

HB

526

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 18, 1996

FURTHER REFERRALS:

Date of Committee Action: 3/29/96

The FINANCE Committee considered:

HB 526

HOUSE BILL NO. 526

AIDEA OPERATIONS/PROJECTS/LOANS

"An Act relating to the financing authority, programs, operations, and projects of the Alaska Industrial Development and Export Authority; providing an exemption from the procurement code for certain projects of the authority; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 526 (FIN) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) DCED 3/18/96

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Richard Foster</i> FOSTER	X			
<i>Mark Henley</i> Henley	X			
<i>Thomas Mullen</i> mullen			X	
<i>James Martin</i> martin			X	
<i>Sean R. Powell</i> POWELL			X	
<i>Lee Kohring</i> Kohring			X	
<i>Ben Grussendorf</i> GRUSSENDORF	X			
<i>Pell Kelly</i> Kelly			X	
<i>Gene Hennrich</i> HENNRICH			X	
<i>Tam Brown</i> BROWN			X	
<i>Mike ...</i> ...				

CO-CHAIR'S SIGNATURE *Mark Henley* *Richard Foster*

FISCAL NOTE

No. 1
 Bill Version: CSHB 526(L&C)
 (H) Publish Date: 3/18/96

**STATE OF ALASKA
 1996 LEGISLATIVE SESSION**

Revision Date: _____
 Title: Financing authority, programs and projects of AIDEA

Department: Commerce and Economic Development
 BRU: AIDEA
 Component: AIDEA

Sponsor: House Labor & Commerce
 Requestor: House Labor & Commerce

COMPONENT SERIAL NO. _____ 1234

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0.0

POSITIONS

FULL-TIME					
PART-TIME					
TEMPORARY					

ANALYSIS: (Attach a separate page if necessary)

Bonds will be sold to finance projects and will have no fiscal impact on the General Fund. Program changes will have no fiscal impact on the General Fund.

Prepared by: William R. Snell, Executive Director
 Division: AIDEA
 Approved by Commissioner: William L. Hensley
 Agency: Commerce and Economic Development

Phone: 907-561-8050
 Date: March 8, 1996
 Date: 3-8-96

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COMMITTEE COPY

3/29/96

9-LS1549C.2

Cook
3/28/96

NO OBJ - adopted

AMENDMENT II

OFFERED IN THE HOUSE

TO: CSHB 526(L&C)

- 1 Page 7, line 10:
- 2 Delete "\$60,000,000"
- 3 Insert "\$85,000,000"

3/29/96

9-LS1549 (C.I)

Cook

3/28/96

NO/OBJ

AMENDMENT I

OFFERED IN THE HOUSE

TO: CSHB 526(L&C)

- 1 Page 1, lines 11 and 12:
- 2 Delete "if those bonds would affect the credit of the authority"
- 3 Insert "to assist in the financing of a development project under AS 44.88.172 -
- 4 44.88.177"



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

February 23, 1996

Ms. Anne Ringstad, Senate State Affairs Committee
c/o The Honorable Senator Bert Sharp
Alaska State Legislature
State Capitol
Juneau, AK 99811

Dear Anne:

As requested, the purpose of this letter is to provide information on why the moral obligation of the state has been requested for the purchase of the Snettisham hydroelectric project, versus issuing general obligation debt of the Alaska Industrial Development and Export Authority (AIDEA).

There are both market related reasons and policy related reasons for requesting that the Snettisham bonds be issued as State moral obligation bonds, rather than as AIDEA general obligation bonds. The circumstances outlined below present the classic situation in which the state moral obligation induces the market to pay significantly more for the bonds, while presenting a minimal-to-zero risk to the state and are the exact set of circumstances where attachment of the state moral obligation is most appropriate and beneficial.

Market Impacts:

Bond Rating: The State of Alaska is presently rated AA, making a Snettisham state moral obligation bond potentially a AA- bond issue. AIDEA received an A rating on our most recent bond issue (May 17, 1995). Based on the rating disparity, an AIDEA bond issue could expect a penalty of approximately 15 basis points.

Marketability: The Snettisham project will be a unique bond with its requirement of Congressional action and the 10 year history of the potential sale. It will, therefore, need to be actively marketed to institutional investors. A state moral obligation, in and of itself, is potentially the single most important characteristic a bond can have. Bonds with identical ratings sell at significantly different prices, depending in large part upon the nature of the credit enhancements that provided the ratings. A state moral obligation is an enhancement the market is accustomed to in analyzing revenue bond

financings, and therefore, provides maximum marketability leverage compared to other forms of credit enhancement when the underlying source of revenue [e.g. Alaska Electric Light & Power (AEL&P)] is unrated and unfamiliar to the market.

Insurability: It is likely that the Snettisham bond will benefit from being insured. Insurance will be significantly more economical, and more readily purchased, if the bond carries the state moral obligation.

Risk:

By its nature, the Snettisham bond presents a very minimal risk to the state under the moral obligation. The project is complete, and has operated successfully for nearly 20 years. Juneau's load now uses practically all the firm energy produced by Snettisham and load projections show that all firm energy and most of the average annual surplus will be consumed by the commercial and residential market in the near future. In addition, 100% of Snettisham's annual surplus energy has already been sold. Thus, the project will be fully utilized from the day of acquisition by AIDEA. These factors make AEL&P's take-or-pay obligation easy to meet without a rate change. In addition, the risk is limited with a rate covenant that will be included in the underlying revenue contract. The rate covenant will require AEL&P to collect whatever rates are necessary to meet the take-or-pay obligation even in the highly unlikely instance that load declines.

Policy and the Impacts on AIDEA:

Ability to meet AIDEA's primary mission: While attaching the state moral obligation to the Snettisham bond will not measurably affect the State of Alaska, issuing AIDEA general obligation debt could affect AIDEA and its future ability to enhance economic development in Alaska. Issuing AIDEA debt to purchase Snettisham could reduce AIDEA's future ability to incur obligations for economic development projects. Projects which AIDEA has bonded in the past (e.g. Federal Express maintenance facility, Unalaska Dock expansion) generally met a narrow "private activity" purpose, unlike Snettisham, which is a highly traditional public purpose financing and as such, a classic vehicle for the state moral obligation.

Industry Concentration: At June 1996, AIDEA will have outstanding approximately \$115 million in bonds, other than bonds related to the Red Dog Project. AIDEA has authority to and anticipates going to the bond market in 1996 for the Healy Clean Coal Project (\$85 million). If both the Healy and Snettisham projects are issued as AIDEA general obligations, nearly 62% of AIDEA's June 1996 debt, on a proforma basis, will be concentrated in two power generation facilities, with the corresponding concentration of revenues. Rating agencies and the bond market view such concentrations as unhealthy and the result of that may decrease the marketability of future AIDEA bonds.

Debt ratios: Adding \$185 million (\$85 million to finance Healy and an assumed \$100 million issuance for Snettisham) to AIDEA's general obligation debt will increase AIDEA's debt ratios. This, again will hurt AIDEA's abilities to market debt and may decrease the Authority's ability to fulfill its primary economic development mission.

Precedents and Previous State Commitments:

Precedents: The Alaska moral obligation has been attached in the past to revenue financing for hydroelectric projects as a matter of course, helping to finance hydroelectric projects throughout the state. It currently applies to: the Bradley Lake project, which benefits all railbelt consumers; the refinancing of the Sitka hydroelectric project; the Anchorage-Fairbanks Intertie project; and the Four Dam Pool projects.

Previous commitments: The sale of Snettisham has been pending for nearly ten years awaiting Congressional action. During the federal hearings and negotiations, the State represented that the bonds would be Alaska moral obligation bonds. The pricing mechanism for the acquisition was negotiated based on this assumption. The purchase agreement was finalized based up this representation, and the Alaska congressional delegation, the utility, and the City and Borough of Juneau all based their approval and support of the transfer to the Snettisham project based upon the state moral obligation on the bond.

When the purchase agreement was approved by the Alaska Energy Authority, the entity had the clear legislated authority to use the Alaska moral obligation for such a financing. No subsequent legislative approval was required or suggested at the time the purchase agreement was executed and duly approved. Only the subsequent subdivision of the AEA, its oversight transfer to AIDEA, and subsequent changes in AEA statutes have created the requirement for legislation specifically allowing the state moral obligation. However, the basic contracts with the United States and AEL&P preceded these statutory revisions.

