

HB

526

As compared to
CS HB 526 (FIN) am

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

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

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

6 • Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

7 (34) contracts of the Alaska Industrial Development and Export
8 Authority made with the developer of an integrated transportation and port facility
9 owned by the authority.

10 • Sec. 2. AS 44.88 is amended by adding a new section to article 3 to read:

11 *New Language* Sec. 44.88.088. PAYMENT OF DIVIDEND TO STATE. The authority shall
12 adopt a policy for the payment of a portion of the unrestricted net income of the
13 authority to the general fund as a dividend each fiscal year. The amount of the
14 dividend for a fiscal year may not be less than 40 percent of the net income of the

1 authority for that fiscal year, unless that amount exceeds the total unrestricted net
 2 income of the authority for that year, in which case, the amount of the dividend equals
 3 the total unrestricted net income of the authority for that fiscal year. The dividend for
 4 a fiscal year shall be paid before the end of the immediately following fiscal year. For
 5 purposes of applying this section, income of the authority is "net income" or
 6 "unrestricted net income" based upon how the income is treated in the latest audited
 7 financial statement of the authority.

Revised Section
to include a
Sunset clause

8 * Sec. 3. AS 44.88.095(g) is amended to read:

9 (g) Before July 1, 1998, the authority may issue bonds in an amount
 10 greater than \$10,000,000 to assist in the financing of a development project under
 11 AS 44.88.172 - 44.88.177 only with legislative approval. Beginning July 1, 1998,
 12 and thereafter, without [WITHOUT] prior legislative approval, the authority may not
 13 issue bonds, except refunding bonds.

14 * Sec. 4. AS 44.88.159(a) is amended to read:

15 (a) The interest rate on a loan participation purchased [FINANCED] from
 16 the proceeds of tax-exempt bonds or expected by the authority to be purchased
 17 [FINANCED] from the proceeds of tax-exempt bonds is equal to the cost of funds to
 18 the authority. In this subsection "cost of funds" means the true interest cost expressed
 19 as a rate on tax-exempt bonds of the authority plus an additional percentage as
 20 determined by the authority to represent the allocable expenses of operation, costs of
 21 issuance, and loan servicing.

22 * Sec. 5. AS 44.88.159(b) is amended to read:

23 (b) The interest rate on a loan participation purchased [FINANCED] from
 24 the proceeds of taxable bonds or expected by the authority to be purchased
 25 [FINANCED] from the proceeds of taxable bonds is equal to the cost of funds to the
 26 authority. In this subsection "cost of funds" means the true interest cost expressed as
 27 a rate on taxable bonds, plus an additional percentage as determined by the authority
 28 to represent the allocable expenses of operation, costs of issuance, and loan servicing
 29 costs.

30 * Sec. 6. AS 44.88.159(c) is amended to read:

31 (c) The interest rate on a loan participation purchased [FINANCED] directly

1 from the assets of the authority shall be determined under the regulations adopted by
2 the authority under AS 44.88.085(g)(2)(C). ^{New Language} However, the interest rate on a loan
3 participation purchased from assets of the authority may not be less than the rate
4 determined

5 (1) under (a) of this section if the project is of a type that could be
6 funded with tax-exempt bonds; or

7 (2) under (b) of this section if the project is of a type that could not
8 be funded with tax-exempt bonds.

9 * Sec. 7. AS 44.88.205(b) is amended to read:

10 (b) To further ensure effective budgetary decision making by the legislature,
11 the authority shall

12 (1) annually review the authority's assets to determine whether assets
13 of the authority exceed an amount required to fulfill the purposes of the authority as
14 defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall
15 determine whether, and to what extent, assets in excess of the amount required to
16 fulfill the purposes of the authority during at least the next fiscal year are available
17 without

18 (A) breaching any agreement entered into by the authority;

19 (B) materially impairing the operations or financial integrity of
20 the authority; or

21 (C) materially affecting the ability of the authority to fulfill the
22 authority's purposes set out in AS 44.88.070; and

23 (2) make available [PRESENT] to the legislature by January 10 of
24 each year a complete accounting of all assets of the authority and a report of the
25 review and determination made under (1) of this subsection; the accounting shall be
26 audited by the auditor who conducts the audit required by AS 44.88.200 and must
27 include a full description of all loan interest and principal payments and program
28 receipts, including

29 (A) loan commitment fees received by or accrued to the
30 authority during the preceding fiscal year; [,] and

31 (B) all income earned on assets of the authority during that

1 period.

2 * Sec. 8. AS 44.88.500(a) is amended to read:

3 (a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE
4 AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED
5 BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of
6 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

7 (1) [TO] guarantee new business assistance loans; and

8 (2) [TO] guarantee new business assistance loans made to refinance
9 existing loans.

10 * Sec. 9. AS 44.88.530 is amended to read:

11 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
12 44.88.560 apply to

13 [(1)] new loan guarantees and refinancing guarantees under
14 AS 44.88.500 [AS 44.88.500(a)(1); AND

15 (2) DEBT REFINANCING GUARANTEES UNDER
16 AS 44.88.500(a)(2)].

17 * Sec. 10. AS 44.88.535 is amended to read:

18 Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (a) The authority
19 may guarantee a loan under AS 44.88.500 - 44.88.599 if the

20 (1) loan

21 (A) is commercially reasonable;

22 (B) contains amortization provisions satisfactory to the
23 authority;

24 (C) is secured by adequate collateral; however, the authority
25 may waive on a case-by-case basis the requirement of collateral for a loan
26 guarantee of \$100,000 [\$75,000] or less for which the proposed loan
27 amortization period does not exceed five years, but the ability to waive the
28 requirement of this subparagraph or the grant of a waiver does not prevent the
29 financial institution that holds the loan guaranteed by the authority from
30 requiring reasonable collateral for the loan;

31 (2) net cash flow from the borrower provides adequate coverage for the

1 debt service on the loan;

2 (3) term of the loan does not exceed 20 years;

3 (4) loan is originated with and serviced by a state chartered or federally
4 chartered financial institution;

5 (5) portion of the loan not guaranteed by the authority is held by the
6 originating financial institution or another [FINANCIAL] institution approved by the
7 authority;

8 (6) proceeds of the loan will be used [IS MADE] to benefit a business
9 conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS];
10 and

11 (7) loan guarantee provides a benefit to the borrower.

12 (b) The authority may provide a guarantee [FROM THE FUND

13 (1) of ^{added} up to 80 percent of a loan [OF \$50,000 OR LESS] that qualifies
14 under AS 44.88.500 - 44.88.599. The [;

15 (2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN
16 \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the
17 guarantee to the outstanding principal of the loan may not increase over the term of
18 the loan.

19 (c) The authority may [NOT] guarantee the payment of interest on the
20 guaranteed portion of a loan in the manner established by the authority by
21 regulation and for a period of time not to exceed 90 days. ^{added}

22 • Sec. 11. AS 44.88.540 is amended to read:

23 Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

24 The authority may not issue a total of more than [GUARANTEE]

25 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
26 [LOANS];

27 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
28 which the amount of the loan guarantee exceeds \$500,000.

29 • Sec. 12. AS 44.88.550(a) is amended to read:

30 (a) The maximum interest rate that may be charged by a financial
31 institution on a loan guaranteed by the authority is two and three-quarters percentage

1 points above the prime rate.

2 * Sec. 13. AS 44.88.560 is amended to read:

3 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

4 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

5 (2) establish terms and conditions for loan guarantees and refinancing
6 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

7 (3) make and execute contracts and other instruments to implement
8 AS 44.88.500 - 44.88.599;

9 (4) charge

10 (A) one percent of the amount guaranteed for the service it
11 provides under AS 44.88.500 - 44.88.599; and

12 (B) any other reasonable fee that the authority may establish by
13 regulation;

14 (5) acquire real or personal property by purchase, transfer, or
15 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
16 in a loan or a loan guarantee [THE FUND]; *added*

17 (6) exercise any other power necessary to implement AS 44.88.500 -
18 44.88.599; and

19 (7) to the extent the authority considers it to be in its best interest to
20 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
21 relating to the liquidation of collateral securing loans guaranteed by the authority
22 [BUSINESS ASSISTANCE FUND].

23 * Sec. 14. AS 44.88.599(2) is amended to read: *New Language*

24 (2) "prime rate" means the lowest United States money center prime
25 rate of interest that is published in the Wall Street Journal.

26 * Sec. 15. AS 44.88.900(3) is amended to read:

27 (3) "development project" has the meaning given to "project" in (9)(A)
28 and (D) - (E) [, (D), AND (E)] of this section:

29 * Sec. 16. AS 44.88.900(7) is repealed and reenacted to read:

30 (7) "loan participation" means the purchase of a portion of a loan from
31 a financial institution if the financial institution has obtained a commitment from the

1 authority to purchase the portion of that loan before the financial institution has
2 disbursed money as part of the loan to the borrower;

3 * Sec. 17. AS 44.88.900(9) is amended to read:

4 (9) "project" means

5 (A) a plant or facility used or intended for use in connection
6 with making, processing, preparing, transporting, or producing in any manner,
7 goods, products, or substances of any kind or nature or in connection with
8 developing or utilizing a natural resource, or extracting, smelting, transporting,
9 converting, assembling, or producing in any manner, minerals, raw materials,
10 chemicals, compounds, alloys, fibers, commodities and materials, products, or
11 substances of any kind or nature;

12 (B) a plant or facility used or intended for use in connection
13 with a business enterprise;

14 (C) commercial activity by a business [SMALL] enterprise;

15 (D) a plant or facility demonstrating technological advances of
16 new methods and procedures and prototype commercial applications for the
17 exploration, development, production, transportation, conversion, and use of
18 energy resources;

19 (E) infrastructure for a new tourism destination facility or for
20 the expansion of a tourism destination facility;

21 (F) a plant or facility, other than a plant or facility described in
22 (D) of this paragraph, for the generation, transmission, development,
23 transportation, conversion, or use of energy resources;

24 • Sec. 18. Section 2(a), ch. 27, SLA 1993 is amended to read: *New Section*

25 Sec. 2. (a) The Alaska Industrial Development and Export Authority may
26 issue bonds to finance the acquisition, design, and construction of a port facility and
27 related loading and conveyor equipment related to the development and operation of
28 a bulk commodity loading and shipping terminal. The terminal may be located
29 anywhere within Cook Inlet. The facility will be [DIRECT REDUCTION IRON
30 ORE PROCESSING FACILITY FOR USE BY THE MIDREX CORPORATION, TO
31 BE LOCATED AT POINT MACKENZIE AND] owned by the authority. The

1 entire investment in the project;

2 (B) ensures an additional return on AIDEA's investment made under
3 this section that is commensurate with the return earned on the original DeLong
4 Mountain Transportation System project and the risks assumed by AIDEA;

5 (C) guarantees equitable access to the facilities by all users and
6 potential users, including access to private property and access for travel necessary and
7 related to resource exploration and development for which valid permits have been
8 obtained and travel in support of resource exploration and development;

9 (3) reasonable access to the port and road is guaranteed to all users and
10 potential users.

11 (c) Subsection (a) of this section constitutes the legislative approval required by
12 AS 44.88.095(g).

13 * Sec. 24. (a) Upon approval of the Alaska Industrial Development and Export Authority
14 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
15 the Alaska Power Administration.

16 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
17 project and related assets, or may finance the acquisition by other means available to AIDEA.
18 The principal amount of the bonds and other financing provided by AIDEA to finance the
19 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

20 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
21 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
22 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
23 no later than January 2 of each year, certify in writing to the governor and the legislature the
24 amount, if any, required to restore the capital reserve fund to the capital reserve fund
25 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
26 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
27 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
28 in this section creates a debt or liability of the state.

29 (d) Subsection (b) of this section grants the legislative approval required by
30 AS 44.88.095(g).

31 * Sec. 25. This Act takes effect immediately under AS 01.10.070(c).

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): **HOUSE LABOR AND COMMERCE COMMITTEE**

A BILL

FOR AN ACT ENTITLED

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

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

7 (34) contracts of the Alaska Industrial Development and Export
8 Authority made with the developer of an integrated transportation and port facility
9 owned by the authority.

10 * Sec. 2. AS 44.88 is amended by adding a new section to article 3 to read:

11 Sec. 44.88.088. **PAYMENT OF DIVIDEND TO STATE.** The authority shall
12 adopt a policy for the payment of a portion of the unrestricted net income of the
13 authority to the general fund as a dividend each fiscal year. The dividend for a fiscal
14 year may not be less than 40 percent of the unrestricted net income of the authority.

1 earned that fiscal year and shall be paid before the end of the immediately following
2 fiscal year.

