified on page 3 of this letter, certainly warrant further scrutiny and the involvement of the Director of Insurance since we have been advised by Mr. Barry that no filings had been made with the Director of Insurance as required by statute. The report of the legislative audit tends to indicate certain filings were made. Various arguments and issues relevant to the fictitious group and workers' compensation insurance violations are set forth in the memorandum of November 22, 1982 attached hereto. Another memorandum relating to the issue of anti-trust violations dated November 22, 1982 is also attached for your perusal. Both of these memoranda have been synopsised for purposes of this letter. While we are inclined to think that the likelihood of violations of the above referenced areas are quite possible we feel that since a new administration is in power, it would be prudent for discussions to ensue with the Director of Insurance, Department of Administration, and Department of Law as to each of the various questions.

The Insurance Director's office should be able to handle the insurance issues concerning fictitious group insurance and worker's compensation. The Department of Administration could review the competitive bid waiver authorizations and perhaps revoke those which still are prospective in effect. The Department of Law could address the "Indemnity Agreement" problem as well as the anti-trust issues. The state liability arising from its potential exposure from its "Indemnity Agreement" with Marsh and McLennan-Corroon & Black/Dawson & Co. might very well justify filing a judicial action to have the agreement declared void on any one or more of the grounds mentioned in this letter and attached memoranda. On the other hand, the State may prefer to wait until actual demand is made on the State for payment under the "Indemnity Agreement" before challenging its legality so as to avoid the expense of litigation without knowing whether the loss experienced from the Tyee Lake project will ever be high enough to bring the "Indemnity Agreement" into play. If more information is needed, or if the Legislature is desirous of pursuing its own investigation of these matters it could do so through the Legislative hearing process. This approach appears more appropriate now that Alaska Power Authority has amended its brokerage contract with Marsh and McLennan-Corroon & Black/Dawson & Co. so that it is no longer open-ended, but instead is restricted only to the Tyee Lake project.

As you might well appreciate, the volume of factual data and the various nuances of each major legal issue is quite considerable. Thus, not all of them could be readily summarized in this letter when combined with the changing facts, administrations and statutory authority. Accordingly, if you have any questions, please do not hesitate to contact us. This letter and attached memoranda constitute work completed pursuant to the attorney-client relationship and

Hon. Joe L. Hayes, Speaker
Alaska House of Representatives
Ref: File No: 4306-2
January 26, 1983 Page -8-

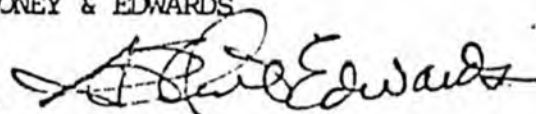
attorney work-product. Dissemination of this letter and attachments may waive the related privileges and we would request that you contact us prior to making the letter and attachments available to others. In the meantime, we will await your further instructions as to whatever action, if any, you wish us to pursue in this matter.

Please let us know if you need the subpoenaed documents we have retained. If litigation is desired we stand ready to undertake it. If assistance is desired for structuring of legislative hearing inquiries or contacts with the various executive branch we will be happy to assist you in any way you see fit.

Sincerely,

HARTIG, RHOES, NORMAN,
MAHONEY & EDWARDS

BY:



G. Kent Edwards

GKE:WVS:ndv
Enclosures



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

February 2, 1983

The Honorable Walt Furnace, Chairman
House Labor & Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Furnace:

While appearing before your committee on H.B. 26 several questions were asked that I was unable to answer at the time. I indicated these questions would be resolved and answers provided to the committee in writing.

Question: (from Representative Malone)

Please provide asset base, cash flow and amount pledged for bonds as of 12/31/82.

Answer:

Total assets as of 12/31/82 are \$344 million. All assets of the Authority are pledged as payment for the bonds (i.e. full faith and credit of the Authority). Cash flow projections on appropriated and federal guaranteed loans are prepared twice a year (6/30 and 12/31). Attachment "A" was compiled using 6/30 figures. I will furnish updated 12/31 figures in approximately 2 weeks. Cash flows representing repayment of loans from bond proceed and from other investments are updated when required for Official Bond Sale Statements. Attachment "A" is from a December 1982 Official Statement.