I hope that the explanation provided above helps to clarify the reasons and purpose of providing the state moral obligation on the Snettisham bonds. If you require additional information, please do not hesitate to contact me.

Sincerely,



William R. Snell
Executive Director

Ms. Anne Ringstad
February 23, 1996
Page 4

cc: Pat Pourchot, Office of the Governor
David Ramseur, Office of the Governor

Ms. Anne Ringstad
February 23, 1996
Page 5

bcc: Wilson Hughes, Chairman
Ross Kinney, Deputy Commissioner, Department of Revenue
William A. Corbus, President, Alaska Energy and Resources Company
Larry Markley, Markley & Company
Robert LeResche, LeResche & Co.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



DLB

480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

March 13, 1996

VIA FACSIMILE (907) 465-2070

The Honorable Senator Bert Sharp
State Capitol
Mailstop 3100, Room 514
Juneau, Alaska 99801-1182
ATTN: Ms. Ann Ringstad

Subject: DeLong Mountain Transportation System Expansion
Increase in Request for Bond Authorization

Dear Senator Sharp:

The Alaska Industrial Development and Export Authority (the Authority) has received a request from Cominco Alaska, Inc. (CAK) to increase the bond authorization for an expansion of the DeLong Mountain Transportation System (DMTS) from \$60 million to \$85 million.

As explained on the attached March 1, 1996 letter from D. J. Charlton, General Manager of CAK, to the Authority's Project Manager, the reason for the request for increased authorization is a revised budget caused primarily by a recently completed re-evaluation of the ore grade at the mine. By recognizing an ore reserve grade increase from 17.8% Zinc to 19.5% Zinc, another 160,000 tons of ore concentrates will be produced annually. This raises the expected annual throughput at the DMTS port to 1,250,000 tons, and requires a consequential enlargement of facilities. This and other refinements in the budget, explained in Mr. Charlton's letter, have been reviewed with staff of the Authority. We believe the revised budget reasonably represents the total of costs for the DMTS expansion. The scope of construction has been sufficiently defined through preliminary engineering, and sufficient monetary reserves have been established for us to feel comfortable the Project can be completed for the bond authorization requested.

The increased production from the mine and throughput at the port will improve the competitiveness of the Red Dog Mine in world markets. It will also increase

The Honorable Senator Bert Sharp

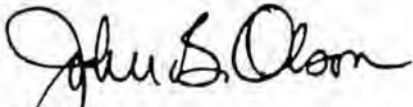
March 13, 1996

Page 2

employment by 80 full time and 25 seasonal jobs (this adds to approximately 350 jobs currently). We continue to believe the DMTS expansion represents a valuable project for the state, and look forward to working with CAK to make it a sound investment for the Authority.

If you have any further questions, please let me know.

Sincerely,



For
William R. Snell
Executive Director

Attachment

March 1, 1996

Mr. John Wood
Project Manager
Alaska Industrial Development and Export Authority
480 West Tudor
Anchorage, Alaska

Dear Sir,

As previously indicated, a review of ore reserves at Red Dog Mine has recently been completed. The new ore reserve calculation reflects the 1995 exploration program and mining activity for recent years. The new reserve calculation also reflects our most recent experience with the dilution factor utilized to calculate the ore reserves. This dilution factor is less than was originally estimated and results from minimizing the amount of waste rock that is extracted with the ore.

The result of the new ore reserve calculation is that the ore reserve grade for the existing main pit increased from 17.8% Zn (current 5 year production plan Dec. 2, 1995) to 19.5% Zn. Normal mining practice is to mine an ore body at reserve grade and as a result, Cominco Alaska will be adjusting the Mine production plan to reflect the higher grade and will commence processing the higher grade feed as the mine development plan allows.

More importantly, the higher feed grade changes the scope of work for the proposed production rate increase. The major change is that the concentrate production rate will be higher than originally estimated and consequently additional concentrate storage facilities, loadout facilities, and accommodations will be required. This change in scope will increase the Capital cost of the project to a total of \$85,000,000.

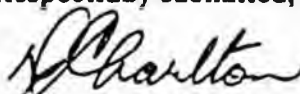
The increased concentrate production will also require an additional 30 employees including Cominco Alaska Inc. and Contractors.. The total new jobs created is now estimated to be 80 regular jobs and 25 seasonal jobs.

The \$85,000,000 Capital Cost is the estimate of the funding required for the DMTS (Port) expansion project. I would ask that the request for funding now before the Legislature, be revised to reflect the higher funding requirement.

Please find attached the revised Scope, Schedule and Capital Cost estimate in support of the Waiver Request for the "Sole Source" procurement, for the Cominco Alaska, Red Dog Mine Production Rate Increase. This scope of work defines work necessary to expand the DeLong Mountain Transportation System in support of the Red Dog Mine production increase.

Please let me know if there is any other information required.

Respectfully submitted,


D. J. Charlton
General Manager

**COMINCO ALASKA INC.
RED DOG MINE
PRODUCTION RATE INCREASE**

**SCOPE OF WORK - DELONG MOUNTAIN TRANSPORTATION SYSTEM
- REVISED FEB. 28, 1996 (*)**

PORT FACILITIES

The seaport facilities that are impacted by the proposed increase in production are identified below with their associated scope.

A. Construction Facilities

- *provide Construction support facilities including Construction camp, equipment, utilities, Construction offices, concrete batch plant and concrete aggregate
- provide additional laydown area sufficient to handle both the new construction at the storage building, receipt and storage of material for the minesite construction and the activity of the sealift.
- provide Construction management
- provide material management and freight
- *-provide for cost of Catering and Housekeeping for Construction activity

B. Fuel Storage

- current existing capacity of 10.8 million gallons will be modified by the addition of one 2.4 million gallon tank and relocation of the existing 1.2 million gallon tank to the minesite.

C. Power, Waste Heat and Standby Boiler

- *two of the existing 3508 generators will be retained and a new unit consisting of 2 - 1 megawatt units will be installed.
- provision will be made to utilize waste heat from the diesel generators for heating of the Accommodation complex.
- a standby boiler will be provided for emergency heating

D. Accommodation

- * present accommodation unit is too small, requires upgrading and is only set on wood cribbing. Settlement of the cribbing is causing structural problems. The present 60 man unit composed of 40 permanent and 20 temporary units will be relocated to form a new Mine Seasonal camp and a new 100 man PAC (32 single rooms/ 36 double rooms) complete with offices will be constructed.

E. Utilities

- *fresh water system will be upgraded or replaced to provide for 100 man camp (32 single rooms/ 36 double rooms). Additional storage capacity may be required.
- present Sewage system, with minor modifications, is considered adequate for the 100 man camp.

-*present incinerator is too small and must be replaced to accommodate the increased activity. The incinerator will be housed in a new building. Emission controls, appropriate to Air Quality standards, must be provided.

-existing communication system will be upgraded by the installation of a satellite link and associated equipment upgrade.

F. Concentrate Storage

-*the minimum additional storage capacity required is 416,000 swt. This requirement would be provided by a second Concentrate storage building approximately 1200 ft. in length.

-the new CSB will include a Wash bay and Equipment maintenance/ lubrication bay.

-provision will be made for settling sumps on the ground water diversion ditches.

G. Storage System

-*truck dump building will be extended to allow improvement in truck dump cycle.

-discharge rate from the existing truck dump hopper will be increased and subsequent conveyor system sized to handle the increased discharge rate.

-a new concentrate storage conveyor system, capable of feeding either building is required.

-installation of tripper conveyors will maximize utilization of the storage capacity.

H. Upgrade Conveyors

-demolition of existing storage conveyors is required due to reallocation of storage areas and extension of the existing tripper conveyor.

J. Loadout System

- #7- 8 conveyor system will be modified to provide a 2000 swt/hr transfer rate.

-*increased horsepower will be installed on #9a/9b conveyors

-*opportunities to decrease barge loading time will be investigated by reviewing #10 and #11 conveyor capacities and transfer chutes for increase.

-*a Dolphin will be installed in the vicinity of the shallow water dock to provide improved protection for the loadout conveyor gallery from accidental damage from lightering barge and fuel barge activity.

