

COMMITTEE REPORT  
SENATE

3/18/86

FURTHER:

Date 5/11/86

Mr. President

The Committee on FINANCE considered HB 486

relating to financing expansion of the power plant on the Fairbanks campus of the University of Alaska; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for \_\_\_\_\_
- new title
- same title and recommends \_\_\_\_\_
- and attached a "LETTER OF INTENT"  NEW FISCAL NOTE
- reports it back without recommendation 2,500.0 Cap fd  
U of A
- recommends referral to \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

*[Signature]*  
*Paul Haldord*  
*[Signature]*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

MEMBERS HAVING  
OTHER RECOMMENDATIONS

*Paul Fink N/A*  
*[Signature] N/R*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*[Signature]*  
 Chairman *N/R*  
 Chairman recommendation

1/15

*Handwritten notes:*  
2/10/86  
1986

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Page 1 of 2

Revision Date : 2/10/86

### REQUEST

Bill/Resolution No. : House Bill 486  
Title : An Act authorizing the U of A to finance needed expansions to the UAF power plant; eff. date  
Sponsor : Ringstad  
Requestor : \_\_\_\_\_  
Date of Request : \_\_\_\_\_

### FISCAL DETAIL

Agency Affected : University of Alaska  
BRU: University of Alaska - Fairbanks  
Components : \_\_\_\_\_

### EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL		(400.0)				
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS		400.0				
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CAPITAL</b>		<b>2,500.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>REVENUE</b>						

### FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		2,500.0				
<b>TOTAL</b>		<b>2,500.0</b>				

### POSITIONS :

FULL-TIME		0				
PART-TIME		0				
TEMPORARY		0				

**ANALYSIS :** Attach a separate page if necessary. Construction of power plant expansion will save UAF \$400.0 annually in coal costs under renegotiated contract. Debt service in FY87 will be approximately \$400.0 for first \$4 million of revenue bonds. If the full amount of bonds is issued (total \$6.5 million), an additional \$250.0 will be added to debt service annually beginning in FY88; UAF will reallocate funds from other programs.

Prepared by: Brian Rogers, Budget Director  
Division: University of Alaska

Phone: 474-7593  
Date: 2/10/86

Approved by Commissioner: *Brian Rogers for Steven Carter*  
Agency: University of Alaska

Date: 2/10/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CONTINUATION OF FISCAL NOTE ANALYSIS

FOR House Bill 486

Page 2 of 2

The capital fiscal note appropriates an additional \$2.5 million in revenue bond proceeds for the power plant project, adding to the \$4.0 million in revenue bond proceeds appropriated by the 1984 legislature.

The University of Alaska Heating Corporation will issue bonds only to the extent needed to complete the boiler and baghouse projects currently underway. The estimates for this construction range from a minimum of \$4.0 million to a maximum of \$6.5 million. Any bond authority not used will be lapsed to the State.

The University of Alaska Heating Corporation had \$5,910,000 in outstanding principle balance of bonds payable as of June 30, 1985. With passage of HB 486, the Heating Corporation will be authorized to issue an additional \$6.5 million in revenue bonds, for a maximum authorization of \$12.5 million. No new bonds will be issued without specific legislative authorization.

Introduced: 1/20/86  
Referred: House Special Committee on  
Loans and Finance

1 IN THE HOUSE

BY RINGSTAD BY REQUEST

2 HOUSE BILL NO. 486

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to financing expansion of the power  
7 plant on the Fairbanks campus of the University of  
8 Alaska; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. The Board of Regents of the University of Alaska is  
11 authorized to proceed through the University of Alaska Heating Corporation  
12 to issue revenue bonds or certificates of participation in a principal  
13 amount not to exceed \$6,500,000, to provide financing for expansion of the  
14 power plant on the Fairbanks campus of the University of Alaska. Any debt  
15 incurred by issuance of bonds or certificates of participation shall be  
16 paid from rentals or fees charged to the University of Alaska, by the  
17 University of Alaska Heating Corporation.

18 \* Sec. 2. This Act takes effect immediately in accordance with AS 01.-  
19 10.070(c).