Question:

Would you please furnish a written position paper on H.B. 26 & H.B. 22.

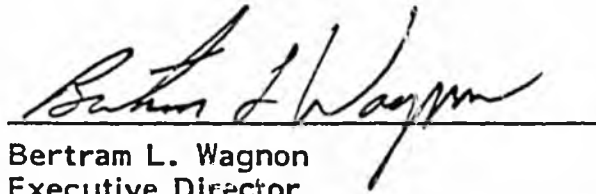
Answer:

Attached are position papers on H.B. 26 and H.B. 22.

In addition your committee requested extra copies of our annual report which I have included. If I can furnish any further information please advise.

Chairman Furnace
February 2, 1983
Page 2

Sincerely,



A handwritten signature in cursive script, appearing to read "Bertram L. Wagon", is written over a horizontal line.

Bertram L. Wagon
Executive Director

BLW:mr

Enclosure(s)

CC: Catherine Wallen, Information Officer
Division of Administrative Services

A

Aggregate Debt Service and Estimated Coverage Schedule

The following table sets forth, for each respective annual period ending June 30, the total Debt Service Requirements for the outstanding Economic Development Bonds, Series 1-231 and Consolidated Bonds, Series A-D, and includes estimated Debt Service Requirements for the Bonds and \$3,335,000 Economic Development Bonds expected to be issued concurrently with the Bonds. The estimated total Net Income of the Authority, and the estimated Debt Service Coverage are calculated by dividing estimated total Net Income (including projected loan repayments) by the total Debt Service Requirements.

Period Ending June 30	Annual Debt Service Requirements			Total Debt Service Require- ments	Estimated Net Income					
	Outstanding Bonds Principal & Interest	Current Issues			From repayment of loans made from bond proceeds of		From repay- ment of loans appropriated to the Authority (2)	From invest- ment of cer- tain assets and annual excess net revenues (3)	Estimated total Net Income	Estimated Coverage (4)
		Principal	Interest		Outstanding Bonds(1)	Current Issue(1)				
1983	\$13,559,480	\$ -	\$ 274,599	\$13,834,079	\$13,419,745	\$ 409,209	\$24,731,541	\$ 3,210,270	\$41,770,826	3.02
1984	14,059,573	195,000	1,157,412	15,402,980	14,430,091	1,302,113	22,991,200	5,465,580	44,189,615	2.87
1985	13,378,248	210,000	1,137,912	14,720,161	13,720,300	1,360,229	23,302,228	7,051,307	45,506,191	3.09
1986	12,841,305	235,000	1,110,912	14,193,217	13,158,814	1,306,229	21,354,447	8,714,374	44,023,065	3.14
1987	12,354,030	205,000	1,093,412	13,712,448	12,005,217	1,300,229	19,340,381	10,418,432	43,730,203	3.19
1988	11,542,007	285,000	1,000,012	12,801,560	11,871,300	1,300,220	18,239,918	12,070,309	43,547,813	3.38
1989	11,272,388	175,000	1,038,412	12,485,801	11,692,300	1,228,575	16,600,092	13,760,299	43,080,273	3.45
1990	11,109,131	175,000	1,020,912	12,305,043	11,480,441	1,228,575	15,295,406	15,439,592	43,450,015	3.53
1991	11,147,560	215,000	1,003,412	12,305,902	11,480,000	1,228,575	14,738,209	17,151,450	44,007,907	3.61
1992	10,819,300	230,000	984,912	12,031,212	11,122,104	1,228,575	13,694,154	18,921,044	44,309,778	3.69
1993	10,325,343	250,000	968,912	11,541,250	10,768,005	1,228,575	11,940,347	20,703,620	44,030,447	3.87
1994	10,104,282	290,000	930,475	11,384,737	10,574,412	1,228,575	10,235,238	22,524,090	44,502,322	3.91
1995	10,057,400	305,000	897,487	11,259,803	10,504,422	1,228,575	10,224,021	24,310,200	40,306,810	4.11
1996	10,081,925	355,000	892,793	11,299,718	10,543,334	1,228,575	2,958,027	26,270,250	41,000,793	3.63
1997	9,027,708	385,000	822,412	10,835,181	10,031,189	1,228,575	1,001,424	27,910,221	40,831,413	3.77
1998	8,731,012	415,000	778,016	9,928,312	9,233,914	1,213,330	1,235,892	29,559,792	41,242,929	4.15
1999	8,095,975	425,000	731,412	9,852,387	9,194,308	1,107,590	1,101,715	31,281,610	42,345,235	4.34
2000	8,078,350	405,000	683,008	9,826,425	9,207,950	1,107,590	795,324	33,091,072	44,201,918	4.50
2001	8,718,000	515,000	630,175	9,803,775	9,252,002	1,107,590	405,827	34,984,528	45,870,553	4.65
2002	8,220,950	600,000	571,593	9,388,543	8,710,315	1,107,590	183,237	36,904,088	47,025,830	5.01
2003	7,100,387	635,000	504,431	8,239,808	7,001,330	1,107,590	147,732	39,035,050	47,951,714	5.82
2004	6,015,643	725,000	432,250	8,072,793	7,430,573	1,107,590		41,218,030	49,822,249	6.17
2005	6,903,487	795,000	340,781	8,108,208	7,482,390	1,107,590		43,514,912	52,104,809	6.43
2006	6,958,050	890,000	259,350	8,108,000	7,515,373	1,107,590		45,937,408	54,020,377	6.74
2007	5,824,325	875,000	138,112	6,857,437	6,092,809	1,030,905		48,495,218	55,628,082	8.11
2008	4,428,337	480,000	58,581	4,901,918	4,594,200	530,057		51,177,792	53,302,050	27.38
2009		65,000	0,260	01,260		22,987		51,001,008	51,001,008	882.57