COMINCO ALASKA INC
 PRODUCTION EXPANSION
 DELONG MOUNTAIN TRANSPORTATION SYSTEM

CAPITAL COST ESTIMATE

CODE TITLE	Dec. 13/95 TOTAL \$	Feb. 27/96 TOTAL \$	Variance \$
A. CONSTRUCTION FACILITIES	8,070,000	16,225,000	8,155,000
B. FUEL STORAGE	2,840,000	1,030,000	-1,810,000
C. POWER HOUSE	2,936,000	3,400,000	464,000
D. ACCOMODATIONS	1,698,000	5,400,000	3,702,000
E. UTILITIES	1,900,000	2,000,000	100,000
F. CONCENTRATE STORAGE BUILDING	17,415,000	22,500,000	5,085,000
G. STORAGE SYSTEM	7,732,000	8,000,000	268,000
H. UPGRADE CONVEYORS	1,488,000	1,500,000	12,000
J. LOADOUT SYSTEM	3,021,000	4,300,000	1,279,000
TOTAL DIRECTS	47,100,000	64,355,000	17,255,000
INDIRECTS	4,400,000	3,700,000	-700,000
AIDÉA	0	650,000	650,000
OWNER'S COST	2,100,000	1,495,000	-605,000
SUBTOTAL	53,600,000	70,200,000	16,600,000
CAPITALIZED INTEREST, BOND ISSUANCE	3,000,000	9,800,000	6,800,000
CONTINGENCY	3,400,000	5,000,000	1,600,000
PROJECT TOTAL	\$60,000,000	\$85,000,000	25,000,000

COMINCO ALASKA INC
PRODUCTION EXPANSION
DELONG MOUNTAIN TRANSPORTATION SYSTEM

CAPITAL COST ESTIMATE - VARIANCE

CODE TITLE

A. CONSTRUCTION FACILITIES	underestimated equipment and freight cost, camp costs not in o
B. FUEL STORAGE	overestimated
C. POWER HOUSE	underestimated, provide for 2 - 1 mw units
D. ACCOMMODATIONS	provide for replacement of PAC on permanent foundations
E. UTILITIES	provide fire sprinkler system for Accommodations and Power hou
F. CONCENTRATE STORAGE BUILDING	increase CSB from 930 ft. to 1200 ft. in length
G. STORAGE SYSTEM	increase capacity
H. UPGRADE CONVEYORS	
J. LOADOUT SYSTEM	provide for a dolphin to protect loadout conveyor system at sh
INDIRECTS	some engineering transferred to contracts
AIDEA	
OWNER'S COST	AIDEA shown separate
CAPITALIZED INTEREST, BOND ISSUANCE	capitalized interest underestimated and project duration incre
CONTINGENCY	increased to reflect overall project cost



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

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AIDEA Programs Overview

AIDEA's programs can be defined in three exclusive categories:

- Loan Participation
- Loan Guarantee
- Development Finance Program

Loan Participation Programs:

- Tax Exempt Program
- Taxable Program

AIDEA can buy up to 80% participation in a bank originated loan to develop, acquire or enhance Alaska business enterprises. AIDEA's participation may not exceed \$10 million.

Loan Guarantee Programs:

- Business Assistance Program

AIDEA can guarantee up to 80% of a bank originated loan of an Alaskan business up to \$1 million under the Business Assistance Program. Maximum interest rate is Prime plus 2 3/4% fully floating. AIDEA also offers a streamlined approval process for guarantees on unsecured loans of \$75,000 or less aimed at assisting entrepreneurs in rural areas, but available to all Alaskans.

- Export Assistance Program

Under the Export Assistance Program, AIDEA can guarantee up to 90% of a \$1 million loan which provides capital for an eligible export transaction for a 6 - 9 month period.

Development Finance Program:

AIDEA can develop, own and operate facilities within Alaska such as roads, ports and utilities which are essential to the economic well-being of an area; are financially feasible; and are supported by the community in which they are located. AIDEA refers to these facilities as "projects" and manages them through private sector users. The Legislature must approve any project over \$10 million. Since the program's inception in 1986, AIDEA has ownership of four projects ranging from the road and port at the Red Dog Mine to the Skagway Ore Terminal and the Authority is assessing the economic benefit and feasibility of many others.

AIDEA programs are enhancing Alaska's economy and putting Alaskans to work. AIDEA is financing Alaska's future.



ALASKA INDUSTRIAL DEVELOPMENT
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AIDEA Loan Participation Program

AIDEA can provide 80% or up to \$10 million in permanent financing for loans of any size secured through a qualified originator. AIDEA's participation is provided through funds available in the enterprises development account.

To be considered for tax-exempt financing, the loan must be eligible under provision of the IRS code. Taxable financing can be issued to participate in loans for newly constructed, acquired or refinanced business enterprises such as fishing, boats, shopping centers, office buildings, warehouses and airplanes.

In brief, borrowers apply at a financial institution (bank) for a loan. The bank, in turn, applies to AIDEA for participation in the loan. The bank retains a minimum of 20% share in the loan and the banks share may be amortized more rapidly than AIDEA's (see attached). Terms can be up to 15 years for personal property or 25 years for real property based on a 75% loan to value ratio.

To apply to AIDEA the bank must pay a \$200 application fee. Other fees include a 1% commitment fee on AIDEA's portion of the loan and a 1% funding fee.

Specifically, AIDEA's participation:

- 1) May not exceed \$10 million;
- 2) Its limited to loans that do not exceed 90% of the cost of the project, 75% of the appraised value of the project or 75% of the purchase price, whichever is less, unless the amount of the loan in excess of this limit is federally insured or guaranteed or is insured by a qualified mortgage insurance company;
- 3) May not be for a term longer than three-quarters of the economic life of the project or 25 years from the date the loan is made, whichever is earlier;
- 4) Shall be secured as to repayment by a first mortgage or security instrument in the manner the Authority determines feasible to assure timely repayment under a loan agreement entered into with the borrower;
- 5) The project applicant is not, or, if the applicant is not a single proprietorship, all members of the business enterprise or enterprises constituting the project applicant are not in default on another loan made by the state or by a public corporation of the state;
- 6) At least 20% of the principal amount of the loan is retained by the loan originator, and

7) **The project is located in Alaska.**

Application to the Authority by the financial institution must include:

- A) **Letter of transmittal;**
- B) **Loan summary, including originator loan committee approval;**
- C) **A signed loan application including a list of other unpaid loans from the state or other public corporations of the state to the applicant or, if the applicant is not a single proprietorship, all members of the applicant's business enterprise, along with the originator certification that each unpaid loan is current and no other loans exist;**
- D) **A current report of the credit history of the applicant and the guarantors, if any;**
- E) **A current report of the financial statement, including a profit-and-loss statement, of the applicant's business and the business of the guarantors;**
- F) **Either copies of the applicant's federal income tax returns or the audited financial statements for the three tax years preceding the tax year in which the application is made;**
- G) **Copies of the earnest money receipt and agreement, option to purchase, contract to purchase, or invoice for the purchase of land, land and improvements, or tangible personal property related to the project;**
- H) **Copy of a lease for land or improvements to the project;**
- I) **Preliminary plans and specifications for construction of the project and a detailed description of real or tangible personal property to be acquired for the project;**
- J) **A detailed construction cost estimates;**
- K) **Fair market value appraisal of any real or personal property being used to secure the loan;**
- L) **Copies of leases or agreements;**
- M) **A financial feasibility analysis;**
- N) **An environmental risk assessment; and**
- O) **Any other information necessary to evaluate the application.**

AIDEA programs are enhancing Alaska's economy and putting Alaskans to work. AIDEA is financing Alaska's future.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



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Accelerated Amortization Program/Incentive

Purpose: AIDEA's accelerated amortization program, established in 1991, is an incentive for loan originators to provide financing for long-term loans which may not have been financed under previous regulations.

Scope: Under AIDEA's accelerated amortization program, borrowers may be able to obtain long-term financing through financial institutions for manufacturing facilities, real estate and equipment under the following AIDEA financing programs;

- Tax Exempt Program
- Taxable Program

How It Works: On a case-by-case basis, AIDEA may allow the loan originator to amortize its portion of the loan using an accelerated amortization schedule if the project can support the increased debt service and if the shortened amortization schedule is necessary for originator participation.