BILL SHEFFIELD, GOVERNOR

REPLY TO:

1031 W 4th AVENUE  
SUITE 200  
ANCHORAGE, ALASKA 99501  
PHONE: (907) 276-3550

1st NATIONAL CENTER  
100 CUSHMAN ST.  
SUITE 400  
FAIRBANKS, ALASKA 99701  
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3600

**DEPARTMENT OF LAW**

OFFICE OF THE ATTORNEY GENERAL

May 9, 1986

The Honorable Frank Ferguson  
Alaska State Legislature  
P.O. Box V  
Juneau, Alaska 99811

Re: CSHB 491(Fin)

Dear Senator Ferguson:

We were asked to provide a letter explaining the financial implications of (1) P.L. 96-514 (42 U.S.C. 6508), (2) the recent superior court decision in City of Barrow v. State, 1JU-85-2634 Civil, and (3) CSHB 491(Fin).

The federal law provides that the state is to receive 50 percent of federal revenues from oil and gas leasing in the National Petroleum Reserve-Alaska ("NPRA"). In allocating those funds, the federal law requires the state to give priority to subdivisions of the state most directly or severely impacted by NPRA leasing.

In the court decision, the superior court held that the state had violated the provision of federal law requiring the state to give priority to the subdivisions of the state most directly or severely impacted by NPRA leasing. It directed that a fund be reconstituted to afford the opportunity for those subdivisions to demonstrate impacts entitling them to priority to the funds. At the same time, the superior court ruled that not all of the monies received by the state under the federal law should be placed in the reconstituted fund. Instead, the ruling directed the state to reconstitute a fund consisting of money received under the federal law but excluding funds expended prior to 1984 by general fund appropriation.

This bill is designed to implement the federal law as construed by the superior court. It is not only consistent with the superior court's decision, but accomplishes precisely what the superior court ordered. As currently written, it affords subdivisions of the state the opportunity to apply for funds to alleviate impacts of NPRA leasing. To the extent subdivisions

The Honorable Frank Ferguson

May 9, 1986  
Page 2

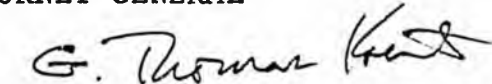
demonstrate direct or severe impact from NPRA leasing, under the federal law they are entitled to a priority to those funds. Once that priority use has been satisfied, any remaining funds become subject to the provisions of state law, including the automatic deposit in the Alaska Permanent Fund.

In brief, the bill as presently drafted satisfies the requirements of both federal and state law. Both the plaintiffs in the superior court litigation and the Administration are in agreement on this point.

Sincerely,

HAROLD M. BROWN  
ATTORNEY GENERAL

By:



G. Thomas Koester  
Assistant Attorney General

GTK:dlm

cc: Commissioner Nordale, DOR  
Commissioner Notti, C&RA  
Dave Rose, Alaska Permanent Fund



11-280  
Sherman Carter  
Executive Vice President  
(907) 474-7448

University of Alaska  
Fairbanks, Alaska 99775-5260  
January 10, 1986

JAN 16 1986

The Honorable John Ringstad  
Alaska State Legislature  
Pouch V (MS 3100)  
Juneau, AK 99811

Dear John:

Attached is a copy of a draft bill authorizing the University of Alaska Heating Corporation to issue revenue bonds on behalf of the university. Also attached is a fiscal note and background information on the Heating Corporation and the upgrades being made to the UAF heating/power plant.

John, this bill must get passed and signed by the Governor very early in the session. In anticipation of interim revenue bond financing, UAF has committed \$911,400 of its FY86 operating funds to guarantee payment of the contractor for completion of the baghouse project. Failure to receive early passage of this bill will, at a minimum, result in the Heating Corporation securing financing at excessive taxable rates instead of tax exempt rates available with a legislative resolution; or, at worst, could require a drastic layoff of physical plant and maintenance staff by the university in Fairbanks.

The bill basically allows the Heating Corporation to borrow immediately, at tax exempt rates, the funds needed to complete the baghouse installation currently in progress. This will permit UAF to utilize its FY86 operating funds for needed repairs and maintenance on campus and retain its physical plant and maintenance personnel currently on staff to do this work as originally planned before the urgency of the emissions control project was identified.

Due to restrictions in the current bond indenture agreement, the only other alternative is for the Heating Corporation to obtain the consent of 100 percent of the present bondholders and independently secure financing at taxable rates. Although the university has already obtained consent of two-thirds of the bondholders as required for issuance of additional debt, locating the remaining bondholders and obtaining full consent from everyone could be difficult or impossible in the time frame required. In addition, borrowing under such an arrangement would require taxable interest rates, which are far in excess of tax exempt rates.