- (1) Revenues are net of all fees and expenses on a fiscal year basis.
- (2) Represents revenues from the loans appropriated to the Authority, net of all fees, plus estimated holding period interest calculated at 6.5% and other revenues. Principal and interest on loans delinquent more than 90 days are not included. This column includes Small Business Administration loan repayments.
- (3) Includes income from investment of certain assets and excess net revenues of the Authority at an assumed rate of 6.50% compounded annually for periods after December 1, 1982.
- (4) There are currently outstanding \$6,035,000 principal amount of Economic Development Bonds which may be tendered for payment by the holders thereof commencing on April 1, 1987. If all of such Bonds were tendered on April 1, 1987 estimated coverage for the period ending on June 30, 1987 would decline from 3.19 to 2.21. However, the reduction in annual debt service requirements thereafter would result in higher coverage multiples than those shown above.



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Position Paper

Sponsor Substitute for House Bill Number 22

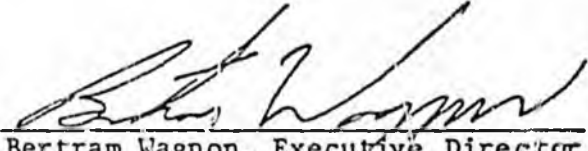
We appreciate the opportunity to comment on SSHB22. The effect of the bill would be to preclude utilizing the credit of the Authority for any loan in which the applicant was not a resident of the state. The current statutes of the Authority require that the "project" be located within the state (44.88.070). The purpose of the Authority is to promote, develop and advance the general prosperity of the people of Alaska. By having "non-resident" corporations construct facilities within the state and accordingly have the construction and operation employment within the state seems an appropriate way of furthering that purpose.

SSHB22 does not define residents so regulations would be needed. The constitutional questions regarding residency are well known and to what extent regulations could limit residency and still pass a legal challenge are unknown. A considerable portion of the benefit of utilizing financing through the Authority is obtained by Federal law regarding tax-exemption. It is possible that a definition of residency would have to be of a very short duration in that the benefits flow from federal legislation.

A review of our loan report indicates that out of 266 loans that pledged the full faith and credit of the Authority 6 were to possible non-residents. These 6 loans supposedly created or retained 65 jobs within the State of Alaska.

While we certainly understand the desire to ensure that benefits of the program are provided to Alaskans, rather than outside corporations, we believe that the present program already generates this result.