Term: The originator's term must be at least half of AIDEA's amortization term or 10 years, whichever ever is less*. In example:

AIDEA: 25 years
AIDEA: 22 years
AIDEA: 15 years

Originator: 10 years
Originator: 10 years
Originator: 7.5 years

Once the originator has completely amortized their portion of the loan, the originator's portion of the payment is applied to the principal remaining on AIDEA's portion of the loan, thereby reducing AIDEA's amortization schedule.

Loans secured by real property may not exceed 25 years or 75% of the estimated economic life of the property, whichever is less. Loans secured by tangible personal property may not exceed 15 years or 75% of the estimated life of the property whichever is less.

.....

*Accelerated amortization schedule may be revised whereby the originator's term is half of AIDEA's term in all cases.



Business Assistance Program Summary

A Guarantee Program for:

- 1) New loans;
- 2) Refinance of existing loans.

Funds guaranteed:

Outstanding principal balance and liquidation expenses.

Amount of Guarantee:

Not to exceed \$1,000,000. cumulative

•Percentages:

- 1) 60% to refinance a loan currently held by the financial institution originating the loan;
- 2) 80% of other loans.

Application Types:

A) Short Form Application - New loans of \$75,000 or less*.

- 1) Loan summary including bank's loan approval form;
- 2) Bank certification that credit has been checked and is satisfactory.

B) Regular Form Application - All loans over \$75,000.

- 1) Loan summary including bank's approval form;
- 2) Signed loan application;
- 3) Financial statement (current within 90 days);
- 4) Project description/use of proceeds detail;
- 5) Credit history;
- 6) Three years tax returns;
- 7) Appraisal;
- 8) Environmental risk assessment;
- 9) Refinance - existing loan facts.

Loan Requirements:

- A)
 - 1) First lien - real estate, tangible personal property, inventory and/or accounts receivable;
 - 2) Unsecured Waiver - a loan guarantee of \$75,000 or less, five years term or less, may be granted a collateral waiver at the Authority's discretion.
- B) 75% loan to value (LTV) maximum.

C) Term:

- 1) One year if secured only by inventory and/or accounts receivable;
- 2) Five year maximum if working capital and/or unsecured by special waiver;
- 3) Fifteen years maximum if secured by tangible personal property;
- 4) Twenty year maximum if secured by real estate.

D) Alaskan resident majority ownership required.

E) Maximum interest rate allowed is Prime plus 2 3/4% fully floating.

F) Fees:

- 1) \$200 application fee;
- 2) 2% Guarantee fee.

*This streamlined approval process may be unsecured. These loans are available to all Alaska businesses but targeted especially to assist entrepreneurs in rural areas.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

Export Assistance Program

Effective June 1987, the Alaska Industrial Development and Export Authority (AIDEA) abilities were expanded to include a financing program to encourage and expand the exports of Alaskan goods, services and raw materials. It was the Legislature's intent to help relieve problems of unemployment and to create additional employment opportunities within Alaska through implementation of an export assistance program.

Export Assistance Program:

The Authority's Export Assistance program is designed to facilitate financing, if needed, for the export of Alaskan goods, services and raw materials by guaranteeing loans made for eligible export transactions. The guarantee program is intended to function through Alaskan financial institutions and to encourage those institutions to extend export financing to small and medium-sized Alaskan businesses involved in export trade. By doing so, the Authority may help maintain and/or create employment and expand business opportunities for Alaskans.

In addition, the Authority works with federal and other state agencies to provide financial and technical assistance to Alaskan exporters.

Pre-shipment Export Guarantee applies when financing is required prior to shipment of the related goods. The guarantee applies up to 90% of each eligible transaction or \$1 million, whichever is less, provided that the Foreign Credit Insurance Association (FCIA) or another insurer covers the post-shipment credit risk on the transaction and has made its own inspection to determine that the exporter is viable (evidenced by issuance of a short term policy which is valid throughout the requested guarantee period). Alternatively, the related export may be covered by a letter of credit confirmed by a U.S. bank or issued by a first-class bank in an acceptable country. AIDEA's Pre-shipment Export Guarantee does not cover any of the risks assumed by the FCIA, does not cover other risks of non-payment of financing extended by the financial institution caused by the exporter's liability to the Authority, the Authority will look to the exporter for repayment of amounts paid to the financing institution. The financing institution is required to take collateral equal in value to the guaranteed loan and to share that collateral pro rata with the Authority in the event of claim payment. In brief:

- good for 270 days;
- P & I guaranteed;
- 90-day extension may be applied for (covers only P);
- guarantee fee is 1% of the guaranteed amount;

- **guarantee** covers 90% of loan or up to 1 million, whichever is less;
- **security** real or tangible personal property or other security deemed appropriate by the Authority; and
- **interest** - lesser of the rate charged under the promissory note or two and three quarters percentage points above the prime rate of interest as reported in the Wall Street Journal.

Post-Shipment Export Guarantee, covers, after shipment of the related goods, up to 90% of each eligible export transaction or \$1 million whichever is less, provided that FCIA or an other insurer covers the foreign buyer risks on the transaction and has made its own investigation to determine that the exporter is viable or that the transaction is covered by a letter of credit. The Authority's post-shipment export guarantee provides short-term coverage. It covers risks of non-payment after shipment caused by the exporter's inability or unwillingness to perform according to the export contract. It does not cover any of the risks assumed by FCIA or the other insurer, In brief:

- good for 180 days;
- P & I guaranteed;
- guarantee fee is 1% of the guaranteed amount;
- 90-day extensions may be applied for (extensions cover only P);
- guarantee cover 90% of loan up to \$1 millionm whichever is less;
- security - real or tangible personal property or other security deemed appropriate by the Authority; and
- interest - lesser of the rate charged under the promissory note or 1% over the U.S. Treasury note rate.

Eligible Exports: AS 44.88.310 defines an eligible export transaction as one which, in the judgment of the Authority, will create or maintain employment in the state and which is 25% or more Alaskan value-added. specifically, an eligible export transaction promotes the sale abroad of raw materials extracted in the state, goods whose final state of production occurs in the state, and the rendering of service abroad by a business located in Alaska, or a combination of the above.

Eligible Exporter: An eligible exporter is one whose place of business is domiciled in Alaska, services rendered abroad are of an Alaskan based business, or whose goods are produced in Alaska.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

Development Finance Program

AIDEA can assist Alaskans through its ability to develop, own and operate basic installations and facilities within the state, especially those which advance the prosperity of a region. Roads, ports, airports, utilities, infrastructure for tourism destinations facilities or other public use facilities which are essential for the economic well being of an area and are able to produce adequate revenues to repay the bonds sold to finance the project are considered eligible projects. Specifically:

- **Project Eligibility**

Detailed information regarding the scope and characteristics of the project is submitted to the Authority for review. Staff and legal counsel determine whether or not the project is eligible and satisfies the development criteria for AIDEA participation and if the project can meet tax-exempt financing status under the U.S. Treasury Code. AIDEA statutes define a project as: 1) a plant or facility used or intended for use in connection with making processing, preparing, transporting, or producing in any manner, goods, products, or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, converting, assembling, or producing in any manner, minerals, raw material, chemicals, compounds, alloys, fibers, commodities and materials, product, or substances of any kind; 2) a plant or facility demonstrating technological advances of new methods and procedures and prototype, commercial applications for the exploration, development, production, transportation, conversion, and use of energy resources; and 3) infrastructure for a new tourism destination facility or the expansion of a tourism destination facility.

The following are the most relevant criteria for obtaining the Authority's participation in the project:

1. The project and its development under AS 44.88 must prove to be economically advantageous to the state and to the general public welfare and must contribute to the economic growth of the state;
2. The project applicant is financially responsible;
3. The project is economically and financially feasible and able to produce revenue adequate to repay the bonds or loans with which it is financed;
4. Increased demand on public facilities that might result from the project will be provided for;

5. The project will provide or retain employment reasonably related to the amount of the financing by the Authority, considering the amount of investment per employee for comparable facilities, and other relevant factors;
6. The scope of the project is sufficient to provide a reasonable expectation of the benefit to the economy of the state;
7. The project is in compliance with applicable law; and
8. Issuance of the bonds is not expected to affect adversely the ability of the state or any political subdivision of the state to market other bonds.

