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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 23, 1989

The Honorable Tim Kelly  
President of the Senate  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the powers of the Alaska Power Authority. This bill has two main components:

1. the conversion of the power project fund from a fund supported by the general fund to a revolving loan fund financed primarily by the sale of bonds, and
2. the authorization permitting the agency to sell waste heat directly to retail customers.

With regard to the first of these components, the authority would sell bonds to finance loans from the power project revolving loan fund. The fund would consist of appropriations, repayments of principal to the fund, interest on loans made from the fund, income from investment of money in the fund, and the proceeds of bond sales. The authority would pledge the money repaid to the fund as security for bond debt service, but the balance from appropriated money would be returned to the general fund at the end of each fiscal year.

Although temporary retention of interest and income in the fund raises an issue under the dedicated-fund prohibition of art. IX, sec. 7, of the Alaska Constitution, the Department of Law believes that the constitutionality of that "dedication" of interest and income would be defensible. 1982 Op. Att'y Gen. No. 13 (Nov. 30).

The bill provides a mechanism for the authority to recover money to which the borrower is entitled under the power cost equalization program, or from another state agency, when the borrower is in default on its loan payments to the fund.

The list of eligible borrowers would be expanded from those utilities eligible under AS 44.83.170 to include school districts, regional educational attendance areas, regional housing authorities, and certain business enterprises (defined in sec. 14 of the bill). The list of activities eligible for loans would be expanded to include the acquisition of an existing power project, the acquisition of bulk fuel reserves, or other energy resources, and consumer end-use improvements to reduce the demand for energy.

In addition, the loan fund would no longer be limited to costs associated with a "small-scale power production facility." Instead, AS 44.83.170(b)(1)(B) would refer to "power projects," as including those activities described in the bill. The definition of "small-scale power production facility" would be repealed. Sections 5 and 15 of the bill.

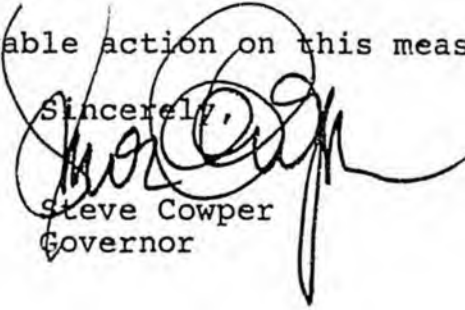
Under existing law, the authority sells energy to utilities, who then pass the energy on to their retail customers. This bill would permit the authority to bypass the utilities and to sell waste heat directly to retail consumers. The waste heat sold by the APA would displace other heat sources, such as diesel fuel and oil, currently being used to heat the retail customers' facilities.

The proposed amendments described above necessitate the following additional changes in existing statutes. In order to enhance marketability of bonds, AS 44.83.187(a) is amended in sec. 12 of the bill so that projects financed by the power project revolving loan fund would not be subject to OMB review, and approval by the legislature, under AS 44.83.177 -- 44.83.185. The statement of the enumerated powers of the authority would be amended by sec. 2 of the bill, to reflect the authority's power to sell waste heat to retail consumers. The requirement that loan repayments be deposited in the general fund would be repealed (in sec. 15) since those payments would be paid into the power project revolving loan fund and used as security for the bond financing.

Additionally, the bill would make several technical corrections. One is that the reference in AS 44.83.187(a)(1) (sec. 12 of the bill) to the renewable resources fund would be eliminated since that fund was repealed in 1984. Section 16, ch. 161, SLA 1984. Another is that the terms "cities" and "boroughs" would be deleted from two lists in AS 44.83.170(b) which also include "municipalities." As defined in AS 29.71.800, the term "municipality" includes cities and boroughs, making the separate references unnecessary. Section 5 of the bill.

I urge your prompt and favorable action on this measure.