Richard A. Lyon, Commissioner



Bertram Wagon, Executive Director

Date



Date



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Department of Commerce & Economic Development
Alaska Industrial Development Authority

Position Paper
House Bill No. 26

Thank you for the opportunity to comment on HB 26. This bill changes the Statutes of both the Alaska Industrial Development Authority as well as the Alaska Permanent Fund. Our comments will consider the impact only on the authority, as we assume the Permanent Fund will be presenting their own testimony on the bill.

The initial effect of this bill is that any qualifying business having an outstanding loan with an interest rate in excess of 10.9% will seek refinancing under the program. As the interest rate on an eligible loan is set at the lesser of 10.9% or 1% above prime, should the prime rate fall below 9.9% the demand for refinancing will be correspondingly greater. Furthermore, any new qualifying borrowers would undoubtedly prefer this program over existing higher priced alternative financing. It is impossible to accurately estimate volume, but it seems reasonable to expect that within two years the 25% Permanent Fund allotment will have been exhausted, and the program will be reduced to a much lower level (25% of annual Permanent Fund Contributions).

Another possible effect of the interest rate ceiling is that if the prime rate drops below 9.6%, AIDA would have to begin subsidizing loans. For instance, if prime is 9%, then the loan rate is 10%, with .6% going to a bank for servicing fees, and 9.4% going to AIDA. However, AIDA is required to pay 10% to the Permanent Fund on its bonds, or a loss of .6%.

Another feature of the bill is that it appears to preclude AIDA from making any credit decisions on loans, but rather requires that the authority purchase any loan that a bank certifies is eligible.

The combination of the above factors, when coupled with the requirement that these loans must be guaranteed by the authority most likely means that AIDA will no longer be able to issue any other bonds based on the general obligation of the authority. This results from the fact that the general credit worthiness of the authority will have been so weakened that it will no longer be possible to sell bonds at any reasonable rates.

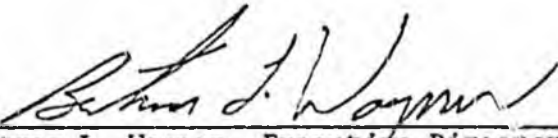
Unfortunately, this bill seems to follow the historic patterns of State loan programs. Phase one begins with a program put in place that provides a source of funds requiring no ongoing subsidy yet structured to provide an attractive interest rate to borrowers. Phase two is the expansion of a successful program to include other forms of borrowing and allow a larger number of individuals access to the program, often with some form of slightly below market interest rates. Phase three is additional liberalization and

subsidization resulting in a massive increase in loan volume. This is eventually followed by Phase four, the demise of the program brought about because of the now large costs that can no longer be sustained.

In our opinion, not only does the bill jeopardize the continued useful functioning of one of the authority's main programs, it does not appear to be necessary. Presently the authority can finance a significant portion of small business expansion with tax-exempt bond financing. For much of the demand for financing that is ineligible for bond financing, the authority also has the small enterprise loan account (AS 44.88.156).

This program provides funds (\$47 million thus far) for business refinance, working capital, inventory, acquisition and expansion of business. First lien position is not required since these loans are guaranteed by the federal government. Banks and financial institutions originate the loans and the authority purchases the guaranteed portion without underwriting delay. The interest rate is fixed and the loan term may be as long as 25 years and may be prepaid without penalty. The maximum loan is \$500,000; however, there is no limit as to the number of loans a business may have. The authority collects no fee and the banks are allowed a 1 or 1-1/2 percent fee depending on loan size. The authority's interest rate is set as the Aa corporate bond rate, which is currently 12.25%.

Although this program is not as lucrative to a borrower as the proposed program, it does provide for a wide variety of financing uses at a competitive interest rate, and, further, is a sustainable program that complements, rather than jeopardizes other programs of the authority.



Bertram L. Wagon, Executive Director

NOTE REGARDING THE FOLLOWING FRAME(S) ON MICROFILM:
COMPLETE DOCUMENT IS AVAILABLE IN ORIGINAL FILES.
TITLE PAGE ONLY HAS BEEN FILMED.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY



1982 ANNUAL REPORT AND FINANCIAL STATEMENT

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