The Alaska State Legislature must approve all projects over \$10 million.

- **Project Financing Plan and Features**

The Authority will undertake its own economic analysis and financing plan for the project (third party review). The cost of the analysis may be included in the total cost of the project to be repaid through user fees. The study includes not only development cost estimates, but also maintenance and operation cost projections, market analysis and a table detailing sources and uses of funds.

The third party economic analysis and financing plan must include an estimate of the total cost of the project and a description of the sources of money that will be used to finance the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational and maintenance costs.

In addition to these requirements, the Authority's Board of Directors has directed staff to give preference to projects that do not require financial assistance above and beyond the collective benefits that the project is capable of producing.

Various components that might be included in this type of benefit calculation include:

- Annual taxes paid to state and local government;
- Value added from in-state construction
 - Construction employment
 - Alaska Fabricated Components;
- Annual operating payroll
- Consequential benefits
 - Other related payroll
 - Other in-state goods and services

While the components listed are not intended to be all inclusive, they are intended to illustrate the types of benefit calculations that staff will perform when negotiating its return on investment. There is a floor, of course, below which AIDEA cannot go: our cost of money plus a minimum fee for the use of our credit rating, capital reserve funds and financing ability.

- **Land and Title Interest of Facility**

The Authority would require the project sponsor to provide AIDEA with clear title or lease to the portion of land on which AIDEA's portion of the project would be developed. This would be a condition of the agreement so long as debt was outstanding. Once the debt is retired, title could revert back to the project sponsor at fair market value, unless reversion is prohibited by the financing mechanism used. Bond counsel will evaluate this issue.

The project sponsor should be prepared to provide information on land ownership, acquisition costs, if any, and environmental baselining information available.

- **Development and Construction Contract Issues**

The project sponsor should provide the Authority with a written engineering report outlining the current status of design and permitting activities.

In addition, a detailed milestone chart or CPM schedule outlining the development sequence of events (up to the in-service date) should be provided along with any preliminary engineering drawings and a definitive cost estimate.

The parties will need to determine the roles and assignment of design and construction responsibilities best suited for undertaking a joint approach for project development. Decisions resulting from these discussions will determine what contracting and procurement methods will be employed. It could well be that the Authority's only active role in the project would be financing, and oversight leaving all other development responsibilities to the project sponsors.

In all likelihood the project, if developed under the Authority's Development Finance Program, would be classified as a "public works project" thereby requiring that Davis-Bacon Wages be paid during the construction phase.

- **Maintenance and Operations Responsibilities**

Under any scenario to be considered by the Authority, it would be AIDEA's intention to assign maintenance and operating responsibilities back to the project sponsor.

Since the Development Finance program's inception in 1986, AIDEA has ownership of five projects ranging from the DeLong Mountain Transportation System (road and port at the Red Dog Mine near Kotzebue) to the Skagway Ore Terminal, Unalaska Marine Center Dock, Federal Express Aircraft Maintenance Facility and the Healy Clean Coal Project, currently under construction. The Authority continues to assess the economic benefit and feasibility of many other projects.

###

AIDEA Development Projects

(In Operation, Construction, or Design)

<i>Project</i>	<i>Location</i>	<i>Bonded Amount</i>	<i>Status</i>
DeLong Mountain Transportation System and Port Expansion	Kotzebue	\$103 million (original)	Complete. 350 jobs created.
		\$60 million (expansion); legislative bonding authorization pending.	Planning and design underway.
Skagway Ore Terminal	Skagway	\$25 million	Project is complete and in operation. Year round jobs supported by the facility.
Ballyhoo Dock Expansion	Unalaska	\$7 million	Complete and in operation.
Federal Express Aircraft Maintenance Facility	Anchorage	\$28 million	Complete and in operation.
Healy Clean Coal Project	Healy	\$85 million (total project cost \$267 million)	Under construction. Approximately 200 construction jobs created. Project will be complete in 1998 creating 35 permanent jobs.
Alaska Seafood Center	Anchorage	\$50 million (authorized)	Awaiting additional private sector financing.
Kodiak Launch Facility	Kodiak	\$20 million (authorized)	Planning.
Snettisham Hydroelectric Project	Near Juneau	\$100 million (legislative authorization pending)	Congressional approval to transfer the project provided. Tax exemption pending.
Craig Industrial Marine Facility	Craig		In discussion with City of Craig. City has obtained necessary permits for construction.

House Labor & Commerce Committee

State Capitol
Juneau, Alaska 99801-1182
907-465-4954

CS HB 526 (L&C) SPONSOR STATEMENT

The Alaska Industrial Development Authority (AIDEA) was created to promote employment in Alaska through a variety of tools. Among others, these tools consist of the Development Assistance Program, the Loan Participation Program, and the Business Assistance program. Properly utilized, these mechanisms have the potential of having a positive impact on the economy of Alaska. For instance, AIDEA's involvement with the DeLong Mountain Transportation System and Port Expansion has yielded 350 full time jobs in the Kotzebue area.

Changes in economic, legal, and financial conditions have made it desirable to examine several statutory provisions pertaining to AIDEA. CS HB 526 (L&C) addresses a variety of issues presented by those changed conditions.

CS FOR HOUSE BILL NO. 526(L&C)
SECTIONAL ANALYSIS
(9-LS1549C)

Section 1- Limited Procurement Exemption.

Section 1 creates a procurement exemption for AIDEA contracts related to integrated transportation and port facilities owned by the Authority. This procurement exemption is intended to apply to DeLong Mountain Transportation System (DMTS) contracts of the Authority, therefore eliminating the need for any sole source waivers.

Background. Procurement exemptions or waivers are generally required for AIDEA development finance projects. Under AIDEA's development finance program, AIDEA must own and operate the projects. AIDEA contracts with the principal user of each project and that user becomes responsible for all the project costs. In order to maintain this legal relationship, it is desirable for AIDEA to contract with the principal user to act as AIDEA's agent for the completion of the construction and other project work. To accomplish this, a procurement exemption or a sole source waiver is generally required.

Currently, two specific procurement code exemptions apply to AIDEA contracts. First, AS 36.30.850(b)(8) creates an exemption for acquisition of property and other contracts relating to airports under AS 44.88. This exemption applies to, among other things, AIDEA contracts related to the Federal Express hangar at Anchorage International Airport. The second existing procurement exemption (AS 36.30.850(b)(22)) relates to AIDEA contracts for a clean coal technology demonstration project and currently applies only to the Healy Clean Coal Project.

AIDEA has adopted Procurement Plans and Procedures covering all of AIDEA procurements including those covered by procurement exemptions. Under the Procedures, AIDEA requires competition that is practical under the circumstances, and Alaska hire. It should be noted that, since adoption of the AIDEA Procurement Plan, Legislative Budget and Audit has undertaken several AIDEA procurement audits and has never found procurement discrepancies.

Section 2- AIDEA Bonding Authority

Section 2 of the bill relates to AIDEA's ability to issue bonds. Currently, AIDEA may not issue bonds, except refunding bonds, without the approval of the legislature. Section 2 of the bill restores AIDEA's ability to issue bonds without legislative authorization if the principal amount of the bonds is \$10,000,000 or less. For bonds greater than \$10,000,000 the bill would require legislative approval if the bonds "would affect the credit of the authority." The meaning of this last phrase is unclear as all bonds (with the possible exception of conduit revenue bonds) have impact on AIDEA's credit.

Background. On July 1, 1995, a delayed amendment to AIDEA's statutes took effect which removed AIDEA's authority to issue bonds other than refunding bonds. The current bonding limitation prevents AIDEA from issuing any bonds (other than refunding bonds) and curtails AIDEA's ability to fulfill its statutory mission. Most recently, AIDEA was unable to issue conduit revenue bonds to support the development of the Fort Knox mine. Although the bonds would not have obligated AIDEA's assets, current law prevented the issuance.

Sections 3-5- Technical Changes

Sections 3 through 5 make technical changes to AIDEA statutes covering AIDEA's loan participation program. Specifically, AS 44.88.159(a), (b), and (e) are each amended to clarify that AIDEA purchases participations in loans from financial institutions under its loan participation program, and does not finance loans directly.