3 * Sec. 3. AS 44.88.095(g) is amended to read:

4 (g) Before July 1, 1998, the authority may issue bonds in an amount
5 greater than \$10,000,000 to assist in the financing of a development project under
6 AS 44.88.172 - 44.88.177 only with legislative approval. Beginning July 1, 1998,
7 and thereafter, without [WITHOUT] prior legislative approval, the authority may not
8 issue bonds, except refunding bonds.

9 * Sec. 4. AS 44.88.159(a) is amended to read:

10 (a) The interest rate on a loan participation purchased [FINANCED] from
11 the proceeds of tax-exempt bonds or expected by the authority to be purchased
12 [FINANCED] from the proceeds of tax-exempt bonds is equal to the cost of funds to
13 the authority. In this subsection "cost of funds" means the true interest cost expressed
14 as a rate on tax-exempt bonds of the authority plus an additional percentage as
15 determined by the authority to represent the allocable expenses of operation, costs of
16 issuance, and loan servicing.

17 * Sec. 5. AS 44.88.159(b) is amended to read:

18 (b) The interest rate on a loan participation purchased [FINANCED] from
19 the proceeds of taxable bonds or expected by the authority to be purchased
20 [FINANCED] from the proceeds of taxable bonds is equal to the cost of funds to the
21 authority. In this subsection "cost of funds" means the true interest cost expressed as
22 a rate on taxable bonds, plus an additional percentage as determined by the authority
23 to represent the allocable expenses of operation, costs of issuance, and loan servicing
24 costs.

25 * Sec. 6. AS 44.88.159(c) is amended to read:

26 (c) The interest rate on a loan participation purchased [FINANCED] directly
27 from the assets of the authority shall be determined under the regulations adopted by
28 the authority under AS 44.88.085(g)(2)(C). However, the interest rate on a loan
29 participation purchased from assets of the authority may not be less than the rate
30 determined

31 (1) under (a) of this section if the project is of a type that could be

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

funded with tax-exempt bonds; or

(2) under (b) of this section if the project is of a type that could not be funded with tax-exempt bonds.

* Sec. 7. AS 44.88.205(b) is amended to read:

(b) To further ensure effective budgetary decision making by the legislature, the authority shall

(1) annually review the authority's assets to determine whether assets of the authority exceed an amount required to fulfill the purposes of the authority as defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall determine whether, and to what extent, assets in excess of the amount required to fulfill the purposes of the authority during at least the next fiscal year are available wit out

(A) breaching any agreement entered into by the authority;

(B) materially impairing the operations or financial integrity of the authority; or

(C) materially affecting the ability of the authority to fulfill the authority's purposes set out in AS 44.88.070; and

(2) make available [PRESENT] to the legislature by January 10 of each year a complete accounting of all assets of the authority and a report of the review and determination made under (1) of this subsection; the accounting shall be audited by the auditor who conducts the audit required by AS 44.88.200 and must include a full description of all loan interest and principal payments and program receipts, including

(A) loan commitment fees received by or accrued to the authority during the preceding fiscal year; [.] and

(B) all income earned on assets of the authority during that period.

* Sec. 8. AS 44.88.00(a) is amended to read:

(a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of

1 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

2 (1) [TO] guarantee new business assistance loans; and

3 (2) [TO] guarantee new business assistance loans made to refinance
4 existing loans.

5 * Sec. 9. AS 44.88.530 is amended to read:

6 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
7 44.88.560 apply to

8 [(1)] new loan guarantees and refinancing guarantees under
9 AS 44.88.500 [AS 44.88.500(a)(1); AND

10 (2) DEBT REFINANCING GUARANTEES UNDER
11 AS 44.88.500(a)(2)].

12 * Sec. 10. AS 44.88.535 is amended to read:

13 Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (a) The authority
14 may guarantee a loan under AS 44.88.500 - 44.88.599 if the

15 (1) loan

16 (A) is commercially reasonable;

17 (B) contains amortization provisions satisfactory to the
18 authority;

19 (C) is secured by adequate collateral; however, the authority
20 may waive on a case-by-case basis the requirement of collateral for a loan
21 guarantee of \$100,000 [\$75,000] or less for which the proposed loan
22 amortization period does not exceed five years, but the ability to waive the
23 requirement of this subparagraph or the grant of a waiver does not prevent the
24 financial institution that holds the loan guaranteed by the authority from
25 requiring reasonable collateral for the loan;

26 (2) net cash flow from the borrower provides adequate coverage for the
27 debt service on the loan;

28 (3) term of the loan does not exceed 20 years;

29 (4) loan is originated with and serviced by a state chartered or federally
30 chartered financial institution;

31 (5) portion of the loan not guaranteed by the authority is held by the

1 originating financial institution or another [FINANCIAL] institution approved by the
2 authority;

3 (6) proceeds of the loan will be used [IS MADE] to benefit a business
4 conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS];
5 and

6 (7) loan guarantee provides a benefit to the borrower.

7 (b) The authority may provide a guarantee [FROM THE FUND

8 (1)] of up to 80 percent of a loan [OF \$50,000 OR LESS] that qualifies
9 under AS 44.88.500 - 44.88.599. The [;

10 (2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN
11 \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the
12 guarantee to the outstanding principal of the loan may not increase over the term of
13 the loan.

14 (c) The authority may [NOT] guarantee the payment of interest on the
15 guaranteed portion of a loan in the manner established by the authority by
16 regulation and for a period of time not to exceed 90 days.

17 • Sec. 11. AS 44.88.540 is amended to read:

18 Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

19 The authority may not issue a total of more than [GUARANTEE]

20 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
21 [LOANS];

22 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
23 which the amount of the loan guarantee exceeds \$500,000.

24 • Sec. 12. AS 44.88.550(a) is amended to read:

25 (a) The maximum interest rate that may be charged by a financial
26 institution on a loan guaranteed by the authority is two and three-quarters percentage
27 points above the prime rate.

28 • Sec. 13. AS 44.88.560 is amended to read:

29 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

30 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

31 (2) establish terms and conditions for loan guarantees and refinancing

1 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

2 (3) make and execute contracts and other instruments to implement
3 AS 44.88.500 - 44.88.599;

4 (4) charge

5 (A) one percent of the amount guaranteed for the service it
6 provides under AS 44.88.500 - 44.88.599; and

7 (B) any other reasonable fee that the authority may establish by
8 regulation;

9 (5) acquire real or personal property by purchase, transfer, or
10 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
11 in a loan or a loan guarantee [THE FUND];

12 (6) exercise any other power necessary to implement AS 44.88.500 -
13 44.88.599; and

14 (7) to the extent the authority considers it to be in its best interest to
15 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
16 relating to the liquidation of collateral securing loans guaranteed by the authority
17 [BUSINESS ASSISTANCE FUND].

18 * Sec. 14. AS 44.88.599(2) is amended to read:

19 (2) "prime rate" means the lowest United States money center prime
20 rate of interest that is published in the Wall Street Journal.

21 * Sec. 15. AS 44.88.900(3) is amended to read:

22 (3) "development project" has the meaning given to "project" in (9)(A)
23 and (D) - (F) [, (D), AND (E)] of this section;

24 * Sec. 16. AS 44.88.900(7) is repealed and reenacted to read:

25 (7) "loan participation" means the purchase of a portion of a loan from
26 a financial institution if the financial institution has obtained a commitment from the
27 authority to purchase the portion of that loan before the financial institution has
28 disbursed money as part of the loan to the borrower;

29 * Sec. 17. AS 44.88.900(9) is amended to read:

30 (9) "project" means

31 (A) a plant or facility used or intended for use in connection

1 with making, processing, preparing, transporting, or producing in any manner,
 2 goods, products, or substances of any kind or nature or in connection with
 3 developing or utilizing a natural resource, or extracting, smelting, transporting,
 4 converting, assembling, or producing in any manner, minerals, raw materials,
 5 chemicals, compounds, alloys, fibers, commodities and materials, products, or
 6 substances of any kind or nature;

7 (B) a plant or facility used or intended for use in connection
 8 with a business enterprise;

9 (C) commercial activity by a business [SMALL] enterprise;

10 (D) a plant or facility demonstrating technological advances of
 11 new methods and procedures and prototype commercial applications for the
 12 exploration, development, production, transportation, conversion, and use of
 13 energy resources;

14 (E) infrastructure for a new tourism destination facility or for
 15 the expansion of a tourism destination facility;

16 (F) a plant or facility, other than a plant or facility described in
 17 (D) of this paragraph, for the generation, transmission, development,
 18 transportation, conversion, or use of energy resources;

19 * Sec. 18. Section 2(a), ch. 27, SLA 1993 is amended to read:

20 Sec. 2. (a) The Alaska Industrial Development and Export Authority may
 21 issue bonds to finance the acquisition, design, and construction of a port facility and
 22 related loading and conveyor equipment related to the development and operation of
 23 a bulk commodity loading and shipping terminal. The terminal may be located
 24 anywhere within Cook Inlet. The facility will be [DIRECT REDUCTION IRON
 25 ORE PROCESSING FACILITY FOR USE BY THE MIDREX CORPORATION, TO
 26 BE LOCATED AT POINT MACKENZIE AND] owned by the authority. The
 27 principal amount of the bonds may not exceed \$50,000,000.

28 * Sec. 19. Section 4, ch. 162, SLA 1988, as amended by sec. 4, ch. 25, SLA 1991, and
 29 sec. 4, ch. 27, SLA 1993, is amended to read:

30 Sec. 4. AS 44.88.500 - 44.88.599 are repealed July 1, 1998 [1996].

31 * Sec. 20. AS 44.88.542, 44.88.599(1), and 44.88.900(14) are repealed.

1 * Sec. 21. Section 1, ch. 27, SLA 1993, is repealed.

2 * Sec. 22. TRANSITION. (a) On the effective date of this Act, parts of the business
3 assistance fund (AS 44.88.500(a)) shall be transferred to the Alaska Industrial Development
4 and Export Authority revolving fund (AS 44.88.060).

5 (b) The first dividend payment to the state under AS 44.88.088, enacted by sec. 2 of
6 this Act, is due during fiscal year 1997 based upon unrestricted net income of the Alaska
7 Industrial Development and Export Authority for fiscal year 1996.

8 * Sec. 23. (a) The Alaska Industrial Development and Export Authority (AIDEA) may
9 issue bonds to finance the expansion, improvement, and modification of the existing port
10 facilities owned by AIDEA with respect to the DeLong Mountain transportation system and
11 to finance the construction of new facilities to be owned by AIDEA related to the DeLong
12 Mountain transportation system, or may finance these projects by other means available to
13 AIDEA. The principal amount of the bonds and other financing provided by AIDEA may not
14 exceed \$85,000,000.

15 (b) Before bonds or notes authorized under (a) of this section may be issued, the
16 Alaska Industrial Development and Export Authority shall comply with AS 44.88.173 and
17 shall incorporate into the final finance plan and agreement for the project the following terms
18 and conditions:

19 (1) Cominco, Ltd., is required to agree in writing that Cominco, Ltd., will pay
20 for all or a portion of the operation and maintenance of facilities constructed, expanded,
21 improved, or modified as part of the project based on the use Cominco Alaska makes of the
22 facilities compared to the use made by others;

23 (2) a toll schedule, which may include adjustments related to the price of zinc,
24 is established for use of facilities constructed, expanded, improved, or modified as part of the
25 project that

26 (A) ensures full repayment of and a reasonable return on the state's
27 entire investment in the project;

28 (B) ensures an additional return on AIDEA's investment made under
29 this section that is commensurate with the return earned on the original DeLong
30 Mountain Transportation System project and the risks assumed by AIDEA;

31 (C) guarantees equitable access to the facilities by all users and

1 potential users, including access to private property and access for travel necessary and
2 related to resource exploration and development for which valid permits have been
3 obtained and travel in support of resource exploration and development;

4 (3) reasonable access to the port and road is guaranteed to all users and
5 potential users.

6 (c) Subsection (a) of this section constitutes the legislative approval required by
7 AS 44.88.095(g).

8 * Sec. 24. (a) Upon approval of the Alaska Industrial Development and Export Authority
9 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
10 the Alaska Power Administration.

11 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
12 project and related assets, or may finance the acquisition by other means available to AIDEA.
13 The principal amount of the bonds and other financing provided by AIDEA to finance the
14 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

15 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
16 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
17 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
18 no later than January 2 of each year, certify in writing to the governor and the legislature the
19 amount, if any, required to restore the capital reserve fund to the capital reserve fund
20 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
21 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
22 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
23 in this section creates a debt or liability of the state.

24 (d) Subsection (b) of this section grants the legislative approval required by
25 AS 44.88.095(g).

26 * Sec. 25. This Act takes effect immediately under AS 01.10.070(c).