Sincerely,

  
Steve Cowper  
Governor

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: AK Power Authority  
 Title: Act relating to Power Project BRU: \_\_\_\_\_  
 fund \_\_\_\_\_  
 Sponsor: Rules Components: \_\_\_\_\_  
 Requestor: Governor

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

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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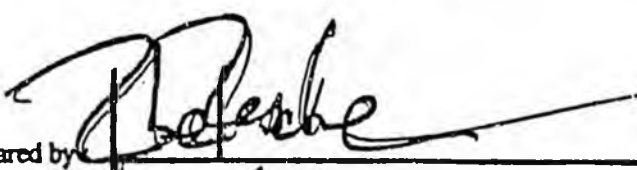
**FUNDING: (Thousands of Dollars)**

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PAK-TIME						
TEMPORARY						

**ANALYSIS : (Attach a separate page if necessary)**

Prepared by:  Phone: 465-3575  
 Division: APA Date: 17 March 89  
 Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

**Distribution (by preparer):**

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

Changes in CSSB 238 (Fin)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate. 3/21/90  
 Projections of no fiscal  
 impact would continue  
 through 1996.

PROPOSED POWER PROJECT REVOLVING LOAN FUND - SB 238

NEED FOR LEGISLATION

INABILITY TO MEET DEMAND FOR LOANS

- O THE ALASKA ENERGY AUTHORITY RECEIVES MANY REQUESTS FOR FINANCING FOR FEASIBLE ENERGY PROJECTS WHICH IT IS UNABLE TO MEET.
  
- O THE AUTHORITY HAS TWO METHODS TO FINANCE PROJECTS -- LOANS FUNDED WITH LEGISLATIVE APPROPRIATIONS AND BOND FUNDED LOANS.
  
- O THERE IS CURRENTLY NO LEGISLATIVE FUNDING AVAILABLE FOR LOANS.
  
- O BOND FUNDING OF PROJECTS WORKS ONLY FOR LARGE PROJECTS WITH STRONG AND FAIRLY PREDICTABLE SOURCES OR REVENUES AND WHICH ARE EASILY UNDERSTOOD BY THE BOND MARKET.
  
- O SMALLER, MORE COMPLICATED PROJECTS ARE NOT FINANCEABLE WITHOUT SOME ADDED SOURCE OF SECURITY.

NEED FOR ADDITIONAL SECURITY

- O THE AUTHORITY DOES NOT HAVE THE FINANCIAL STRENGTH THAT WOULD CAUSE THE USE OF ITS GENERAL OBLIGATION TO ADD SECURITY TO ANY BONDS ISSUED. IT HAS NO UNRESTRICTED CASH, AND NO EQUITY THAT IS NOT TIED UP IN FIXED ASSETS.

- O WITHOUT A SECONDARY SOURCE OF REPAYMENT THE AUTHORITY WOULD NOT BE ABLE TO SELL BONDS FOR MOST PROJECTS, EVEN IF THESE WERE BACKED BY THE MORAL OBLIGATION OF THE STATE.
  
- O THE AMENDMENTS TO AS 44.83.170 ATTEMPT TO ADD SECURITY TO ANY BONDS ISSUED BY THE AUTHORITY WITHOUT ALLOWING FOR THE ACCUMULATION OF LARGE CASE BALANCES BY THE AUTHORITY.
  
- O THE AUTHORITY WOULD SELL BONDS AND LOAN THE PROCEEDS TO COMMUNITIES AND UTILITIES AROUND THE STATE.
  
- O PAYMENTS ON NEW AND EXISTING ~~POWER PROJECT~~ REVOLVING LOAN FUND (PPRLF) LOANS WOULD BE MADE TO A BOND TRUSTEE, WHO WOULD MAKE INTEREST AND PRINCIPAL PAYMENTS AS NEEDED ON THE BONDS. ADMINISTRATIVE COSTS OF THE FUND WOULD ALSO BE PAID FROM THE TRUST ACCOUNT.
  
- O THERE ARE CURRENTLY APPROXIMATELY \$2.4 MILLION IN ANNUAL PRINCIPAL AND INTEREST PAYMENTS COMING IN TO THE AUTHORITY ON POWER PROJECT LOANS. IN THE EVENT OF A DEFAULT BY ANY OF THE BORROWERS ON THEIR PAYMENT TO THE AUTHORITY, THESE FUNDS COULD BE USED TO MAKE UP ANY DIFFERENCE BETWEEN REQUIRED DEBT SERVICES PAYMENTS AND THE AMOUNT COLLECTED BY THE AUTHORITY FROM ITS BORROWERS.