Section 6- Technical Change Regarding Annual Reporting

Section 6 of the bill amends AS 44.88.205(b) to clarify that the members of the Authority are not required to take formal action to make available the annual financial report to the legislature. AS 44.88.205(b) requires that a report regarding the finances of the Authority be made available to the legislature by January 10th of each year. Because it is not always possible for the AIDEA board to meet to adopt the report prior to the statutory deadline, historically it has fallen on the executive director of the Authority to certify the report and make it available to the legislature. The technical correction in section 6 clarifies the statute to allow this practice to continue.

Sections 7-13 - Modifications To Business Assistance Loan Guarantee Program.

The bill amends AIDEA's business assistance loan guarantee program to make it more effective in light of the recent changes to the federal Small Business Administration loan guarantee program.

Background. Historically AIDEA's business assistance program has not been widely used by the Alaska business community. Until recently, the federal Small Business Administration (SBA) has offered a loan guarantee program which was preferred by both borrowers and lenders. In fiscal year 1995, the SBA Alaska office issued \$49 million dollars in loan guarantees. The SBA recently made changes to its program that reduce the percentage of a loan that may be guaranteed and significantly increase the cost of these guarantees. The Alaska banking community has indicated to AIDEA that the changes made to the SBA program have left a significant financing void for Alaska small businesses. The modifications made to AIDEA's business assistance program under the bill will create additional financing alternatives for Alaska businesses to help fill the void.

Section 7- Amends AS 44.88.500(a) to eliminate AIDEA's business assistance fund. Under current law, AIDEA's business assistance program is conducted

through a separate fund and the beneficiaries of guarantees may only seek recourse against the assets of the fund. The proposed change will allow the authority to issue guarantees from its general assets. The total amount of guarantees that may be issued by AIDEA remains limited to \$50,000,000 under AS 44.88.540. Additionally, section 7 makes minor technical amendments.

Section 8- Makes a minor technical change to AS 44.88.530 to clarify the provision.

Section 9- Amends AS 44.88.535 to make several technical and program changes to the business assistance program.

Under current law, AIDEA may waive collateral for loan guarantees of \$75,000 or less if the loan has an amortization period of 5 years or less. The bill would modify existing law to allow AIDEA to waive collateral for loan guarantees of \$100,000 or less under the same circumstances.

Under current law, loan guarantees may only be made to businesses in which a majority interest is held by Alaska residents. AIDEA is prevented from issuing loan guarantees if a business is not majority Alaska owned, even if the proceeds of the loan will benefit a business conducted in Alaska. The bill would allow AIDEA to issue loan guarantees if the proceeds of the loan will benefit a business conducted in Alaska.

Under current law, AIDEA may not guarantee interest under the business assistance program. Limited interest guarantees (up to 90 days interest) were a principal ingredient of the Small Business Administration program. The bill would allow AIDEA to guarantee interest for a period of the time and in the manner to be established by regulation.

This section of the bill also makes minor technical clarifying amendments to AS 44.88.535.

Section 10-12 - This section of the bill also makes minor technical and clarifying amendments to AS 44.88.540, 44.88.550(a), and 44.88.560 consistent with the other changes to the business assistance program made under the bill.

Sections 13-15 - Modifications To Statutory Definitions

Section 13- Amends AS 44.88.900(3) to clarify that energy related projects may qualify for AIDEA's development finance program.

Section 14- Amends AS 44.88.900(7) to clarify the definition of loan participation.

Section 15- Amends AS 44.88.900(9) to eliminate a reference to "small enterprise" from the definition of "project." Currently, AIDEA projects may include several different types of business activities. Under current law, one such type of business activity is a "commercial activity conducted by a small enterprise." Except for references in the definition sections of AIDEA's statutes, no further reference is made to a "small enterprise." The bill amends the definition of a project to eliminate the reference to "small enterprise." The bill does not modify any of the other requirements affecting AIDEA's ability to enter into projects.

Section 16- Repeals

AS 44.88.500(b), 44.88.542 and 44.88.599(1) are repealed to be consistent with the elimination of the business assistance fund under section 7 of the bill.

AS 44.88.900(14), the definition of "small enterprise" is repealed to be consistent

with section 15 of the bill.

Section 17(1)- Repeal of Certain Bonding Authority-

Section 17(1) repeals certain legislative authorization for AIDEA to issue bonds for projects which no longer require AIDEA financing. This section repeals legislative authorization for AIDEA to issue \$40,000,000 in bonds related to aircraft fueling facilities at Anchorage International Airport. The involved airlines self financed the facilities. In addition, this section repeals legislative authorization for AIDEA to issue \$50,000,000 in bonds for the Midrex facility originally proposed for Point McKenzie. If the project proceeds it will not be developed at Point McKenzie.

Background. Although no bonds are issued and none are intended to be issued with respect to the AIA fueling facilities and the Midrex facilities, the existing legislative authorization must be reported in AIDEA's official statement for each AIDEA bond issue. Legislative authorization for projects that are not proceeding creates confusion on the part of potential bond investors. The bill would eliminate the unneeded bonding authority and therefore eliminate the official statement reporting requirement.

Section 17 (2)- Repeal of Business Assistance Sunset-

This section repeals the sunset for the Authority's business assistance loan guarantee program. Under current law the business assistance program will sunset on July 1, 1996.

Background. The business assistance program was created under legislation adopted in 1988 that included a provision that would have repealed the program July 1, 1991. Subsequent legislation in 1991 and 1993 extended the delayed repeal to July 1, 1993 and July 1, 1996 respectively.

Section 18-19 - Specific Project Authorization to Issue Bonds

Background. As noted above, section 2 of the bill requires legislation for AIDEA to issue bonds if the principal amount of the bonds exceeds \$10,000,000 and the bonds "affect the credit of the authority". While the meaning of the last phrase is not entirely clear it is assumed that the issuance of bonds for both the Red Dog Expansion and Snettisham acquisition would require legislative authorization.

Section 18 - Red Dog Authorization Section 18 authorizes AIDEA to issue up to \$60,000,000 in AIDEA bonds to finance the expansion of AIDEA's DeLong Mountain Transportation System facilities serving the Red Dog Mine.

Background. The DeLong Mountain Transportation System (DMTS) serving Cominco's Red Dog Mine was AIDEA's first development finance project and has been a resounding success. The Red Dog Mine operations provide more than 350 jobs, accounting for more than 15% of all jobs in the Northwest Arctic Borough. Expansion of the DMTS is necessary to support Cominco's expansion of the Red Dog Mine, will provide up to 70 more jobs and allow the mine to continue employing Alaskans in the region for the next 50 years. Cominco will pay for the improvements to the DMTS in the form of increased user fees for the facilities.

Section 19- Snettisham Acquisition Authorization Section 19 authorizes AIDEA to acquire the Snettisham Hydroelectric Project from the federal Alaska Power Administration and authorizes the issuance of up to \$100,000,000 in AIDEA bonds for the purpose. In addition, under subsection (c), the bonds issued by AIDEA for this purpose may carry the "moral obligation" of the state.

Background. Snettisham is a 78 megawatt facility serving Juneau and Douglas. Acquisition of the project by AIDEA will be supported by a long-term "take-or-pay" power sales agreement with Alaska Electric Light and Power and is expected to provide long-term rate stability for its Juneau and Douglas customers. If the state does not purchase Snettisham, it may be sold to the highest bidder, likely to be a non-Alaskan entity.

Section 20- Immediate Effective Date

Section 20 provides for an immediate effective date. As noted above, existing law prohibits AIDEA from issuing any bonds, and hampers AIDEA's ability to fulfill its mission. The immediate effective date will restore AIDEA's bonding authority at the earliest possible date.

Comparison of CS HB 526(L&C) to HB 425

While there are several technical non-substantive differences between CS HB 526(L&C) and HB 425, there are only a few significant substantive differences. The following will summarize those substantive differences:

Bonding Authority - SB 222 (section 2) would require legislative approval for the Authority to issue bonds in an amount greater than \$10,000,000 to assist in the financing of a development project. CS HB 526 (L&C) (section 2) requires legislative approval for the Authority to issue bonds in an amount greater than \$10,000,000 if the bonds "would affect the credit of the authority." Thus under CS HB 526(L&C) legislative approval may be required for bonds issued that are unrelated to AIDEA's development finance program if the bonds exceed \$10,000,000 and affect AIDEA's credit. The meaning of this last phrase is unclear as all bonds (with the possible exception of conduit revenue bonds) have impact on AIDEA's credit.