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

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

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

6 • Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

7 (34) ~~contracts~~ ^{contracts} of the Alaska Industrial Development and Export
 8 Authority ~~made~~ ^{related to} with the developer of an integrated transportation and port facility
 9 owned by the authority.

10 • Sec. 2. AS 44.88.159(a) is amended to read:

11 (a) The interest rate on a loan participation purchased (FINANCED) from
 12 the proceeds of tax-exempt bonds or expected by the authority to be purchased
 13 (FINANCED) from the proceeds of tax-exempt bonds is equal to the cost of funds to
 14 the authority. In this subsection "cost of funds" means the true interest cost expressed

1 as a rate on tax-exempt bonds of the authority plus an additional percentage as
2 determined by the authority to represent the allocable expenses of operation, costs of
3 issuance, and loan servicing.

4 * Sec. 3. AS 44.88.159(b) is amended to read:

5 (b) The interest rate on a loan participation purchased [FINANCED] from
6 the proceeds of taxable bonds or expected by the authority to be purchased
7 [FINANCED] from the proceeds of taxable bonds is equal to the cost of funds to the
8 authority. In this subsection "cost of funds" means the true interest cost expressed as
9 a rate on taxable bonds, plus an additional percentage as determined by the authority
10 to represent the allocable expenses of operation, costs of issuance, and loan servicing
11 costs.

12 * Sec. 4. AS 44.88.159(e) is amended to read:

13 (e) The interest rate on a loan participation purchased [FINANCED] directly
14 from the assets of the authority shall be determined under the regulations adopted by
15 the authority under AS 44.88.085(g)(2)(C). ^{Added} However, the interest rate on a loan
16 participation purchased from assets of the authority may not be less than the rate
17 for treasury bonds that mature at the same time as that loan participation, plus
18 150 basis points.

19 * Sec. 5. AS 44.88.205(b) is amended to read:

20 (b) To further ensure effective budgetary decision making by the legislature,
21 the authority shall

22 (1) annually review the authority's assets to determine whether assets
23 of the authority exceed an amount required to fulfill the purposes of the authority as
24 defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall
25 determine whether, and to what extent, assets in excess of the amount required to
26 fulfill the purposes of the authority during at least the next fiscal year are available
27 without

28 (A) breaching any agreement entered into by the authority;

29 (B) materially impairing the operations or financial integrity of
30 the authority; or

31 (C) materially affecting the ability of the authority to fulfill the

1 authority's purposes set out in AS 44.88.070; and

2 (2) make available [PRESENT] to the legislature by January 10 of
3 each year a complete accounting of all assets of the authority and a report of the
4 review and determination made under (1) of this subsection; the accounting shall be
5 audited by the auditor who conducts the audit required by AS 44.88.200 and must
6 include a full description of all loan interest and principal payments and program
7 receipts, including

8 (A) loan commitment fees received by or accrued to the
9 authority during the preceding fiscal year; [.] and

10 (B) all income earned on assets of the authority during that
11 period.

12 * Sec. 6. AS 44.88.500(a) is amended to read:

13 (a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE
14 AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED
15 BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of
16 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

17 (1) [TO] guarantee new business assistance loans; and

18 (2) [TO] guarantee new business assistance loans made to refinance
19 existing loans.

20 * Sec. 7. AS 44.88.530 is amended to read:

21 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
22 44.88.560 apply to

23 [(1)] new loan guarantees and refinancing guarantees under
24 AS 44.88.500 [AS 44.88.500(a)(1)]; AND

25 (2) DEBT REFINANCING GUARANTEES UNDER
26 AS 44.88.500(a)(2)].

27 * Sec. 8. AS 44.88.535(a) is amended to read:

28 (a) The authority may guarantee a loan under AS 44.88.500 - 44.88.599 if the

29 (1) loan

30 (A) is commercially reasonable;

31 (B) contains amortization provisions satisfactory to the

authority;

(C) is secured by adequate collateral; however, the authority may waive on a case-by-case basis the requirement of collateral for a loan guarantee of \$100,000 [\$75,000] or less for which the proposed loan amortization period does not exceed five years, but the ability to waive the requirement of this subparagraph or the grant of a waiver does not prevent the financial institution that holds the loan guaranteed by the authority from requiring reasonable collateral for the loan;

(2) net cash flow from the borrower provides adequate coverage for the debt service on the loan;

(3) term of the loan does not exceed 20 years;

(4) loan is originated with and serviced by a state chartered or federally chartered financial institution;

(5) portion of the loan not guaranteed by the authority is held by the originating financial institution or another [FINANCIAL] institution approved by the authority;

(6) proceeds of the loan will be used [IS MADE] to benefit a business conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS]; and

(7) loan guarantee provides a benefit to the borrower.

* Sec. 9. AS 44.88.535(b) is amended to read:

(b) The authority may provide a guarantee [FROM THE FUND

(1) ^{Added} of up to 80 percent of a loan [OF \$50,000] OR LESS] that qualifies under AS 44.88.500 - 44.88.599. The [:

(2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the guarantee to the outstanding principal of the loan may not increase over the term of the loan.

* Sec. 10. AS 44.88.540 is amended to read:

Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

The authority may not issue a total of more than [GUARANTEE]

Deleted (c) that would allow the authority to guarantee the payment of interest on the guaranteed portion of a loan for the time in the manner established by the authority by regulation.

1 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
2 [LOANS];

3 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
4 which the amount of the loan guarantee exceeds \$500,000.

5 * Sec. 11. AS 44.88.550(a) is amended to read:

6 (a) The maximum interest rate that may be charged by a financial
7 institution on a loan guaranteed by the authority is two and three-quarters percentage
8 points above the prime rate.

9 * Sec. 12. AS 44.88.500 is amended to read:

10 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

11 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

12 (2) establish terms and conditions for loan guarantees and refinancing
13 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

14 (3) make and execute contracts and other instruments to implement
15 AS 44.88.500 - 44.88.599;

16 (4) charge

17 (A) one percent of the amount guaranteed for the service it
18 provides under AS 44.88.500 - 44.88.599; and

19 (B) any other reasonable fee that the authority may establish by
20 regulation;

21 (5) acquire real or personal property by purchase, transfer, or
22 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
23 in a ^{Added} loan or a loan guarantee [THE FUND];

24 (6) exercise any other power necessary to implement AS 44.88.500 -
25 44.88.599; and

26 (7) to the extent the authority considers it to be in its best interest to
27 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
28 relating to the liquidation of collateral securing loans guaranteed by the authority
29 [BUSINESS ASSISTANCE FUND].

30 * Sec. 13. AS 44.88.599(2) is amended to read:

31 New Section (2) "prime rate" means the lowest United States money center prime

1 rate of interest that is published in the Wall Street Journal.

2 * Sec. 14. AS 44.88.900(3) is amended to read:

3 (3) "development project" has the meaning given to "project" in (9)(A)
4 and (D) - (F) [, (D), AND (E)] of this section;

5 * Sec. 15. AS 44.88.900(7) is repealed and reenacted to read:

6 (7) "loan participation" means the purchase of a portion of a loan from
7 a financial institution if the financial institution has obtained a commitment from the
8 authority to purchase the portion of that loan before the financial institution has
9 disbursed money as part of the loan to the borrower;

10 * Sec. 16. AS 44.88.900(9) is amended to read:

11 (9) "project" means

12 (A) a plant or facility used or intended for use in connection
13 with making, processing, preparing, transporting, or producing in any manner,
14 goods, products, or substances of any kind or nature or in connection with
15 developing or utilizing a natural resource, or extracting, smelting, transporting,
16 converting, assembling, or producing in any manner, minerals, raw materials,
17 chemicals, compounds, alloys, fibers, commodities and materials, products, or
18 substances of any kind or nature;

19 (B) a plant or facility used or intended for use in connection
20 with a business enterprise;

21 (C) commercial activity by a business [SMALL] enterprise;

22 (D) a plant or facility demonstrating technological advances of
23 new methods and procedures and prototype commercial applications for the
24 exploration, development, production, transportation, conversion, and use of
25 energy resources;

26 (E) infrastructure for a new tourism destination facility or for
27 the expansion of a tourism destination facility;

28 (F) a plant or facility, other than a plant or facility described in
29 (D) of this paragraph, for the generation, transmission, development,
30 transportation, conversion, or use of energy resources;

31 * Sec. 17. Section 4, ch. 162, SLA 1988, as amended by sec. 4, ch. 25, SLA 1991, and
This section was repealed in CSHB 526 (FIN) am

1 sec. 4, ch. 27, SLA 1993, is amended to read:

2 Sec. 4. AS 44.88.500 - 44.88.599 are repealed July 1, 1998 [1996].

3 * Sec. 18. AS 44.88.542, 44.88.599(1), and 44.88.900(14) are repealed. *The repeal of*

4 * Sec. 19. Sections 1 and 2, ch. 27, SLA 1993, are repealed.

AS 44.88.500 (b) was deleted

5 * Sec. 20. ^{New Section} TRANSITION. On the effective date of this Act, assets of the business
6 assistance fund (AS 44.88.500(a)) shall be transferred to the Alaska Industrial Development
7 and Export Authority revolving fund (AS 44.88.060).

8 * Sec. 21. ^{New Section} Notwithstanding AS 44.88.095(g), the Alaska Industrial Development and Export
9 Authority may, without legislative approval, issue bonds in an amount not to exceed
10 \$10,000,000 to assist in the financing of a development project under AS 44.88.172 -
11 44.88.177. Bonds may not be issued under this section after June 30, 1998.

CSHB 526 (FIN) am restricted on development project bonds.

12 * Sec. 22. (a) The Alaska Industrial Development and Export Authority (AIDEA) may
13 issue bonds to finance the expansion, improvement, and modification of the existing port
14 facilities owned by AIDEA with respect to the DeLong Mountain transportation system and
15 to finance the construction of new facilities to be owned by AIDEA related to the DeLong
16 Mountain transportation system, or may finance these projects by other means available to
17 AIDEA. The principal amount of the bonds and other financing provided by AIDEA may not
18 exceed \$85,000,000.

19 (b) ^{New Language} Before bonds or notes authorized under (a) of this section may be issued, the
20 Alaska Industrial Development and Export Authority shall comply with AS 44.88.173 and
21 shall incorporate into the final finance plan and agreement for the DeLong Mountain
22 transportation system project the following terms and conditions:

23 (1) Cominco, Ltd., is required to agree in writing that

24 (A) Cominco, Ltd., will pay for all or a portion of the operation and
25 maintenance of facilities constructed, expanded, improved, or modified as part of the
26 project based on the use Cominco Alaska makes of the facilities compared to the use
27 made by others; and

28 (B) toll fees paid by Cominco Alaska for the use of facilities
29 constructed, expanded, improved, or modified as part of the project to the Alaska
30 Industrial Development and Export Authority may be periodically adjusted if the price
31 of zinc rises above a level that yields a return on investment commensurate with risk;

1 (2) a toll schedule, that may be periodically adjusted, is established for use of
2 facilities constructed, expanded, improved, or modified as part of the project that

3 (A) ensures full repayment of and a reasonable return on the state's
4 investment in the project; and

5 (B) guarantees equitable access to the facilities by all users and
6 potential users, including access to private property and access for travel necessary and
7 related to resource exploration and development for which valid permits have been
8 obtained and travel in support of resource exploration and development;

9 (3) reasonable access to the port and road is guaranteed to all users and
10 potential users.

11 (c) As used in (b) of this section, "reasonable return" means a rate of return on the
12 total investment of the state of at least 6.5 percent.

13 (d) Subsection (a) of this section constitutes the legislative approval required by
14 AS 44.88.095(g).

15 * Sec. 23. (a) Upon approval of the Alaska Industrial Development and Export Authority
16 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
17 the Alaska Power Administration.

18 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
19 project and related assets, or may finance the acquisition by other means available to AIDEA.
20 The principal amount of the bonds and other financing provided by AIDEA to finance the
21 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

22 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
23 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
24 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
25 no later than January 2 of each year, certify in writing to the governor and the legislature the
26 amount, if any, required to restore the capital reserve fund to the capital reserve fund
27 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
28 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
29 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
30 in this section creates a debt or liability of the state.