University of Alaska

The Honorable John Ringstad

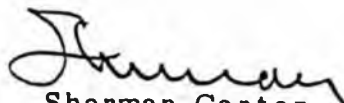
Page 2

January 10, 1986

The bill will require a fiscal note for \$2.5 million revenue bond authority in order to increase the \$4 million revenue bond appropriation authority received during the 1985 session. Passage of the bill is needed immediately, however, an early effective date on the fiscal note is not essential. A fiscal note effective date of July 1 is acceptable.

I would again like to personally thank you for your interest in the university and all of the many good things you have done to help the entire university community. If you need any additional information about this or other matters, please contact me.

Sincerely,

  
Sherman Carter

SFC/pe

Attachments

**University of Alaska Heating Corporation  
Power Plant Expansion**

The University of Alaska is seeking a legislative resolution from the Alaska State Legislature authorizing issuance by the Heating Corporation of up to \$6.5 million in tax exempt revenue bonds for expansion of the heating plant facilities at the Fairbanks campus. The resolution is required in order for interest on increased Heating Corporation debt to qualify as tax exempt interest, to meet technical requirements for issuance of additional debt under the current bond indenture agreement, and allow commitment of the revenue bond expenditure appropriation received in 1985. Consent to the issuance of \$6.5 million in new bonds has been obtained from two-thirds of the current bondholders as required by the bond indenture agreement. Receipt of the legislative resolution eliminate the need to locate and obtain formal consent of the remaining bondholders.

**Background Information:**

The Heating Corporation is a not-for-profit corporation formed under the laws of Alaska in 1962 to finance and construct a central heating and power plant for the University of Alaska at Fairbanks, Alaska. The corporation is managed by a Board of Trustees consisting of Fairbanks community members serving on a voluntary basis without compensation.

Pursuant to legislative resolutions by the Alaska State Legislature the Heating Corporation has issued tax exempt revenue bonds for construction and improvement of the plant facilities as follows:

1962	\$3,900,000
1969	\$2,300,000
1978 Series 1	\$4,400,000
1978 Series 2	\$800,000

The outstanding principal balance of bonds payable at June 30, 1985 was \$5,910,000. The debt service for these bonds is funded by the Heating Corporation through the lease of the plant facilities to the university in an amount equivalent to the debt service payments. The plant facilities are constructed on university land which is leased to the Heating Corporation at a nominal fee.

## University of Alaska Heating Corporation Power Plant Expansion

The University of Alaska also received direct capital appropriations from the Legislature of \$700,000 in 1980 and \$4,000,000 in 1985 for improvements to the plant facilities. In addition, the University of Alaska Fairbanks made operating budget expenditures of approximately \$500,000 in FY85 and has a contractual commitment of operating fund for FY86 of \$911,400 for installation of plant emission control facilities.

The Heating Corporation and the university undertook two major plant expansion projects in 1985; installation of a new oil fired boiler and a pollution control project. The new boiler was urgently needed to give the Fairbanks campus the backup heating capacity required during the winter months. In addition, the Department of Environmental Conservation (DEC) indicated that severe fines would be imposed on the university commencing June 1, 1986, if the plant emissions are not brought into compliance with regulatory requirements. In effect, DEC has the ability to require the university to improve emissions through use its oil fired boilers in place of the coal units which could result in increased fuel costs of as much as \$2 million per year.

In its FY85 budget submission the university included a \$4 million current year request for a boiler addition project and \$2.5 million subsequent year funding request for an emissions control project. The emissions control project is referred to as a "baghouse", which is a type of vacuum system to withdraw particles from the power plant emissions. The university received the requested \$4 million direct appropriation entitled power plant expansion and also received appropriation authority to issue \$4 million in revenue bonds for the same purpose. Bond counsel has indicated that an additional resolution from the legislature is necessary in order to issue tax exempt revenue bonds.