- O AT THE END OF EACH FISCAL YEAR, FUNDS HELD BY THE TRUSTEE THAT ARE NOT NEEDED FOR BOND PAYMENTS AND ADMINISTRATION OF THE PROJECT WOULD BE REMITTED AUTOMATICALLY BY THE TRUSTEE TO THE GENERAL FUND.
  
- O THE LEGISLATION STATES THAT THE AUTHORITY MAY INTERCEPT A COMMUNITY'S POWER COST EQUALIZATION PAYMENTS OR ITS REVENUE SHARING IN THE EVENT OF A DEFAULT. THIS LANGUAGE IS SIMILAR TO THAT WHICH IS FOUND IN ALL OF THE MUNICIPAL BOND BANK'S LOAN PROGRAMS.
  
- O THIS LANGUAGE IS TO THE IMPORTANT MARKETABILITY OF THE BONDS AND WILL LOWER INTEREST RATES ~~TO BORROWERS,~~ ACCORDING TO JOHN NUVEEN & CO., ~~THE AUTHORITY'S SENIOR UNDERWRITERS,~~ INCLUDING SUCH LANGUAGE ~~INCREASES A BOND'S RATING BY A FULL HALF STEP, I.E., FROM A- TO A.~~ THIS RESULTS IN SIGNIFICANT SAVINGS FOR THE BORROWERS.

#### USE OF THE NEW PPRLF

- O THE NEW PPRLF WOULD ALLOW COMMUNITIES AROUND THE STATE TO HAVE ACCESS TO THE BOND MARKET FOR POWER PROJECTS THAT WOULD NOT OTHERWISE BE FINANCEABLE IN THAT WAY.

#### RURAL PROJECTS

- O IN THE RURAL AREAS, PROJECTS ARE TOO SMALL TO WARRANT A BOND SALE.

- O MOST RURAL COMMUNITIES ARE NOT FINANCIALLY STRONG ENOUGH FOR THEIR BONDS TO BE MARKETABLE.
  
- O BANK FINANCING IS SOMETIMES POSSIBLE, BUT A BANK WILL NOT GENERALLY LEND MONEY FOR TERMS LONG ENOUGH FOR THE PROJECTS TO REMAIN FINANCIALLY FEASIBLE.
  
- O IN RURAL AREAS, THIS PROJECT ADDS AN ESSENTIAL SOURCE OF NEW CAPITAL FOR DEVELOPMENT OF INFRASTRUCTURE.
  
- O RURAL PROJECTS THAT COULD BENEFIT FROM THE NEW PPRLF INCLUDE:
  - WASTE HEAT PROJECTS IN COMMUNITIES SUCH AS SAND POINT, FORT YUKON, AND HOONAH
  - A SMALL HYDROELECTRIC PROJECT IN KING COVE
  - BLACK BEAR LAKE HYDROELECTRIC PROJECT ON PRINCE OF WALES ISLAND.

#### PROJECTS IN URBAN AREAS

- O THERE ARE TIMES THAT LARGE UTILITIES OR CITIES HAVE SMALL PROJECTS THAT MAKE ECONOMIC SENSE BUT ARE EITHER TOO SMALL TO GO TO THE BOND MARKET OR TOO COMPLICATED TO EXPLAIN TO IT.
  
- O BANKS ARE A POSSIBLE AVENUE FOR FINANCING, BUT CHANGES TO THE TAX CODE PASSED IN 1986 AND THE SHORT TERM OF BANK FINANCING MAKE COMMERCIAL BANKS AN UNPALATABLE SOURCE OF FUNDING.

O PROJECTS IN URBAN AREAS OR PROPOSED BY LARGER UTILITIES THAT COULD BENEFIT FROM THE PPRLF INCLUDE:

- ELECTRIFICATION OF HOLLIS (SERVED BY ALASKA POWER & TELEPHONE.
- EXPANSION OF GENERATING FACILITIES IN NOME
- A GEOTHERMAL PLANT IN UNALASKA.