31 (d) Subsection (b) of this section grants the legislative approval required by

1 AS 44.88.095(g).

2 * Sec. 24. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. SCS CS HB526 (TRA)

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

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

Sponsor: House Labor & Commerce
Requestor: Senate Transportation

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
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
--------------------	-----	-----	-----	-----	-----	-----

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: \$ _____

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: 907-269-3000
Date: May 3, 1996
Date: 5/3/96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

No. 1

Bill Version: SB 222

(S) Publish Date: 1/17/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____ Department: Commerce and Economic Development
 Title: Financing authority, programs and projects of BRU: AIDEA
AIDEA Component: AIDEA
 Sponsor: Rules Committee
 Requestor: Governor 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
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	

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 Phone: (907) 561-8050
 Division: AIDEA Date: January 16, 1996
 Approved by Commissioner: William L. Hensley Date: 1-16-96
 Agency: Commerce and Economic Development

FISCAL NOTE

No. 2

Bill Version: SB 222

(S) Publish Date: 1/17/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to the financing authority, programs, operations, and projects of the Alaska Industrial Development...
Sponsor: Rules Committee
Requestor: Governor

Dept. Affected: Administration
BRU: General Services
Component: Purchasing
COMPONENT SERIAL NO. 60

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
----------------------	---	---	---	---	---	---

CHANGE IN REVENUES ()	0	0	0	0	0	0
------------------------	---	---	---	---	---	---

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ -0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

There is no fiscal impact to the Department of Administration.

Prepared by: Dugan Petty, Director
Division: General Services

Phone: 465-2250
Date: _____

Approved by Commissioner: Mark Bower
Agency: Department of Administration

Date: 1/16/96

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
For further distribution information, call the Governor's Legislative Office

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 4/16/96

FURTHER: Finance

DATE TURNED INTO OFFICE: 5/2/96

The Transportation Committee considered CS FOR HOUSE BILL NO. 526(FIN) am

Relating to the financing authority, programs, operations, and projects of the Alaska Industrial Development and Export Authority; efd.

and recommends:

be replaced with SCS CS HB 526 (TRA)

adopt previous _____ CS _____ (_____)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to the _____ Committee

Senate Bill:
 same title
 new title
House Bill:
 same title
 technical title
 new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Al C. Lane</i>	<input checked="" type="checkbox"/>	<i>Debra Green</i>	<input checked="" type="checkbox"/>		
<i>Miss Taylor</i>	<input checked="" type="checkbox"/>				
CHAIR: <i>John King</i>	<input checked="" type="checkbox"/>	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
<i>Commerce - Develop</i>	<i>3/8/96</i>	<input checked="" type="checkbox"/>	

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

Bonding Authorization Amendment

Replace existing Section 2 with the following:

***Sec 2.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds in an amount greater than \$10,000,000 to fund participation in loans under AS 44.88.155 or in an amount greater than \$10,000,000 to assist in the financing of a development project under AS 44.88.172 - 44.88.177, except refunding bonds.

Insert new section as follows:

***Sec 3.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds, except refunding bonds.

Insert new section prior to existing Section 20:

***Sec. __.** Section 3 of this Act takes effect July 1, 1999.

Replace existing Section 20 with the following:

***Sec. __.** Except for Section 3, this Act takes effect immediately under AS 01.10.070(c)

Renumber other sections accordingly.

Bonding Authorization

Insert new section following existing Section 2 as follows:

***Sec 3.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds, except refunding bonds.

Insert new section prior to existing Section 20:

***Sec. __.** Section 3 of this Act takes effect July 1, 1999.

Replace existing Section 20 with the following:

***Sec. __.** Except for Section 3, this Act takes effect immediately under AS 01.10.070(c)

Renumber other sections accordingly.

Interest Rates on Loan Participations

*Sec 5. AS 44.88.159(e) is amended to read:

(e) The interest rate on a loan participation purchased [FINANCED] directly from the assets of the authority shall be determined as follows:

(1) if tax-exempt bonds could be issued to fund the purchase, the interest rate shall be determined in accordance with (a) of this section as though tax-exempt bonds were issued to fund the purchase.

(2) if tax-exempt bonds could not be issued to fund the purchase, the interest rate shall be determined in accordance with (b) of this section as though taxable bonds were issued to fund the purchase [UNDER THE REGULATIONS ADOPTED BY THE AUTHORITY UNDER AS 44.88.085(g)(2)(C)].

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR TAYLOR

TO: CSHB 526(FIN) am

1 Page 6, after line 29:

2 Insert a new bill section to read:

3 ** Sec. 16. Section 2, ch. 19, SLA 1990, is amended to read:

4 Sec. 2. The [IN ACCORDANCE WITH AS 37.15.610, THE] issuance of
5 revenue bonds in an amount up to ^{2,79,200,000} \$22,300,000] for the construction of the Bradfield
6 River resource road, port and electrical intertie project by the Alaska Industrial
7 Development and Export Authority (AIDEA) [DEPARTMENT OF
8 TRANSPORTATION AND PUBLIC FACILITIES UNDER AS 37.15.610 -
9 37.15.760] is approved. The project may be partly located in Canada. This
10 section constitutes the legislative approval required by AS 44.88.095(g)."

11 Renumber the following bill sections accordingly.

CS FOR HOUSE BILL NO. 526(FIN)
SECTIONAL ANALYSIS
(9-LS1549\F)

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, except in the case of bonds greater than \$10 million issued to assist development finance projects. 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. This section restores those powers.

Background. . 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 5 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- Repealers

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 repealer 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 in an amount greater than \$10 million if the proceeds of the bonds are to be used for an AIDEA Development Finance Project. Both the Red Dog Expansion and Snettisham acquisition are expected to exceed this threshold and therefore require legislative authorization.

Section 18- Red Dog Authorization- Section 18 authorizes AIDEA to issue up to \$85,000,000 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(FIN) to HB 425

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

Business Assistance Program - Interest Guarantee - Under HB 425 (section 9), 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(FIN) (section 9) 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.

Red Dog Bonding Authorization - HB 425 (section 18) authorized the issuance of up to \$60 million in bonds for the expansion and modification of AIDEA's DeLong Mountain Transportation System. In CS HB 526(FIN) (section 18) this authorization limit is increased to \$85 million.

Comparison of CS HB 526(FIN) to CS SB 222(STA)

While there are several technical non-substantive differences between CS HB 526(FIN) 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(FIN) (section 2) legislative approval is only required for AIDEA to issue bonds for a development project if the amount of those bonds will exceed \$10 million.

Business Assistance Program-Collateral Waivers- CS SB 222(STA) (section 9) would allow the authority to waive collateral for loan guarantees in the manner and under requirements established by AIDEA under regulation. CS HB 526(FIN) (section 9) 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(FIN) (section 9), an amendment would be made to AS 44.88.535(c) that would allow the authority to guarantee interest on loans guaranteed under the business assistance program for the time and in the matter 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(FIN) (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(FIN). Under the CS SB 222(FIN) 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.

TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P O Box 110001
Juneau, Alaska 99811 0001
(907) 465-3500
Fax (907) 465-3532

222

January 16, 1996

The Honorable Drue Pearce
Senate President
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to boost Alaska's economy and create jobs in the state by strengthening the bonding authority of the Alaska Industrial Development and Export Authority (AIDEA). The bill also modifies AIDEA's business assistance program to make it more effective in light of the recent changes to the federal Small Business Administration loan guarantee program. In addition, the bill includes required bonding authority for several major development projects.

The first basic component of the bill (sec. 2) restores AIDEA's bonding authority for development projects of \$10,000,000 or less. AIDEA's general bonding authority expired June 30 and has severely restricted AIDEA's ability to assist not only in key development projects but also in conduit revenue financing transactions that do not involve the credit of AIDEA or the state.

The second component of the bill makes needed changes to AIDEA's business assistance program (primarily secs. 5 through 12) and repeals the existing July 1, 1996 sunset provision for the program (sec. 17(2)). Recent changes in the federal small business administration program have left a financing void for Alaska small businesses. The bill will make changes in AIDEA's business assistance loan guarantee program allowing AIDEA, in conjunction with the state's private financial institutions, to create additional financing opportunities for state businesses.

The third component of the bill provides legislative authority for two important projects that exceed the \$10 million dollar statutory threshold. Although there are legal questions as to whether this "approval" of bonds infringes on executive powers, I believe the legislature needs to participate in AIDEA's development agenda.

This bill would authorize AIDEA to issue up to \$60,000,000 in revenue bonds for expansion, improvement, and modification of AIDEA's existing port and transportation facilities serving the Red Dog Mine (sec. 18). Repayment of the bonds would be the obligation of mine developer.

Cominco, Ltd. The Red Dog already provides more than 350 jobs, 15 percent of the jobs in the Northwest Arctic Borough. The expansion project will provide up to 70 more jobs and allow the mine to continue to be a major source of employment in the region for the next 50 years. The bill also provides a limited procurement exemption for contracts entered into by AIDEA related to the Red Dog Mine expansion and other similarly situated AIDEA projects (sec. 1).

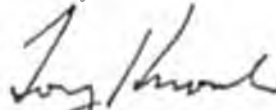
The second project this bill authorizes is AIDEA's acquisition of the Snettisham hydroelectric project (sec. 19). Congress recently authorized the Alaska Power Administration's sale of Snettisham to the state. This bill authorizes the issuance of up to \$100,000,000 of AIDEA bonds to finance the acquisition. Repayment would be the responsibility of Alaska Electric Light and Power under a "take-or-pay" long-term power sales contract. Snettisham is a 78 megawatt facility that is expected to provide long-term rate stability for customers in Juneau and Douglas.

Finally, the bill makes technical modifications to AIDEA's statutes (secs. 3, 4, 5, 6, 14, 15, 16, and 17(1)) and repeals previously granted bonding authority for fueling facilities at the Anchorage International Airport and the Midrex facility proposed for Point MacKenzie. AIDEA will not be required to issue bonds for either of these projects.

In a time of dwindling state resources it is fortunate that we have a financially health agency like AIDEA to forge public-private partnerships that can strengthen the state's economic base. This bill will enhance the tools available to AIDEA to further this mission.

I urge your passage of this bill.

Sincerely,



Tony Knowles
Governor



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 561-8050

FAX 907 561-8998

AIDEA Program Overview

The mission of the Alaska Industrial Development and Export Authority (AIDEA) is to promote the general prosperity of the people of Alaska, to relieve unemployment, and to create additional employment. The Authority accomplishes its mission by providing Alaskans with long term commercial and development financing. Projects eligible to receive this financing assistance are industrial, manufacturing, export, and business enterprises and facilities within the state. The Authority also has the ability to own and operate facilities which advance its mission.

AIDEA is a public corporation of the State of Alaska, a political subdivision within the Department of Commerce and Economic Development, but with separate and independent legal existence. Below is a summary of AIDEA's financing assistance programs:

DEVELOPMENT FINANCE PROGRAM: Transportation infrastructure, ports, airports, utilities, tourism destination infrastructure and other public use facilities may be funded through direct ownership by AIDEA. To be eligible for AIDEA funding, a project must be essential for the economic well being of an area and must produce adequate revenues to repay the bonds sold to finance the project. AIDEA works closely with local governments and approves projects compatible with the local economy and supported by the community. AIDEA development and ownership have contributed to these successful projects: DeLong Mountain Transportation System (at Red Dog Mine); Skagway Ore Terminal; and the Ballyhoo Dock extension at the Unalaska Marine Center.

LOAN PARTICIPATION PROGRAM: Working through financial institutions (banks), AIDEA participates up to 80% in permanent financing for business enterprises such as hotels, shopping centers, office buildings, warehouses, car dealerships, and fishing vessels. The project may be newly constructed, newly acquired or refinanced. Borrowers apply at a qualified bank for a loan; the bank, in turn, applies to AIDEA. The bank retains a minimum 20% share in the loan, although that share may be amortized more rapidly than AIDEA's portion. AIDEA participation is limited to \$10 million. Certain manufacturing and other facilities may qualify for tax-exempt financing under the Loan Participation Program.

BUSINESS ASSISTANCE PROGRAM: More commonly known as the AIDEA guarantee program, this program provides up to an 80% guarantee of the principal balance to the financial institution making the loan. This added degree of support can make project financing, refinancing and working capital loans available for projects that might not otherwise be financed. Borrowers apply to the bank, which in turn, submits an application to AIDEA. Guarantees up to \$1 million are made on loans for real property, equipment or working capital for projects that stabilize the economic base or create or maintain employment. Targeting entrepreneurs in rural areas, in 1991 the Alaska Legislature established a streamlined approval process for guarantees on loans of \$75,000 or less. The loans may be unsecured. AIDEA also supports the Rural Development Initiative Fund (RDIF) under the Business Assistance

Program. The RDIF is administered by the Department of Community and Regional Affairs (DCRA) and supported by AIDEA. The RDIF provides funding up to \$100,000 (\$200,000 for two or more borrowers of the loan) to businesses in rural Alaska which may not currently be served by commercial financial institutions.

REVENUE BOND PROGRAM: AIDEA acts as a conduit to facilitate a financing transaction between a borrower and a willing purchaser of the bonds. This type of financing can be advantageous to both the borrower and the purchaser of the bonds. This program saw high volume use prior to the 1986 amendments to the federal tax code; however, it is in less demand today.