Business Assistance Program - Interest Guarantee - Under HB 425, an amendment was made to AS 44.88.535(a)(1)(C) that would have allowed AIDEA to waive collateral on loan guarantees "in the manner and under requirements established by the authority by regulation." CS HB 526(L&C) would only allow the waiver of collateral on loan guarantees of \$100,000 or less if the proposed loan amortization period does not exceed five years.

Comparison of CS HB 526(L&C) to CS SB 222(STA)

While there are several technical non-substantive differences between CS HB 526(L&C) and CS SB 222(STA), there are only a few significant substantive differences. The following will summarize those substantive differences:

Bonding Authority- Under CS SB 222(STA) (section 2) legislative approval would be required for AIDEA to issue any bonds to assist in the financing of a development project. Under CS HB 526(L&C) (section 2) legislative approval is required for AIDEA to issue bonds in an amount greater than \$10,000,000, regardless of the purpose of the bonds, if the bonds "affect the credit of the authority."

Business Assistance Program-Collateral Waivers- CS SB 222(STA) would allow the authority to waive collateral for loan guarantees in the manner and under requirements established by AIDEA under regulation. CS HB 526(L&C) only permits the waiver of collateral for loan guarantees under \$100,000 if the loan amortization period does not exceed five years.

Business Assistance Program - Interest Guarantee - Under CS HB 526(L&C) (section 9), an amendment would be made to AS 44.88.536(o) that would allow the authority to guarantee interest on loans guaranteed under the business assistance program for the time and in the manner established by regulation. CS SB 222(STA) does not include this amendment and therefore, under that bill, the Authority would not be allowed to guarantee the payment of interest under the program.

Business Assistance Program - Sunset - Under CS HB 526(L&C) (section 17(2)) the sunset for the business assistance program would be repealed. Under CS SB 222 (STA) (section 17) the sunset is extended until July 1, 1999.

Business Assistance Program -Transition Provision - CS SB 222 (STA) includes a transition provision (section 20) not provided in CS HB 526(L&C). Under the CS SB 222(STA) provision, upon the elimination of the business assistance fund as provided in the bills, assets in the fund would be transferred to the Authority's revolving fund.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

March 19, 1996

SUBJECT: Alaska Industrial Development and Export Authority
(CSHB 526(L&C))

TO: Representative Pete Kott, Chair
House Labor and Commerce Committee

FROM: Tamara Brandt Cook
Director *TBC*

Here is the sectional summary that you requested.

Sec. 1. Adds as an exemption to the State Procurement Code contracts related to integrated transportation and port facilities owned by AIDA.

Sec. 2. Requires legislative approval of bonds in an amount greater than \$10,000,000 if the bonds would affect the credit of the authority.

Secs. 3-5. Changes reference to "loan financed" to read "loan participation purchased."

Sec. 6. Technical change deleting "the members of."

Sec. 7. Eliminates the business assistance fund. Allows AIDA to guarantee new business assistance loans and new business assistance loans made to refinance existing loans without requiring that the guarantees be made with money in the business assistance fund.

Sec. 8. Technical change.

Sec. 9. Increases the amount of a loan guarantee from \$75,000 to \$100,000 for which AIDA may waive collateral. Permits AIDA to guarantee a loan if the proceeds will be used to benefit a business conducted in the state. The current provision allows a guarantee of a loan made to a business with a majority interest held by state residents. Permits AIDA to guarantee the payment of interest on the guaranteed portion of a loan, while existing law forbids this.

Sec. 10. Technical change.

Representative Pete Kott

March 19, 1996

Page 2

Sec. 11. Applies interest rate limitation on loans guaranteed by AIDA to financial institutions only.

Sec. 12. References to the business assistance fund are deleted.

Sec. 13. Expands the definition of "development project" to include a facility for the generation, transmission, development, transportation, conversion, or use of energy resources.

Sec. 14. Expands the definition of "loan participation" to allow the purchase of a portion of a loan at any time before money from the loan is disbursed to the borrower.

Sec. 15. Expands the definition of "project" to include commercial activity by a business, whereas the existing provision applies only to commercial activity of a small enterprise.

Sec. 16. Repeals the provision stating that the holder of a debt instrument for a loan guaranteed by AIDA has no recourse to the assets of AIDA beyond those designated by the authority from its reserves. Repeals a provision dealing with discounted loan purchases. Repeals a definition applicable to the business assistance fund, which is eliminated in this bill. Repeals the definition of small enterprise.

Sec. 17. Repeals the bond authorization for a public use aircraft fueling facility at the Anchorage International Airport and for a port facility related to an iron ore processing facility at Point Mackenzie. Repeals the sunset provision that applies to AS 44.88.500-599.

Sec. 18. Authorizes AIDA to issue bonds for port facilities related to the DeLong Mountain transportation system.

Sec. 19. Authorizes AIDA to acquire the Snettisham hydroelectric project, issue bonds in connection with the acquisition, and establish a capital reserve fund to secure those bonds. If a capital reserve fund is established, the legislature may be asked for appropriations for the fund.

Sec. 20. Immediate effective date.

TBC:plm
96-086.plm

- Attachment to Sectional Analysis -
AIDEA DEVELOPMENT FINANCE PROJECT REVIEW AND APPROVAL PROCESS

HISTORY AND BACKGROUND

- The Development Finance Program has its roots in the original DeLong Mountain Transportation System (DMTS) project to support the opening of the mining district that includes the Red Dog Mine.
 - Financial safeguards in the original legislation required that before approving a project financed under the Development Finance Program, the Authority must prepare a finance plan (Ch. 162 SLA 1984) which includes:
 - An estimate of the total cost of the project;
 - Sources of funds for the project;
 - An estimate of the operational costs of the project;
 - Sources of money to pay for operational costs.
 - Additionally, the Authority was required to submit the finance plan to the State Bond Committee, Governor, and Legislature before issuing bonds or otherwise incurring debt for the project.
 - These and other safeguards have been added to AS 44.88 for application to all Development Finance projects undertaken by the Authority.

- The Development Finance Program realizes the benefits of tax exempt debt as allowed by the Internal Revenue Service (IRS) Code. Most categories of the Code require governmental ownership. Through Authority ownership the benefits of tax exempt debt, and a strong credit rating, can be reflected in lower rental payments from the industrial user. This, in turn, has a positive effect on the financial feasibility of a project, sometimes making the difference as to feasibility. A lease and user agreement contains provisions for construction, operation, indemnification and rent payments to the Authority.

- The Program is guided by the provisions of AS 44.88.172. Statutory safeguards contained in AS 44.88.095(c) require the Authority's Board of Directors to find, on the basis of all information available:
 - Project is economically advantageous to the state and the general public welfare;
 - Project applicant is financially responsible (credit analysis);
 - Demand on public facilities can be supplied reasonably; and
 - Project will provide/retain employment consistent with the size of the investment.

- Before adopting a resolution approving the issuance of bonds under the Development Finance Program, AS 44.88.095(d) further requires that:
 - The Project is economically and financially feasible and able to produce revenue adequate to repay the bonds;
 - The Project complies with applicable law; and
 - Issuing the bonds is not expected to adversely affect other credit instruments of the state.

- The requirements for finance and the sale of bonds have been met for the original DMTS, the Unalaska Marine Center, the Skagway Ore Terminal, the Healy Clean Coal Project and the Federal Express Line Maintenance Hangar.
- Projects awaiting authorization by the Legislature under the Development Finance Program are the expansion of the DMTS and the acquisition of the Snettisham Hydroelectric Project. How the process will be applied to these projects is explained below.

THE DEVELOPMENT FINANCE PROCESS

Following are the review steps undertaken when financing is sought under the Development Finance Program. Later, this general treatment will be applied in a discussion of the DMTS and Snettisham projects.