OTHER ISSUES

O THE BILL EXPANDS THE PURPOSES FOR WHICH LOANS MAY BE MADE TO INCLUDE:

- WASTE ENERGY CONSERVATION FACILITIES
- CONSUMER AND USE IMPROVEMENTS TO REDUCE ENERGY DEMAND
- ACQUISITION OF POWER PROJECTS (THIS PROVISION WOULD BENEFIT OUZINKIE AND BETHEL WHO ARE INTERESTED IN ACQUIRING EXISTING PLANT FACILITIES);
- ACQUISITION, CONSTRUCTION, OR REPAIR OF BULK FUEL STORAGE FACILITIES
- ACQUISITION OF BULK FUEL

O THE BILL AUTHORIZES ADDITIONAL ELIGIBLE BORROWERS, INCLUDING:

- SCHOOL DISTRICTS
- REGIONAL EDUCATIONAL ATTENDANCE AREAS (REAA)
- REGIONAL HOUSING AUTHORITIES
- BUSINESS ENTERPRISES

- O BUSINESS ENTERPRISE IS INCLUDED TO ALLOW LOANS WHERE A PRIVATE CORPORATION IS INTERESTED IN DEVELOPING A PROJECT OR RESOURCE AND SELLING POWER TO THE COMMUNITY OR UTILITY. ONE EXAMPLE OF THIS TYPE OF PROJECT IS THE GEOTHERMAL PROJECT IN UNALASKA.
  
- O THIS BILL PASSED SENATE LABOR AND COMMERCE LAST YEAR AND WAS CONSIDERED IN SENATE FINANCE LAST MONTH.
  
- O SENATOR DUNCAN PROPOSED AND THE COMMITTEE APPROVED AMENDMENTS WHICH WOULD REQUIRE THAT ANY SCHOOL DISTRICT, REAA, HOUSING AUTHORITY OR BUSINESS ENTERPRISE MUST HAVE THE APPROVAL OF THE LOCAL UTILITY TO BE ELIGIBLE FOR A LOAN TO CONSTRUCT A POWER GENERATION FACILITY IN THE UTILITY'S SERVICE AREA. THESE AMENDMENTS WERE SUPPORTED BY THE ENERGY AUTHORITY, THE ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, AND TLINGIT HAIDA REGIONAL ELECTRIC AUTHORITY.