EXPORT ASSISTANCE PROGRAM: Designed to foster and facilitate international trade, this program offers guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans. Guarantees may total up to 90% of the transaction plus interest or \$1 million, whichever is less.

VENTURE CAPITAL: AIDEA has also invested in a venture capital partnership as a limited partner. The Polaris Fund is designed to introduce Outside venture capitalists to investment opportunities in Alaska while providing venture capital to Alaskan businesses. The Polaris Fund manages the partnership. For additional information and loan applications, contact Jim Yarmon, c/o Yarmon Investments, 840 K Street, #201, Anchorage, AK 99501, (907) 276-4466.

##



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 269-3044

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

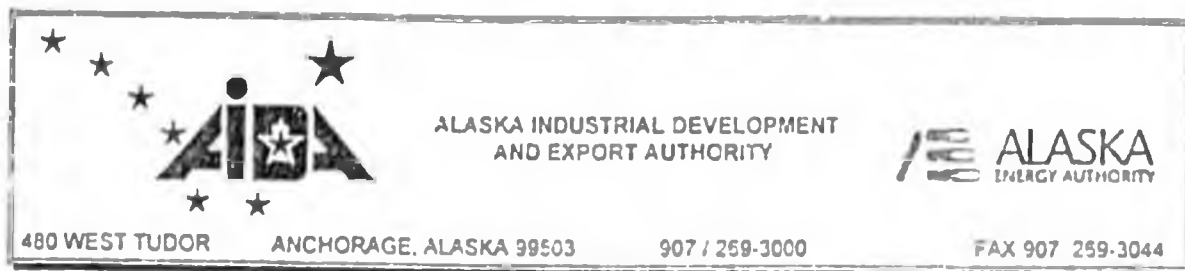
Following are the review steps undertaken when financing is sought under the Development Finance Program. Later, this general treatment will be applied in a discussion of the DMTS and Snettisham projects.

- 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 if the project is sited 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.

DEVELOPMENT FINANCE PROCESS

(The order of activities shown will vary, depending on circumstances unique to each project.)

1. APPROACH BY CUSTOMER
 - AIDEA Staff explains advantages and limitations of Program
 - Provisions for repayment and security of AIDEA investment explained.
2. INFORMATION COLLECTION
 - Facts and financial figures are obtained from customer.
 - Preliminary feasibility review performed.
3. FEASIBILITY ANALYSIS
 - Projected capital costs, operating expenses, and revenues are examined in detail.
 - Feasibility report written.
4. CREDIT REVIEW
 - Credit of customer is evaluated by financial advisor.
 - Credit evaluation presented.
5. LEASE AND USER AGREEMENT NEGOTIATIONS
 - Negotiation of the terms of the lease agreement between the user and the Authority.
 - Includes responsibilities during construction, startup, and operation.
6. LEGISLATIVE APPROVAL
 - As required by statute the project is presented to the Legislature for bond authorization.
 - The extent to which the earlier steps are completed would depend on the timing of the legislative session.
7. LOCAL GOVERNMENT CONCURRENCE
 - Local government must want to have the Project in its jurisdiction.
 - A resolution from the local government favoring the Project is presented to the Authority.
8. BOARD ACTION
 - The Authority's Board of Directors considers all information gathered above as it deliberates approval of the project.
 - A resolution approving the project releases staff for finance and construct the project.
9. BOND SALE & CONSTRUCTION
 - The Project is constructed and put into operation according to provisions of the Lease and User Agreement.
 - Bonds are sold to pay for the construction.



DELONG MOUNTAIN TRANSPORTATION SYSTEM EXPANSION Project Overview

- 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 SRJ 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.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST THIRD

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 this 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 concentrate 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

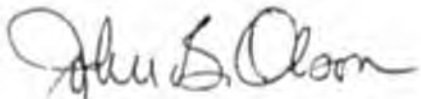
March 13, 1996

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,



Fox

William R. Snell
Executive Director

Attachment



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 269-3044

SNETTISHAM PROJECT ACQUISITION

Project Overview

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

SNETTISHAM DIVESTITURE HISTORY & TALKING POINTS

- Origins of the Deal
 - Reagan initiatives:
 - Privatization of federal agencies
 - Utility "rate reform" -- to raise rates charged for federal power to reflect market interest rates. This would approximately double the wholesale price of Snettisham & Eklutna Power.
 - Alaska Power Administration responded to these initiatives by offering the facilities for sale to cooperatives and public power agencies, with the intention of eliminating this entire federal agency.
- Why did Congress take so long to authorize the divestitures and the elimination of the APA?
 - The Democratic congress resisted passage, believing the prices were too favorable to Alaska. Senators Murkowski and Stevens and Congressman Young achieved passage this year after years of effort.
- Why is the State involved in the purchase of Snettisham?
 - Federal law authorizing the APA and the four larger Power Marketing Agencies (Bonneville and others) requires an absolute preferential use by public power agencies (Cooperatives and state/municipal agencies).
 - National public power interests (National Rural Electric Cooperative Association - NRECA, and American Public Power Association - APPA) would have blocked the legislation had either of the Alaska projects been sold to non-public (investor-owned) utilities such as Alaska Electric Light & Power Company in Juneau.
- Cost of the projects to the Federal government:
 - Snettisham - \$156.4 million -- 78 MW (Long Lake early 80's; Crater Lake 1994)
 - Eklutna - \$34.6 million -- 30 MW (approximately 1967)
- Replacement costs of Snettisham and Eklutna.
 - Snettisham - Approximately \$200 million.
 - Eklutna - Approximately \$80 million.
- Present value of debt service payments by consumers on the facilities to the federal government under present rate structure.
 - Snettisham - Approximately \$100 million.
 - Eklutna - Approximately \$14 million.
- What costs constitute wholesale rates paid by consumers of Eklutna and Snettisham power?
 - The wholesale cost of power is comprised of:
 1. Debt service (at about 3%) on the original Federal investment in the facilities, over a 50 year amortization period; and,
 2. All the O&M costs of the Alaska Power Administration, including about \$1 million annual overhead.

3. \$8 - 12 million a year.

- Can the Federal Government ever change the rates?

- Yes, at any time. Utilities contract to buy the power on a take-and-pay basis. In fact, the price is changed every year pursuant to an APA "rate study," which takes into account any new investments necessary, the projected load the following year, and other factors. The last three federal administrations have proposed "rate reform," which would approximately double the wholesale cost of power to Alaskans.

- How were the prices for the facilities worked out?

- The APA originally had appraisals done (mid-80's), and the results indicated market values (based on earnings) of about \$180 million (for Snettisham) and roughly \$50 million (Eklutna).

- In the case of Snettisham, the State worked backwards from existing wholesale rates, and agreed to a price which will have minimal effect on rates when transfer occurs, regardless of the cost of money (interest rates on the bonds).

- Will AIDEA's participation as conduit financier result in any subsidy to Alaskans purchasing electricity or to Utilities?

- No. The local utility will provide the revenues for the AIDEA revenue bonds through a take-or-pay contract. Under this contract, the utility will be obligated to pay sufficient money each year to operate, repair, insure, and maintain the facilities, and to pay 100% of the debt service on the bonds.

- Will the utilities in the railbelt or Juneau profit from this divestiture?

- No, the utilities will not. However, ratepayers (consumers and industrial/commercial users) will benefit from stable rates, which would be problematic under continued Federal ownership. Also, local ratepayers will no longer be forced to pay the overhead of the Alaska Power Administration, which will be eliminated once the projects are divested. These savings go directly to the consumer, not to the utilities.



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

DATE: April 18, 1996
TO: Representative Mike Navarre
FROM: Don Evans, Managing Director *DE*
SUBJECT: Response to Site Selection and Timeline Questions

Thank you for your keen interest in our project. We have made substantial progress as a result of our prefeasibility investigation over the past several weeks and would like to respond to your questions with respect to site selection status and timeline.

Site Selection

After a thorough prefeasibility investigation by highly qualified professionals, we have identified two locations which positively encompass the key siting criteria for our proposed plant. They are the Tyonek Native Corporation property in the vicinity of the existing Tyonek dock, on the West Side of Cook Inlet, and the Nikiski location (two Nikiski properties offer excellent options). Within the next three weeks, we will select a primary site from these choices.

Timeline

The project schedule is as follows:

- Selection of primary site and beginning of Feasibility Investigation - second week of May 1996
- Completion of Feasibility Investigation, Stage I, Class A Data Development for Permitting - December 1996
- Beginning of Feasibility Investigation, Stage II, Engineering data necessary for project permitting activities and design/construction - January 1997 - completion based on status of previous activity.

Legislative action on AIDEA bond financing amendment is critical for the project to move forward in this aggressive timeline inasmuch as dockage comprises a major element of the infrastructure necessary for comprehensive project packaging.

Attached is a detailed project, PERT Chart.

DE/TL/dgl/234.tl
041896a

MEMORANDUM
April 22, 1996

To: Senate Finance Committee

From: R.B. Stiles

Reference: CSHB 526

I would like to add my support to continuation of the legislative authorization for the issuance of up to \$50,000,000 in bonds by the Alaska Industrial Development and Export Authority for the acquisition, design and construction of a bulk commodity loading and shipping terminal.

My firm (DRven Corporation) is the development manager for the Diamond Chuitna Project, a grass roots coal development project based on 20,000 acres of State coal leases located in the Beluga Coal Field of Southcentral Alaska. To date the owners of the Diamond Chuitna Project have invested in excess of \$40,000,000 in efforts to develop both the project and markets for the coal.

The Beluga Coal Company also owns state coal leases in the Beluga Coal Field and has many years invested in the development of their leases and markets for the coal.

A bulk commodity terminal in the Cook Inlet is critical to either or both of these projects moving forward.

Other development projects based on State owned, Mental Health Trust owned or Native Corporation owned land and/or resources are all equally dependent upon development of a bulk commodity terminal within the Cook Inlet.

Continuation of the subject legislative authorization and allowing for location of a terminal anywhere within the Cook Inlet is an essential element in the development and export of natural resources adjacent to the Cook Inlet.

Project Brief For An
**INTEGRATED FACILITY FOR PRODUCTION OF
IRON CARBIDE AND OTHER FERROUS ALLOYS,
IN ALASKA**

THE ALYESKA ALLOYS PROJECT

I. PROJECT SUMMARY

1. Objectives. Establishment of a project on ice-free, deep water at Cook Inlet on the south shore of the state of Alaska, for the proprietary production of iron carbide, ferro-nickel and ferro-chromium alloys, based on indigenous natural gas and chromite ore, together with imported iron and nickel ores (refer to the diagram following this page). The perceived prime markets for these metals and alloys are in relatively nearby Japan, South Korea and Taiwan, with the west coast of the U.S. as an even closer, secondary objective.

Project long-term natural gas supplies are expected to be purchased from Cook Inlet producers through arrangements made with Alpine Gas Company of Colorado selling equivalent quantities of its Wyoming gas production into the U.S. spot market in exchange for Alyeska Project-produced iron carbide.

The integration of the production components of the Project will result in synergistic effects, enhancing the energy efficiency of all operations, thereby contributing to long-term market stability and economic competitiveness of Project outputs.

All Project processes and products will conform with environmental standards and objectives. No hazardous or toxic outputs are associated with the Project.

Approximately one-hundred twenty skilled jobs will be directly created by the Project in Alaska, with corresponding requirements in associated service sectors including the transportation, materials handling and electric power generation/distribution industries.

Commissioning of the Project is expected within 18 months of Phase Two commencement (Phase One is the proposed Feasibility Investigation described in this document), and is targeted to be in position to meet projected customer delivery schedules for iron carbide in early 1998.

2. Participation. At the present time, participation is being offered in a new limited liability company ("l.l.c.") which has been formed under Colorado statutes and named Alyeska Holdings LLC (please see the *Prefeasibility Study Funding Proposal* which accompanies this *Brief*). Interest holders in this new L.L.C. are expected to comprise: (1) a U.K. holding company, (2) certain principals active in the conceptualization, realization and management of the project, (3) a major capital equipment supplier, and (5) other contributors to capital as may be subsequently identified.

3. Capitalization. The market is presently believed to be able to initially sustain several production modules for iron carbide (of 1,000 metric tons per day capacity, each), with anticipation that probably numerous additional modules subsequently can be supported by future market growth. Estimated nominal capital cost per module is \$60 million. The ferroalloys facility will be predicated initially on production of 100,000 tons/year of output going to the aforesaid East Asian markets and to the lower 48 states, with an estimated initial alloys plant capital requirement of \$25 million.

Sufficient advance sales of product will be developed to support commitment of project funding, with an objective of attaining an 80:20 debt/equity ratio, and with debt amortization over a 10-15 year period.