Based on a compliance order from DEC and the potential for improved operational efficiency from installation of the baghouse, both projects were initiated with the original \$4 million direct appropriation. An oil fired boiler was purchased and a contract awarded for construction of a shell to house that unit. A separate contract was awarded for installation of the baghouse equipment which was purchased by the university from FY85 operating funds. The baghouse installation contract required a commitment of \$911,400 from FY86 university operating budget funds in addition to the remaining monies available from the \$4 million direct appropriation. Financing of this \$911,400 commitment for the baghouse installation project is now urgently being sought by the Heating Corporation in order to release the university operating funds for Fairbanks campus repair and maintenance projects as originally planned before the immediacy of the emission control problems was identified. Failure to obtain this financing could result in significant staff layoffs for the university during the last half of the fiscal year.

University of Alaska Heating Corporation  
Power Plant Expansion

The university Board of Regents has authorized the university administration and the Heating Corporation to pursue issuance of up to \$6.5 million in revenue bonds for plant expansion and to secure interim financing of the baghouse installation costs up to \$1.1 million. In addition to the baghouse installation currently underway, completion of the boiler addition project which would make the boiler operational is the primary project for which revenue bond funding is being sought. It is the intent of the university and the Heating Corporation to issue only the minimum amount of revenue bonds required to complete these two projects unless contract awards are substantially less than anticipated or a high cost/benefit or energy savings can be identified with new plant expansion projects. Although the scope of the projects has not changed substantially, the estimated total cost has been increased significantly based on the cost of completing the baghouse in phase 1 and more current information on cost of this type of construction.

**Interim Financing Proposal:**

The Heating Corporation intends to secure interim financing for the \$911,400 committed to completion of the baghouse project immediately upon the earliest occurrence of either one of the following events: (1) the securing of a legislative resolution authorizing issuance of revenue bonds or (2) the securing of consent from all present bondholders to issuance of the proposed bond anticipation notes. Occurrence of one or the other of these events is necessary to meet the requirements of the current indenture agreement before additional debt can be incurred by the Heating Corporation.

**Repayment Source:**

Funding of principal and interest payments for interim financing and long term revenue bonds will be secured through amendment of the current lease agreement between the Heating Corporation and the University of Alaska. The amendment will provide for lease payments in an amount equivalent to the increased debt service requirements. Funding for increased lease costs will come primarily from savings realized on renegotiation of a five year coal contract at reduced rates in 1985, efficiency savings resulting from completion of the baghouse and reallocation of funds within the Fairbanks campus operating budget. The current bond redemption schedule indicates that approximately \$200,000 will be available for additional annual debt service commencing in 1994.

University of Alaska Heating Corporation  
Power Plant Expansion

Project Description:

The existing heating/power plant supplies steam for heat and electrical power to the university's Fairbanks campus facilities. It also supplies heating steam to three adjacent local school facilities. The plant is located just south of the main campus area. The facility includes two 50,000 lb./hour stoker fired coal boilers which provide base load steam requirements for heat and operation of a 10 megawatt turbine generator and one 100,000 lb./hour oil fired boiler which is primarily used for standby and peaking periods. Two 1.5 megawatt turbines generators are also maintained at the plant.

The baghouse project consists of installation of two previously purchased full-steam baghouse facilities. The facilities will be used for control of particulate emissions from the coal fired boilers. Each baghouse will take full stream exhaust gas flow from one boiler. Gas effluent from both baghouse facilities will be directed to a common stack. The dust collection system is designed and sized to produce an effluent gas flow which will meet emission requirements as prescribed by the Alaska clean air act.

The boiler addition project consists of installation of a second 100,000 lb./hour oil fired boiler which was previously purchased from Zurn Industries. The project includes extensive interface with existing equipment and facilities, including the hot well system and pumps, feedwater heater systems and pumps, water treatment systems, oil storage tank, oil heater systems and pumps. Major new equipment will include the boiler, forced air fan, air heater, boiler control systems and stack. The boiler will be housed in a 60' by 40' building extension located just east of the main plant. The building extension which is part of this project will be steel frame and steel sided. All equipment will be located on the ground floor. The second floor will provide office space for plant operations personnel.