ALASKA ENERGY AUTHORITY

POWER FROM STATE RESERVE PAGE NUMBER 1

04-03-1980

LOANHELP.R01

NUMBER	CUSTOMER NAME	1ST ADDRESS	CITY	AUTORIZED AM	ANNUAL	NOTE DAT	CURRENT BAL	PAYMENT AMOU	NEXT PAY	AS
81617001	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		8500000.00	.085000	10/15/80	8104000.00	17000.00	04/15/80	85
81617002	CITY OF KING COVE	KING COVE		8200000.00	.070000	01/01/81	8145887.83	9808.18	07/01/80	85
81617003	ILLIAMA-NINEWALKER	ILLIAMA		8300000.00	.098000	01/01/87	8324438.48	19788.45	07/01/80	85
81617004	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		81000000.00	.088000	01/01/82	808114.44	55882.30	07/01/80	85
81617005	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		8200000.00	.070000	07/01/81	8148530.48	9575.00	07/01/80	85
81617006	KEYTEL COGENERATION UTILITY	ANCHORAGE		81000000.00	.050000	07/01/82	8548507.81	94885.80	07/01/80	85
81617008	CITY OF SITKA	SITKA		81300000.00	.040000	01/01/83	813402370.88	400014.70	07/01/80	85
81617010	ALASKA ELECTRIC LIGHT & POWER	JUNEAU PAID		81000000.00	.088500	10/01/83	8872881.21	51470.06	04/01/80	85
81617011	ALASKA ELECTRIC LIGHT & POWER	JUNEAU PAID		82000000.00	.082800	10/01/83	81718588.58	110845.80	04/01/80	85
81617012	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		8300000.00	.098500	08/01/84	8487787.88	25735.03	07/31/80	85
81617013	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		82000000.00	.088500	08/01/84	81831288.84	102840.10	08/01/80	85
81617014	ALASKA ELECTRIC LIGHT & POWER	JUNEAU		82000000.00	.082800	08/01/84	81748335.00	110845.80	08/01/80	85
81617015	COLD BAY (G&K)	SAND POINT		8500000.00	.080000	01/01/80	8408544.83	25508.83	07/01/80	85
81617016	FAR NORTH UTILITY	FAIRBANKS		8200000.00	.080500	01/01/87	8187515.87	10807.45	07/01/80	85
81617017	TANANA POWER	TANANA		8130000.00	.085500	07/01/85	8187331.85	7344.17	07/01/80	85
81617018	G & K INC	COLD BAY		81283838.00	.088000	01/01/88	81288888.88	73787.87	07/01/80	85
81617019	LEVELOCK ELECTRIC	LEVELOCK		830000.00	.080000	07/01/85	818857.23	2288.30	07/01/80	85
81617020	MIDDLE KUSKOKWIM ELECTRIC COOP	CROOKED CREEK		8250000.00	.050000	07/01/88	8200880.00	8193.02	07/01/80	85
81617022	CITY OF KING COVE	KING COVE		8120000.00	.070300	07/01/88	8108874.58	8840.28	07/01/80	85
81617023	CITY OF CLARK'S POINT	CLARK'S POINT		8177000.00	.073000	07/01/87	8143788.25	7444.80	07/01/80	85
81617024	G & K INC	COLD BAY		81000000.00	.081100	02/18/88	8385844.80	20375.10	07/01/80	85
81617025	CHITNA ELECTRIC INC	CHITINA		8101500.00	.078500	07/01/88	885128.92	5047.30	07/01/80	85
81617028	CORDOVA ELECTRIC COOP., INC.	CORDOVA		81850000.00	.050000	08/30/88	81850008.00	83889.12	07/01/80	85
81617028	CITY OF GALENA	GALENA		81350000.00	.077100	08/20/88	81350000.00	68742.01	01/01/81	85
81617030	COFFMAN COVE UTILITY	COFFMAN COVE		870000.00	.088800	07/01/88	882281.14	4884.13	07/01/80	85
81617031	CITY OF GALENA	GALENA		8245000.00	.088800	08/20/88	8245000.00	17128.48	01/01/81	85
81617032	NEKANA PORT AUTHORITY	NEKANA		8323000.00	.079700	08/12/88	8178808.85	13784.47	07/01/83	85
81617033	CITY OF LARSEN BAY	LARSEN BAY		8483884.00	.078500	08/05/88	8437878.08	14305.74	01/01/81	85
81617034	CITY OF DUSINKIE	DUSINKIE,		850000.00	.073400	07/01/88	845883.21	2775.14	07/01/80	85
81617035	MIDDLE KUSKOKWIM ELECTRIC COOP	CROOKED CREEK		8153000.00	.075200	07/01/88	8158880.00	7178.48	07/01/80	85
81617038	BETTLE LIGHT & POWER	BETTLE		830500.00	.073300	07/01/88	827200.93	2178.18	07/01/80	85
81617037	MCGRAVE LIGHT & POWER CO.	MCGRAVE		8338000.00	.073300	10/21/88	8317184.14	24378.01	07/01/80	85
81617039	EAGLE POWER COMPANY	EAGLE		832000.00	.087100	07/01/88	828253.95	3818.85	07/01/80	85
							534528530.00		330148778.78	1387080.38

All summary as of 3/31/90

# Alaska State Legislature

Anchorage \* District 10

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Juneau, Alaska 99811  
(907) 465-2828

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Member  
Alaska Legislative  
Council  
Labor & Commerce  
Committee  
Special Committee  
on Foreign Trade  
Finance Sub-Committee  
for Labor

## Representative Virginia Collins

### MEMORANDUM

TO: Representative Dave Donley, Chair  
House Labor & Commerce Committee

FROM: Representative Virginia Collins 

DATE: April 29, 1990

RE: SB 238, "An Act relating to the power project fund, and to the powers of the Alaska Energy Authority to finance and make loans from the power project fund and to sell waste heat; and providing for an effective date"

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I respectfully request that you schedule the above-referenced bill for a hearing in the House Labor and Commerce Committee. There are currently requests in the amount of \$33 million for loans that cannot be made under the current funding program. The current program has never had a default.

I appreciate your attention to this request. Thank you.