4. Marketing. Outputs of the project will be sold into the East Asia and western North American markets under a combination of direct, long-term off-take contracts with primary steelmaking users, coupled with spot or merchant market offerings, as conditions develop. Sufficient advance commitments to take product are an Alyeska Project prerequisite.

5. Production Licenses. Licenses for production of iron carbide and the beneficiation of ferrous nickel and chromium oxide ores as the bases for ferroalloy production, will be obtained under options from Iron Carbide Holdings, Ltd. of Lakewood, Colorado.

6. Initial project activity (the "Feasibility Investigation"). Early investigation of project feasibility reveals a significant level of interest in the local communities on Cook Inlet in Kenai Borough and with the Alaska Industrial Development and Export Authority. With the formation of the limited liability company and completion of the *Prefeasibility Study* (see 2, above) the Project Feasibility Investigation (described herein) will commence, comprising: identification of raw materials and energy sources, site selection, market evaluations, engineering feasibility analysis, staffing

requirements, availability of in-state economic incentives, environmental impact analyses and permitting, and project construction and permanent finance arrangements.

7. Prefeasibility Study Management. Individuals conducting the Prefeasibility Study will include (see for bio-data):

Evans, Donald - Denver, Colorado	Investigation Director
Freeman, Walter - Cave Junction, Oregon	Ferroalloys Development
Heffernan, John - New York City	Market Analyses
Sattler, William - Portland, Oregon	Engineering Feasibility*
Sharpe, Howard - Highlands Ranch, Colorado	Environmental Studies

*A major design/construct engineering organization will conduct the investigation of this aspect of the Project under the direction of Mr. Sattler. Additional specialist individuals and organizations in the other subject areas will be involved as needed.

II. PROJECT OUTPUT DESCRIPTIONS

1. Iron Carbide Production

This chemical compound (Fe_3C) is man-made by a patented process, to which International Iron Carbide Corp. may acquire options for licenses in the state of Alaska, the Canadian province of Nova Scotia and in Kazakhstan in the Commonwealth of Independent States (C.I.S.) in the former U.S.S.R.

In a pressure vessel, at a temperature of 1130°F., iron oxide (ore) reacts with hydrogen and carbonaceous gases forming the carbide, with the only direct by-product being water. (Some natural gas combustion products result from the requirement for process heat, but generally speaking the iron carbide process is environmentally benign, especially when compared with the blast furnace/coke oven plants it replaces.)

The application of iron carbide is as a replacement for molten blast furnace iron ("hot metal") and ferrous scrap in the production of steel by the conventional basic oxygen process (BOP) and electric arc furnace (EAF) methods, which are in predominant use throughout the world today. As such replacement, iron carbide represents a source of high-purity iron and fuel (i.e., its combined carbon amounting to almost 7% by weight) for high quality steel production.

Blast From the Past

Once Scorned, a Man With an Idea Is Wooed By the Steel Industry

Frank Stephens Spent Years
On Iron-Carbide Method
Of Low-Cost Production

Change Faces Many Barriers

By SUSAN CAREY and ERLE NORTON
Staff Reporters of THE WALL STREET JOURNAL

In the photograph, Frank Stephens strikes the pose of a statue beside him, both man and marble gazing heavenward as if searching for divine guidance. The statue is of Don Quixote.

"If you're going to chase windmills, you need some skilled help," Mr. Stephens says.

The 75-year-old engineer has spent more than two decades chasing a windmill — in his case, a radical change in steelmaking that might cut costs by one-third. But, rejected in the U.S. by the very industry he sought to help, he ended up testing his idea in Australia. Lacking enough money, he was joined by unlikely investors, some of whom are now doing battle in court.



Frank Stephens

His idea? He found a new way to make iron for steelmaking; the resulting metal, iron carbide, has the potential to be made directly into steel without first being melted in blast furnaces. "This could revolutionize the whole industry," says F. Kenneth Iverson, chairman of Nucor Corp., the nation's No. 4 steelmaker.

Now, Mr. Stephens's Lakewood, Colo., company — where he, his son Frank and only one other employee work in a modest office next to a Taco Bell — is being courted by the same industry; that for years trashed his idea.

Last year, Nucor, which in the past has leapfrogged competitors technologically, built the world's first commercial iron-carbide plant using Mr. Stephens's design. Nucor mainly wants to produce iron carbide as an inexpensive, high-grade supplement to the increasingly scarce and costly scrap steel it melts in electric furnaces. But it also is working with U.S. Steel to develop a process to make iron carbide directly from iron carbide.

U.S. Steel once balked at a chance to buy Mr. Stephens's technology, but today, says Michael Moore, a research director at the nation's largest steelmaker, "we believe in iron carbide." In addition, Iron Carbide Holdings Ltd., a joint-venture company partly owned by Mr. Stephens and an Australian concern, has sold licenses or options for licenses to the likes of Mitsubishi Corp., North Star Steel Co. and Cleveland-Cliffs Inc. And Peter Stroh, the chief executive of Stroh Cos., the Detroit brewing company, seems to be gunning for a piece of the iron-carbide business through a tangle of court cases. "All of a sudden, other people view this as a money tree and are looking at how they might own part of it," Mr. Stephens says.

Iron carbide may never live up to the high hopes, of course. Nucor's \$95 million iron-carbide plant in Trinidad and Tobago has start-up problems. And some view iron carbide as, at best, a niche product.

But Mr. Stephens disagrees. So does Louis Schorsch, steel director of McKinsey & Co., the consulting firm. "If it works as advertised, it will be quite a big deal," he says. It will be important, he adds, even if used only in the scrap-steel process, which now turns out 40% of America's steel.

A Tough Start

The son of a mining engineer, Mr. Stephens was reared in Colorado mining camps. When he and his brother weren't hunting and fishing, they worked as powder monkeys, carrying dynamite deep into the mines. Motivated by that grueling labor, Mr. Stephens won a scholarship to the Colorado School of Mines.

After graduating in 1942, Mr. Stephens worked at Battelle Memorial Institute, a Columbus, Ohio, research outfit, and then at an engineering and construction firm in New York. After some military jobs in World War II, he addressed the challenge of breaking down steelmaking into smaller, fewer and more efficient steps.

Usually, iron ore is made into pellets, which then are heated with limestone and coke; the resulting molten iron is refined in a basic oxygen furnace into steel. Mr. Stephens hoped to use iron ore in its natural, granular form, bypassing the costly pellet-making process, and then to skip the limestone and coke, making iron carbide by heating the grains of ore with gases. Along the way, he heard of a Swedish inventor who had tried all this but found it too expensive.

Mr. Stephens became obsessed with making it work. For years, he jotted down notes, talked with colleagues and tinkered with exotic metallurgical concepts. Finally, in 1972, he figured it was now or never. So, he went to work for Hazen Research Inc., a small Golden, Colo., laboratory whose clients included mining and steelmaking companies.

There, he teamed up with John Hager, one of his professors at the School of Mines. They plugged formulas into a computer and pumped various mixtures of

Please Turn to Page A1, Column 5

Big Steel Warms Up to New Idea

Continued From First Page

gases and fine iron ore into a cylindrical chamber. They got four patents for their work, which was underwritten sometimes by Hazen and sometimes by other companies. But all the backers eventually left.

That is when Mr. Stephens began his hardest sell—to Big Steel. Always risk-averse, the bloated, loss-plagued industry was more concerned about hobbling from quarter to quarter than investing in pie-in-the-sky technology.

He approached U.S. Steel with what he assumed would be a natural lure: saving money. For two years, he and people at U.S. Steel talked about the technology and put together feasibility studies and cost analyses. But with U.S. Steel discussing building a multibillion-dollar blast-furnace-based mill, the company could hardly push a new technology.

Mr. Stephens also struck out at National Steel Corp., which, he says, appeared reluctant to try anything so new. And the day Mr. Stephens was to make a presentation to Armco Inc., the company cut 3,000 research-and-development employees—hardly a good omen.

Rodney Hodgson, a Hazen vice president who worked with Mr. Stephens, says it isn't surprising that selling the iron-carbide idea has been so difficult. "There already was a way of making steel," he says. "It is hard to make that industry shut its doors, mothball . . . that existing infrastructure at huge expense and try something new." Some Hazen clients started worrying that Mr. Stephens's research threatened to make obsolete their time-honored products and processes. One such client, Cleveland-Cliffs, makes iron-ore pellets for blast furnaces.

Hazen and Mr. Stephens agreed he had to go. He left the lab—and his patents—in 1983. At age 53, he was still peddling a technology that no one seemed to want.

Donald Evans, a colleague at Battelle and Hazen, joined him, and the two began looking for backers. They zeroed in on iron-ore-rich Australia and there found Jeff Hull, a gold-mine developer, who with others invested some \$9 million in return for a stake in Iron Carbide Holdings.

The money enabled Mr. Stephens to buy back his patents from Hazen and finance a full-scale test of iron-carbide making. Lacking funds to build a custom plant, the Australians found a small, mothballed reactor that they could rent on the cheap. "It was not really suitable," Mr. Hull recalls. "We virtually went bankrupt" producing 360 tons of the silvery grains.

Word of the plant and the notion that iron carbide could be something more than a laboratory curiosity filtered back to the U.S. Sample batches were sent to steelmakers. All this intrigued a Chicago engineer-turned-businessman, Frederick Keady, who had a background in coal, utilities and steel and already knew of Mr. Stephens's work.

Mr. Keady invested \$2 million for a 25% stake in Iron Carbide Development Corp., which in turn controls Iron Carbide Holdings. He says he later brought in another \$6 million in seed money. That investment

while seemingly a godsend, has sparked a messy legal tug of war that, though unconnected with Mr. Stephens, threatens to give him an unwanted investor.

Here's what happened. In the late 1980s, Mr. Keady obtained a majority stake in Millers Cove Resources Inc., a Canadian owner of U.S. coal mines that had been largely owned by Mr. Stroh, who retained a small interest. Mr. Keady did that by folding his iron-carbide holding, which included exclusive licenses to build iron-carbide plants in the middle of the U.S., and some other assets into Millers Cove. Mr. Keady says he has lined up \$100 million in commitments by specialty steelmakers that want an iron-carbide plant in Louisiana. Nothing would please Mr. Stephens more, but it might not happen soon.

In 1993, Mr. Stroh offered to put money into Millers Cove's iron-carbide unit, but he never did. In early 1994, he sued Mr. Keady in an Ontario provincial court, alleging mismanagement and suppression of his minority-shareholder rights. In June, a judge agreed, and appointed Arthur Andersen & Co. as interim receiver and manager of Millers Cove.

In a written statement, Mr. Keady says, "Pretenders who shrewdly avoided any commitment [to iron carbide] in the difficult times now argue they are most worthy to direct and control this unique technology." He also defends his role in developing the technology and says he brought valuable assets to Millers Cove.

Mr. Stroh, through a spokeswoman, declines to comment. His lawyer in Toronto, Bruce Leonard, also declines to discuss details of the litigation, noting that Mr. Stroh and Arthur Andersen separately sued Mr. Keady in June in federal district court in Detroit. Both actions ask that Mr. Keady return the Millers Cove shares he received from Mr. Stroh.

Amid the battle, an unperturbed Mr. Stephens says he just wants to see his invention commercialized and is pinning his hopes on Nucor. Even though the steel industry shunned his idea for years, he hasn't abandoned his reason for pursuing it—to aid an industry he considers crucial to the nation. "I never got involved with the idea of personal gain," he says. "I got involved because the industry needed something . . . less expensive."

Newfoundland's Premier Plans to Resign in 1996

By a WALL STREET JOURNAL Staff Reporter

ST. JOHN'S, Newfoundland—Newfoundland Premier Clyde Wells said he intends to resign in the new year.

Mr. Wells said it has never been his intention to hold political office for more than 10 years. Seeking an additional term in office would require more than that.

Mr. Wells, 58 years old, was first elected premier in 1989. He has been leader of the province's Liberal Party since 1987.