University of Alaska Heating Corporation  
Power Plant Expansion

Estimated Project Cost:

	<u>Phase 1</u>		<u>Phase 2</u>	<u>Total</u>
	<u>Baghouse</u>	<u>Boiler</u>	<u>Boiler</u>	
Engineering	104,376	619,052	315,000	1,038,428
Construction	2,547,997	911,820	4,658,913	8,118,730
Public art	24,800	8,684	42,000	75,484
Furnishings/equipment	512,744	716,767		1,229,511
Legal/bond consulting		5,000	140,000	145,000
Project management	95,000	75,000	270,985	440,985
Other administrative	4,000	4,000	10,000	18,000
Interim financing costs			151,702	151,702
<b>Total</b>	<u>3,288,917</u>	<u>2,340,323</u>	<u>5,588,600</u>	<u>11,217,840</u>

Sources of funding:

UA operating budget	482,840			482,840
UA capital appropriation	1,659,677	2,340,323		4,000,000
Heating Corporation	235,000			235,000
Proposed bond issue	911,400		5,588,600	6,500,000
<b>Total</b>	<u>3,288,917</u>	<u>2,340,323</u>	<u>5,588,600</u>	<u>11,177,840</u>

Note:

Phase 1 of the heating plant expansion is currently for completion in March or April, 1986. Phase 2 wi funding is available.

Interim financing in anticipation of issuance of reven for the \$911,400 committed to the baghouse installation expansion.

Background prepared by  
University of Alaska

HB-486, By Ringstad by request

"An Act relating to financing expansion of the power plant on the Fairbanks campus of the University of Alaska; and providing an effective date."

PURPOSE: The bill basically allows the University of Alaska Heating Corporation to immediately borrow, at tax exempt rates, the funds needed to complete the heating plant expansion project currently in progress.

The Heating Corporation and the University undertook two major plant expansion projects in 1985; installation of a new oil fired boiler and a pollution control project, required by DEC.

FISCAL NOTE: \$2.5 million, which would raise the Heating Corporation's authority to bond to \$6.5 million. The University received a \$4 million direct appropriation in their FY 85 budget for power plant expansion and also legislative authority to issue \$4 million in revenue bonds for the same purpose. In addition to exceeding the original engineering cost estimates, the project sequence has shifted due to a DEC emission control order. It is the intent of the University and the Heating Corporation to issue only the minimum amount of revenue bonds required to complete these two projects.

UNIVERSITY OF ALASKA HEATING CORPORATION:

\*\*The Heating Corporation is a non-profit corporation formed in 1962 to finance and construct a central heating and power plant for UAF. The corporation is managed by a Board of Trustees consisting of Fairbanks community members serving on a voluntary basis without compensation.

\*\*The Heating Corporation, pursuant to legislative resolutions, has issued tax exempt revenue bonds for construction and improvement of plant facilities as follows:

1962.....	\$3,900,000
1969.....	2,300,000
1978 (Series 1)..	4,400,000
1978 (Series 2)..	800,000

The outstanding principle balance of bonds payable at June 30, 1985, was \$5,910,000.

\*\*Debt service for these bonds is funded through the lease of the plant facilities to the University of Alaska, Fairbanks, in an amount equivalent to the debt service payments.

\*\*Other capital appropriations include:

FY 80.....	\$ 700,000	(legislation approps.
FY 85.....	4,000,000	for plant facilities)

# Alaska State Legislature

## House of Representatives

### Committee on Loans

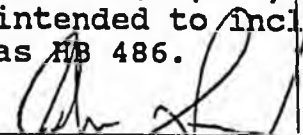


POUCH V  
JUNEAU, ALASKA 99811

PHONE:  
(907) 465-4919  
(907) 465-4920

LETTER OF INTENT  
HOUSE SPECIAL COMMITTEE ON STATE LOANS  
HOUSE BILL 486

It is the intent of the Legislature that, with the approval of HB 486, the University of Alaska Heating Corporation is authorized to issue bonds for expansion of the University Power Plant in an amount not to exceed \$12,500,000. This authorization limit is intended to include all prior authorizations as well as HB 486.

  
\_\_\_\_\_  
Rep. John Sund, Chair,  
House Special Committee on Loans

*n. - n. - ted by House*

# COMMITTEE REPORT

## SENATE

FURTHER: ~~HESS~~ *Waived*  
FINANCE

2/18/86

Date \_\_\_\_\_

Mr. President

The Committee on LABOR & COMMERCE considered HB 486

relating to financing expansion of the power plant on the Fairbanks campus of the University of Alaska; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for \_\_\_\_\_
- new title
- same title and recommends \_\_\_\_\_
- and attached a "LETTER OF INTENT"  NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS

*Waived*  
*REFERRAL*

\_\_\_\_\_  
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\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Chairman recommendation