- Approach by the Customer - Staff of the Authority meets with customers seeking financing assistance through AIDEA. Staff discusses with the customer options for either a loan under the Credit Program or infrastructure development under the Development Finance Program. If a potential project is appropriate to the Development Program process, the benefits of tax exempt financing along with the limitations under the tax code, the Authority's costs associated with a financing, and the requirements likely to be included in a lease and user agreement are explained to the customer.
- Information Collection - If the customer is interested in pursuing a development project and lease, staff of the Authority then collects information appropriate to the findings that must be made under 44.88.095(c) and (d) as explained above.
- Feasibility Analysis - The core of the business decision to undertake a project is a feasibility analysis. Usually this is done by a third party with the guidance of staff. The consultant team chosen to do the analysis is selected based on its knowledge and experience in the business area of the project. Capital costs are evaluated for adequacy and the debt service for the project is calculated. Operating costs are estimated. Revenues are estimated and income, net of debt service and operating costs, is determined to establish profitability of the project.
- Credit Review - In addition to a positive finding of financial feasibility, the Authority also requires a customer to have substantial credit strength to perform its obligations under the lease and user agreement. A credit analysis is performed by the authority's financial advisor to assist in the determination of credit worthiness.
- Lease and User Agreement Negotiations - With the feasibility and credit aspects determined, a lease and user agreement is negotiated among the parties. This agreement may be subject to other agreements, such as a land lease, acquisition of regulatory agency approvals (permits), and the approval of the legislature if bond

authorization is required. The status of negotiations and progress of the project at the time bond authorization is sought would depend on the time the legislature convenes.

- Legislative Approval - Legislative action is required when the dollar value of a project exceeded the threshold requiring legislative approval.
- Local Government Concurrence - The statutes provide that local government must concur with a project being sighted in its jurisdiction. This is obtained by resolution of the local governing body before the Authority's Board of Directors acts on the project.
- Board Action - The Board of Directors considers the information listed above, and documents its finding in a resolution whether to approve the project for implementation under the Development Finance Program.
- Bond Sale & Construction - Documents are prepared for the sale of bonds, and construction documents are bid for the project. With funds in hand, a contract is awarded for the construction. When the facility is placed in service the Authority monitors operation and maintenance as provided by the lease and user agreement.

DELCONG MOUNTAIN TRANSPORTATION SYSTEM EXPANSION

The process, as explained above, has specific application to the DMTS expansion as follows:

- Cominco Alaska (CAK) is well known to the Authority. Performance under the Cominco - AIDEA agreement has been excellent. Annual payments to the Authority of \$12 million have been timely and commitments to others, in terms of local hire, have been met. The performance by CAK is particularly noteworthy considering the last several years have seen low prices for base metals.
- The proposed expansion will lower the break-even price for the CAK operation and position the company for greater profitability when higher base metal prices are obtained. (The mine has been operating at or below its break even point for most of its 5 years of operation.)
- The expansion project qualifies under the definition of a development project, but the bond authorization of \$85 million requires legislative approval. Legislation originally introduced in January, 1996, required \$60 million bonding authorization. The authorization was increased due to a budget revision caused primarily by a recently completed re-evaluation of the ore grade at the mine. By recognizing an ore reserve grade increase from 17.8% zinc to 19.5% zinc, another 160,000 tons of ore concentrates will be produced annually. This raises the expected annual throughput at the DMTS port to 1,250,000 tons, and requires a consequential enlargement of facilities. This and other refinements in the budget, including increases in capitalized interest and larger construction costs for freight and camp

accommodations, have been reviewed by staff of the Authority. Based on this review, staff has found that the scope of construction has been sufficiently defined through the ongoing engineering effort, and sufficient monetary reserves have been established for the Project to be completed for the bond authorization requested.

- A feasibility analysis by Stanford Research Institute (SRI) is in preparation. Preliminary results of the analysis show the Project to be feasible.
- When the DMTS was originally built Cominco agreed to provide a Letter of Credit to secure the first ten Minimum Annual Assessments. AIDEA will look for similar security for the expansion project.
- Negotiations of an amended lease and user agreement will begin in April 1996.
- The findings required by AS 44.88.095(c) and (d) recognize the following:
 1. Project economically advantageous to the State
 - 105 new jobs created plus added stability for the existing 350 jobs.
 - Cominco's payments to the N. W. Arctic Borough, in lieu of taxes, totaled \$2.5 million last year. The Borough uses these funds, in part, to match grants from the federal government and others.
 2. Applicant financially responsible
 - To be addressed by SRI report and credit analysis by the Authority's financial advisor, Public Financial Management.
 - Credit enhancement, if needed, will be included in the lease and user agreement to secure the Authority's position.
 3. Demand on Public Facilities - None; stand alone facility. The Northwest Arctic Borough has provided local government concurrence.
 4. Provide/retain employment consistent with size of investment.
 - Considering the security that will accompany the \$85 million investment, the 105 new jobs created are consistent with the investment. The \$22 million annual payroll at Red Dog is one-third of the total payroll in the Northwest Arctic Borough. A substantial portion of the balance of the borough economy relates to indirect employment associated with the mine.
 5. Economic and Financial Feasibility - The SRI report is expected to show the project is economically and financially feasible.
 6. Project to comply with applicable law.
 - The regulatory agency review and permit process will be complete before bonds are sold.
 - Water quality in Red Dog Creek has improved as the direct result of the mine.
 - The relationship between CAK and the NANA subsistence committee is effective in dealing with concerns for whale migrations near the DMTS Port, and caribou migrations across the DMTS access road.
 7. Bonds will not affect adversely other credit investments of the state.
 - Bonds will either rely on the credit strength of CAK or will be sufficiently credit enhanced to be a secure investment for AIDEA.

-The bonds will be rated on their own right and will not adversely affect other credit investments.

SNETTISHAM PROJECT ACQUISITION

1. Project economically advantageous to the State - The proposed divestiture of the federal Alaska Power Administration (APA) and the sale of the Snettisham Hydroelectric Project was approved by President Clinton and signed into law on November 28, 1995. The underlying reasons for the divestiture are to cap local electrical rates and protect consumers from future "rate reform" by Congress; and to allow for the elimination of the APA, which has outlived its usefulness and initial purpose. Under State ownership this project will provide reliable low cost electric power to the people of Juneau in an environmentally sensitive manner while insuring full repayment of the State's investment. Alternatively, if the project is sold to a private independent power producer it would most assuredly result in higher power rates.
2. Applicant financially responsible - Since project start-up nearly 20 years ago, AEL&P, the Juneau utility, has been purchasing nearly all the project's power and reliably transmitting it to Juneau rate payers. The project presently provides about 80 percent of Juneau's electrical load requirement. Under a proposed "take or pay" power sales agreement with AIDEA, AEL&P will continue to purchase the project's power. The financial ability of AEL&P to perform under the power sales agreement will be confirmed prior to closing.
3. Demand on public facilities - Since the Authority contemplates no additions or modifications to the existing Snettisham facility, there will be no additional burdens placed on public facilities.
4. Provide/retain employment consistent with the size of investment - The Authority contemplates the development of an operating agreement with AEL&P. As operator, AEL&P intends on retaining four to five of APA's Snettisham craft employees as well as possibly some management personnel. Maintaining favorably low power utility rates will also have a positive effect on business employment in the region.
5. Economic and financial feasibility - Tax exempt financing of the Snettisham project is viewed as necessary to prevent rate shock. Since the Internal Revenue Code now prohibits the use of tax-exempt bonds to finance an existing facility it must be amended for the purchase of Snettisham. Legislation required for tax-exempt financing of this Project is now attached to the Congressional Budget Reconciliation Bill. A feasibility determination will be made based on interest rates and other factors that would affect the final deal structure.

Although yet to be fully evaluated, risks associated with State ownership of this facility appear to be fairly typical of those of any remote Alaskan hydroelectric facility

that has submarine cables and an exposed transmission line. In the process of acquiring this project the Authority will strive to minimize its risks through negotiations with AEL&P, the intended operator and purchaser of all the facility's electrical output. Establishment of sufficient reserves for replacements and insurance will significantly reduce the State's financial exposure as owner. Prior to purchasing this facility the Authority will perform a detailed physical facility evaluation and a comprehensive risk assessment. If this study determines that the Project's risks are too large or unmitigatable, the Authority will recommend not proceeding with acquisition.

6. Project to comply with applicable law - The records reflect that the project is in full compliance with all laws and regulations.

7. Bonds will not adversely affect other credit instruments of the State - The bonds will not be a general obligation of the State of Alaska. The State moral obligation will induce the market to assign a lower interest rate to the bond, while presenting a minimal risk to the state.