At a news conference, he said he intends to remain in office until a successor

REVENUE BONDS

1986	Reiswig, Jon A. & Suzanne (Medical Clinic)	\$600,000
1986	Alaska Hotel Properties (Hotel in McKinley)	\$6,300,000
1986	Westcenter 2A Ltd. Partnership (Tenant Improvements)	\$300,000
1986	Plooy, Thomas R. & Sandra L. (Office Retail Building)	\$380,000
1988	Sheldon Jackson College	\$5,000,000
1991	YMCA (Payoff Existing Loan)	\$650,000
1991	Alaska Public Television (Studio and Office Facilities)	\$1,500,000
1992	Alaska Kidney Foundation (Building)	\$1,250,000
1992	Polar Equipment, Inc. (Canning Facility)	\$975,000
1994	Alaska Public Radio (Equipment)	\$140,000

* 1985- 72 low bonds issued

Potential issues -

- Fort Knox (Amax) \$ 30.0m bond with (increase to \$70.0m)
- Kennsington mine \$ 30.0m bond with
- KPC \$ 30.0m bond with
- Red Hog ? (See tax exempt portion)

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
PROJECT BONDS ISSUED SINCE JANUARY 1, 1987

YEAR	ISSUE NAME	TOTAL ISSUE
1992	FEDERAL EXPRESS FACILITY	28,000,000
1991	UNALASKA DOCK FACILITY	7,000,000
1990	SKAGWAY ORE TERMINAL	25,000,000
1987	DELONG MOUNTAIN TRANSPORTATION SYSTEM *	103,250,000
	TOTAL	<u>163,250,000</u>

* REVENUE ISSUE

LOGN
PART.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
BONDS ISSUED SINCE JANUARY 1, 1984

YEAR	ISSUE NAME	TOTAL ISSUE
1985	REVOLVING FUND BONDS, SERIES 1985A	8,020,000
1987	TAXABLE UMBRELLA BONDS I, SERIES 1987	14,540,000
1986	UMBRELLA BONDS, 1986	13,885,000
1985	UMBRELLA BONDS, 1985C	13,595,000
1985	UMBRELLA BONDS, 1985B	24,245,000
1985	UMBRELLA BONDS, 1985A	16,650,000
1984	ECONOMIC DEVELOPMENT BONDS	11,800,000
1984	CONSOLIDATED BONDS, 1984	12,140,000
1984	VARIABLE DEMAND/FIXED RATE BONDS	11,000,000
1984	ECONOMIC DEVELOPMENT BONDS	13,120,000
	TOTAL	<u>137,995,000</u>

Potentials -
 ASB (Power System Inc) - potential ^(multiple) loan part.
 see small hydro proj

Comparison of AIDEA Development Finance Program to
Conditions Imposed in Original DMTS Legislation

Ch 68 SLA 1985-- Conditions to be satisfied before bonds could be issued:

Sec 2:

(1) (A) Cominco Ltd to pay for all operation and maintenance based on use

AS 44.88.173 requires AIDEA to adopt a finance plan for new projects that estimates all costs of project including operational costs and identifying sources of funds for the costs.

Before issuing bonds the Authority must under AS 44.88.095(d) determine

- project economically feasible and will produce sufficient revenue to repay bonds or loans*
- project complies with law*
- issuance of bonds not expected to adversely affect ability to issue other state bonds*

(1) (b) If Cominco ceases to develop the project it will pay for all costs expended by the Authority with interest

At the outset of a project AIDEA enters into a reimbursement agreement with the project proponents requiring that the proponent reimburse the authority for all costs expended in the event AIDEA fails to participate in the project for any reason. Such an agreement has been entered into with Cominco for the expansion project

(1)(C) Toll fees by Cominco may be periodically adjusted if zinc price rises above a level that yields a return on investment commensurate with risk

This provision has been included in the original agreement with Cominco and will be a subject of negotiation with respect to the expansion project

(2) US Government makes land in Cape Krusenstern National Monument available

This occurred for the original project with Cominco but is not needed for the expansion project

(3) NANA regional Corp to agree to sell or lease for 99 year term to AIDEA land needed for port and road and for future expansion

AIDEA has entered into a 99 year lease with NANA and will negotiate with NANA for any modifications needed to the lease related to the expansion project

(4) Tax exempt financing used to maximum extent possible

AIDEA seeks to uses tax exempt financing to the maximum extent possible on all of its development projects. At this time it is anticipated that all of the DMTS expansion project will be financed with tax exempt bonds

(5) Toll Schedule established that:

-ensures full repayment and reasonable return on states investment (reasonable return means return on total state investment of at least 5%) (see sec 4)

AIDEA negotiated a 6 1/2% return on the original project and will negotiate for a 5% or higher return on the expansion project

-guarantees equitable access to facilities by all users and potential users, including access to private property and related resource exploration and development

Equitable access is a required element of the original project and is required to maintain the tax exempt status of the bonds issued for the project. It will continue to be an element of the expansion project for the same reasons. The road is an Industrial Use highway available for all industrial use users.

(6) contracts subject to AS 36

Project participants are required to comply with the provisions of AS 36 including those with respect to prevailing wages for public construction. Except for specific procurement exemptions provided by statute, project expenditures are subject to the procurement code

(7) reasonable access to port and road guaranteed to all users and potential users

As noted above, public access to the port and road have been guaranteed under the existing agreements with Cominco and are required to maintain tax exempt status of the bonds. These guarantees will necessarily be included in any new arrangements with Cominco. Under the existing agreements, Cominco is provided priority but not exclusive use of the facilities.

(8) AIDEA to own and operate facilities

Under AIDEA's development finance program, AS 44.88.172, AIDEA must own and operate development projects. AIDEA generally enters into an agreement with the project proponent to operate the project on as AIDEA's agent. This has been done for the existing DMTS project and will likely continue. At such time as there are multiple users for the facility AIDEA will reconsider the issue of who should act as operator of the project.

ALASKA PUBLIC DEBT

1995-1996



STATE OF ALASKA
Tony Knowles, Governor

Department of Revenue

March, 1996

TABLE 3A
Alaska Housing Finance Corporation
Debt Issued and Outstanding
(Includes the Public Housing Division of AHFC, Formerly ASHA)
(continued)

<u>Bond Program</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Debt Outstanding 6/30/95</u>	<u>Interest Rate (%)</u>	<u>Final Maturity</u>
HUD Turnkey Notes Payable	Various	4,739,981	4,739,981		N/A
HUD Notes Payable	Various	29,286,000	29,614,148		N/A
Mutual Help HUD Notes Payable	Various	995,702	995,702		N/A
Wrangell 221 (d)3 Indebtedness	9/1/86	666,500	291,551		8/1/07
		<u>38,746,285</u>	<u>37,998,016</u>		
Other AHFC Public Housing Division Debt Issues Issued and Paid Off	Various	<u>124,267,985</u>	-		Various
Total Public Housing Debt		<u>200,254,270</u>	<u>50,413,016</u>		
TOTAL ALL AHFC LONG-TERM DEBT		<u>\$ 10,141,752,814</u>	<u>\$ 2,236,058,295</u>		
<u>Short-Term Debt Outstanding:</u>					
Commercial Paper	Various	\$ 150,000,000	\$ 150,000,000		
Reverse Repurchase Agreements	Various	<u>313,850,000</u>	<u>304,282,000</u>		
Total Short-Term Debt		<u>\$ 433,350,000</u>	<u>\$ 454,282,000</u>		

Notes:

1. Collateral for these issues consists of AHFC Real Estate Owned Properties
2. Multifamily bond issues

4. Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA) is a public corporation administratively located in the Department of Commerce and Economic Development but with separate and independent legal existence. Created in 1967, AIDEA promotes economic development within the State by:

- providing loans for industrial and commercial projects;
- owning and operating certain types of infrastructure facilities;
- guaranteeing loans for export transactions; and
- guaranteeing business loans.

The State's moral obligation stands behind the capital reserve funds which secure certain bonds issued by AIDEA. However, since 1990, and in the future, bonds sold, other than refunding bonds, are the general obligation of AIDEA and any capital reserve fund does not have the moral obligation of the State of Alaska, unless specifically provided by legislation.

The Authority has covenanted that it will not incur any General Obligation indebtedness causing future estimated net income (as defined in the bond resolutions) to be less than 150 percent of the General Obligation Annual Debt Service requirements in each year and to take no action to cause its Unrestricted Surplus to be less than the lesser of \$200 million or the amount of General Obligation

Indebtedness outstanding and in no event less than \$100 million. The bonds currently outstanding are secured by full faith and credit of the Authority and certain bonds maintain the State's moral obligation, attached to a Capital Reserve Fund.

During 1988, reductions in the cash flow from AIDEA's loan portfolio reduced projected debt service coverage below 150 percent. The reduced cash flow stemmed from loan delinquencies, modifications, and foreclosures associated with Alaska's economic recession. In response to the declining debt service coverage, AIDEA defeased \$78,295,000 of its Economic Development Bonds and Consolidated Bonds by deposit of \$91,269,000 of U.S. Treasury securities purchased with AIDEA's general assets into an irrevocable trust. None of the defeased bonds remain outstanding.

During 1994, AIDEA defeased \$23,840,000 of its tax-exempt Umbrella Bonds and its Taxable Umbrella Bonds, in order to improve its projected debt service coverage. All of the bonds chosen for the defeasance would not have been eligible for refunding.

AIDEA bonds are rated A by Moody's and A- by Standard & Poor's. (Standard and Poor's rates as A the bonds with a state moral obligation on a capital reserve fund.)

a. AIDEA currently offers six programs as follows:

i. Tax-Exempt Loan Participation Program

The Tax-Exempt Loan Participation Program can provide up to \$10 million for financing economic development projects. This program in the past has been referred to as the "tax-exempt umbrella bond program" because many small projects financed under this program were grouped together when AIDEA issued bonds under an "umbrella". The bonds are tax-exempt by virtue of the small issue exemption in the federal tax code.

AIDEA does not directly loan money. Proceeds of the bonds or authority funds are used to purchase up to 80 percent of an eligible loan from financial institutions. The Tax-Exempt Loan Participation Program combines the Economic Development and Consolidated Bond Programs that were previously separate and which financed participation under and over \$1,000,000, respectively. As of June 30, 1995, AIDEA had issued \$292,920,000 of Tax-Exempt Bonds (excluding refunding bonds) to fund loan participation purchases, of which \$71,420,000 were outstanding (including refunding bonds). All of the outstanding Tax-Exempt bonds currently outstanding have a capital reserve fund with the State's moral obligation attached.

ii. Taxable Loan Participation Program

In response to escalating federal restrictions on tax-exempt bonds, AIDEA has implemented a taxable loan participation program; the program uses bonds or Authority funds to purchase loan participation. The provisions of the program are the same as for the Tax-Exempt Loan Participation Program except for the deletion of restrictions related to federal tax-exemption. This program was previously called the Taxable Umbrella Bonds Program. The only bonds which have been issued under this program were issued in 1987 in the amount of \$14,540,000; the remaining amounts outstanding were defeased during 1994.

iii. Revenue Bond Program

AIDEA acts as a conduit in the sale and issuance of bonds on behalf of private borrowers who secure the bonds under the Revenue Bond program. The bonds generally are sold by private placement to the financial institution originating the loan rather than by public sale to the highest bidder. Part of the demand for the program arose from lenders who desired the tax exemption on the interest income. The elimination by the Tax Reform Act of 1986 of deductibility of bank interest expense allocable to holdings of tax-exempt obligations has greatly reduced demand for this program.

AIDEA does not participate financially in the Revenue Bond projects nor are the Authority's assets or credit pledged as security for the bonds. Bonds issued under this program are not considered to be obligations of the Authority or the State. They are considered to be obligations of the private borrower only. Furthermore, the State's moral obligation does not stand behind these bonds.

Most bonds under this program are tax-exempt by virtue of the small issue exemption. A few have been exempt facility bonds. From inception to June 30, 1995, AIDEA has issued 290 Revenue Bonds totaling \$601,262,230. The Authority is authorized to issue revenue bonds to finance the continuation of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$5,000,000.

iv. Development Finance Program

Alaska statutes authorize AIDEA to finance development projects that it intends to own and operate. The types of facilities the Authority may own or operate must be for use in manufacturing, natural resource extraction, transportation of products or materials, or infrastructure for tourism destination facilities.

Bonds for projects to be owned or operated by AIDEA may be secured by the project, project revenues, specific assets of AIDEA's economic development account, or AIDEA's general assets. They can be general obligations or revenue bonds of the Authority.

Legislation enacted in 1985 authorized this program and authorized a bond sale of up to \$175,000,000 to provide financing for the DeLong Mountain Transportation Project. The project consists of a road and port owned and operated by AIDEA to facilitate the development of the Red Dog and other mines in Northwest Alaska. \$103,250,000 of such bonds were issued during 1987 and \$76,300,000 were outstanding as of June 30, 1995. The capital reserve fund associated with these bonds carries the State's moral obligation.

The 1990 Legislature enacted legislation authorizing the Authority to finance, design and construct or reconstruct additional Economic Development projects, which have subsequently been completed:

(a) The Legislature authorized the issuance of up to \$25,000,000 in bonds for the reconstruction of a public use ore terminal in Skagway, Alaska. A \$25,000,000 bond issue was delivered in December, 1990. As of June 30, 1995, \$20,255,000 were outstanding. There is no State moral obligation on the bonds.

(b) The Legislature authorized the issuance of up to \$10,000,000 of bonds for the

construction of improvements to the City of Unalaska Marine Center. The project was completed in late 1991. \$7,000,000 of bonds were issued in December 1991 to finance the project; \$5,670,000 of bonds were outstanding at June 30, 1995, with no State moral obligation attached.

(c) The Legislature authorized the issuance of up to \$50,000,000 of bonds for the construction of a multi-bay aircraft maintenance facility to be located at the Anchorage International Airport. No action has been taken, and issuance has now been postponed indefinitely.

(d) The Legislature authorized the issuance of up to \$85,000,000 in bonds to finance the acquisition, design and construction of aircraft maintenance and air cargo/air transport support facilities located at the Anchorage International Airport. Construction of a \$28,000,000 aircraft maintenance facility began in August of 1992 and was completed in 1995. Bonds were issued in September, 1992 in the amount of \$28,000,000. At June 30, 1995, \$27,225,000 was outstanding, with no State moral obligation attached. The remaining authorization is still outstanding.

(e) The 1993 Legislature enacted legislation authorizing the Authority to issue bonds not to exceed \$40,000,000 in principal for financing, design and construction of public use aircraft fueling facilities, to issue bonds not to exceed \$50,000,000 to finance the acquisition, design and construction of port facilities related to the development and operation of a direct reduction iron ore processing facility located at Point MacKenzie, and to issue bonds not to exceed a principal amount of \$50,000,000 for an Anchorage seafood processing, storage and loading project. The developers will use a private source of capital for the aircraft fueling facilities; developers of the port facilities have determined not to locate at Port MacKenzie; and the seafood facility developer continues to seek additional capital sources to allow the project to proceed.

(f) The Authority is authorized to issue up to \$20,000,000 of bonds to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park.

v. Export Assistance Program

1987 Legislature authorized AIDEA to guarantee up to 90 percent of principal and interest on loans made to finance the export of raw materials, goods, or services from Alaska. The guarantees are against political or commercial loss. No loan guarantees have been issued under this program as of December 1, 1995.

AIDEA may issue bonds to purchase insurance to cover its guarantees. The bonds may be secured by premiums paid by the borrower, bond proceeds, the insurance purchased from bond proceeds, or other assets of the Authority. The bonds would not have the State's moral obligation attached.

vi. Business Assistance Program

This program was authorized by the 1988 Legislature. The program is more commonly known as the AIDEA loan guarantee program and provides a guarantee of up to 80% of the principal balance to the financial institution making the loan. This added degree of support

can make the project financing, refinancing, and working capital loans available for projects that might not otherwise be financed. Borrowers apply to the bank, which in turn submits an application to AIDEA. Guarantees up to \$1,000,000 are made on loans for real property, equipment, or working capital for projects that stabilize the economic base or create or maintain employment. A streamlined approval process targeting entrepreneurs in rural areas provides guarantees on unsecured loans of \$75,000 or less. This program is also used to guarantee loans up to \$200,000 under the Rural Economic Development Initiative Fund administered by the Department of Community and Regional Affairs and supported by AIDEA.

b. Bond Authorization

AS 44.38.095 places a statutory ceiling of \$400 million per fiscal year on AIDEA annual bond issuance. AS 44.88.095(g) requires legislative approval for the authority intends to issue, except for refunding bonds.

c. Federal Tax-Exemption and Ceilings

Most of the types of tax-exempt bonds issued by AIDEA became subject to a federal Private Activity Bond (PAB) ceiling of \$200 million per year in 1984. Effective August 15, 1986, a new ceiling was established by the Tax Reform Act of 1986 (the "Act") at the level of \$250 million for the remainder of 1986, \$250 million for 1987, and \$150 million per year thereafter. The new ceiling encompasses not only the types of bonds issued by AIDEA (exempt facility and qualified small issue bonds), but also qualified mortgage bonds (a type issued by AHFC), student loan bonds, and certain other kinds of tax-exempt bonds.

There are important exemptions to the PAB ceiling, specifically airports, docks, and wharves if the facilities are owned by a governmental unit. AIDEA is a governmental unit for this purpose.

Pursuant to the Act and an Executive Proclamation issued by the Governor on November 24, 1986, half of the 1986 PAB ceiling was allocated to AIDEA and half to AHFC.

By Resolution No. CF 86-1, the AIDEA board authorized the carryforward of the \$110.2 million unused portion of AIDEA's \$125 million allocation of the 1986 ceiling for the purpose of issuing qualified student loan bonds. The Alaska Student Loan Corporation requested a ruling from the IRS to permit use of this carryforward for their 1988 Series A Student Loan Revenue Bonds. The IRS ruled that the Alaska Student Loan Corporation cannot use a carryforward elected by AIDEA. The carryforward was lost on December 31, 1989 since the act requires use of a carryforward within 3 calendar years of the year it arose. AIDEA did not issue any bonds subject to the PAB ceiling and received no allocations of the ceilings until calendar year 1992 when it received an allocation for, and issued, \$975,000 in PAB bonds.

The Authority received a carryforward of 1994 bond cap allocation of \$100,000,000. At June 30, 1995, \$91,980,000 remains unused.

d. Debt Issued and Outstanding

AIDEA has issued \$517.2 million of bonds with \$220.9 million outstanding as shown in Tables 3.5-3.6

TABLE 3.5

Alaska Industrial Development and Export Authority
Type of Debt Issued

Calendar Year	Economic Development Bonds	Consolidated Bonds	Umbrella Bonds	Taxable Umbrella Bonds	Development Bonds	Revolving Fund Bonds
1981	\$ 75,145	\$ -	\$ -	\$ -	\$ -	\$ -
1982	11,660	14,520	-	-	-	-
1983	28,380	33,815	-	-	-	-
1984	26,240	24,340	-	-	-	-
1985	-	-	56,700	-	-	-
1986	-	-	14,100	-	-	-
1987	-	-	-	14,540	103,250	-
1988	-	-	-	-	-	-
1989	-	-	-	-	-	-
1990	-	-	-	-	-	25,000
1991	-	-	-	-	-	7,000
1992	-	-	-	-	-	28,000
1993	-	-	-	-	-	25,265
1994	-	-	-	-	-	11,435
1995	-	-	-	-	-	17,845
	<u>\$ 141,425</u>	<u>\$ 72,675</u>	<u>\$ 70,800</u>	<u>\$ 14,540</u>	<u>\$ 103,250</u>	<u>\$ 114,545</u>

TABLE 3.6

Alaska Industrial Development and Export Authority
Debt Issued and Outstanding

	Date	Amount Issued	Bonds Outstanding 6/30/95
<u>TAX-EXEMPT UMBRELLA BOND PROGRAM</u>			
<u>Economic Development Bonds</u>			
Series 1 through 50	4/1/81	\$ 17,640,000	\$ -
Series 51 through 216	10/15/81	57,505,000	-
Series 217	8/15/82	930,000	-
Series 218 through 231	10/1/82	7,395,000	-
Series 232 through 238	12/1/82	3,335,000	-
Series 239 through 265	11/1/83	11,950,000	-
Series 266 through 299	12/1/83	16,430,000	-
Series 300 through 331	7/1/84	13,120,000	-
Series 332 through 351	12/20/84	13,120,000	-
		<u>141,425,000</u>	<u>-</u>
<u>Consolidated Bonds</u>			
1982 Series A	4/1/82	2,975,000	-
1982 Series B through D	10/1/82	4,465,000	-
1982 Series E through F	12/1/82	7,080,000	-
1983 Series A through F	7/1/83	14,445,000	-
1983 Series G through M	11/1/83	11,650,000	-
1983 Series N through S	12/1/83	7,720,000	-
1984 Series A through I	11/1/84	12,140,000	-
		<u>60,475,000</u>	<u>-</u>
<u>Umbrella Bonds</u>			
1984 Series A and B	10/30/84	12,200,000	6,645,000
1985A (Lots 1 - 8)	5/15/85	15,650,000	-
1985B (Lots 9 - 44)	10/21/85	24,245,000	6,575,000
1985C (Lots 45 - 68)	12/19/85	16,805,000	5,730,000
1986 (Lots 1 - 20)	12/19/86	14,100,000	7,430,000
		<u>83,000,000</u>	<u>26,380,000</u>
<u>TAXABLE UMBRELLA BONDS</u>			
Series 1987	8/6/87	14,540,000	
<u>DEVELOPMENT BONDS</u>			
DeLong Mountain Transportation Projection Revenue Bonds, Series 1987A	2/1/87	103,250,000	96,300,000
<u>REVOLVING FUND BONDS</u>			
Skagway Ore Terminal Port Facility	12/13/90	25,000,000	20,255,000
Unalaska Marine Center	12/10/91	7,000,000	5,670,000
Federal Express Maintenance Facility	9/30/92	28,000,000	27,225,000
Refunding	6/3/93	25,265,000	16,405,000
Refunding	3/30/94	11,435,000	10,790,000
Series A (Refunding)	5/17/95	9,825,000	9,825,000
Series B (Refunding)	5/17/95	8,020,000	8,020,000
		<u>114,545,000</u>	<u>98,190,000</u>
Total Bonds		\$ 517,235,000	\$ 220,870,000

Source: Annual Report and Financial Statements, various years, Alaska Industrial Development and Export Authority.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

April 18, 1996

The Honorable Senator Steve Rieger, Chairman
Senate Transportation Committee
Alaska State Legislature
State Capitol
Juneau, AK 99811

RE: CS HB 526 (FIN)

Dear Senator Rieger:

Thank you for hearing House Bill 526 (HB 526) in the Senate Transportation Committee on April 16, 1996. The purpose of this letter is to provide information that was requested during our testimony at the hearing. In addition, at the hearing, Senator Taylor asked several questions regarding the structure of AIDEA's ownership and bonding for the Snettisham Hydroelectric project. I thought it might be helpful to summarize and clarify these issues.

Funding and Ownership of Snettisham Hydroelectric Project

Under HB 526, AIDEA is provided with authority to acquire the Snettisham project. Therefore, if the sale is consummated, AIDEA will be the owner of the project. In order to finance the acquisition, it is the Authority's intent to issue AIDEA bonds for the project. These bonds will be issued by AIDEA and will not be the obligations of the state. The bonds will be supported by a long-term take or pay agreement with the Alaska Electric Light and Power (AEL&P). Under a long-term take or pay agreement, AEL&P will be required to make payments to the Authority sufficient to cover the entire amount of debt service on the bonds issued by AIDEA. In addition, the required AEL&P payment will be sufficient to cover the operation, maintenance and reserve and replacement costs of the project.

At this time, AIDEA plans to issue revenue bonds for the acquisition. The bonds will not be general obligations of the state. Under the bill's provisions, however, AIDEA would be permitted to pledge the "moral obligation" of the state. This means that if for some reason AIDEA reduced the capital reserve fund below its required level (for example, because of an inability to pay debt service on the bonds from pledged revenues, or if AIDEA was not capable of making debt service payments from its assets), that fact would be reported to the legislature.

Senator Steve Rieger
April 18, 1996
Page 2

which would then have the option, but not the legal obligation, of appropriating funds to AIDEA to replenish the capital reserve fund.

Tax Exempt Bond Cap

Each year the State of Alaska can issue up to \$150 million of Tax Exempt Private Activity Bonds ("bond cap"). An eligible governmental issuer must apply to the State Bond Committee to receive an allocation of the bond cap. Only private activity bonds require use of the bond cap allocation. A governmentally owned port or dock, such as the Authority's expansion of the Red Dog transportation system, does not require use of the bond cap.

As AIDEA understands the State Bond Committee allocation system, all current year allocations that have not actually been used during the year for the issuance of bonds expire in December. This gives the State Bond Committee the ability to allocate bond cap to be carried forward to future years. The Bond Committee generally meets in December and allocates any non-utilized current year cap to eligible governmental issuers which have applied for portions of the unused amount. Any unused allocation can be carried forward and used during the next three calendar years. For example, any carryforward of the 1996 bond cap must be used by the end of 1999, or it will lapse.

In order to carryforward unused bond cap, the issuer that received the allocation must file a form with the Internal Revenue Service specifying the amount and purpose of the carryforward. Once an eligible purpose has been chosen for the carryforward, it cannot be changed to another eligible purpose. The types of carryforwards that Alaskan issuers have elected include qualified student loan bonds, solid waste disposal facilities and facilities for the local furnishing of electric energy or gas.

For the years 1994 and 1995, the only state issuers who have used bond cap or received carryforwards of unused cap are the Alaska Student Loan Corporation and AIDEA. In both years, the Authority received \$100 million to be carried forward. To date, only \$8 million of AIDEA's carryforward has been utilized. The Authority continues to have \$155 million of carryforward allocated for solid waste disposal facilities. This allows for the financing of the Healy Clean Coal Project and the tax exempt portions of other projects such as the Kensington and Fort Knox mine projects.

The Snettisham project will require the use of a portion of the State's bond cap. AIDEA has carryforwards available for the Snettisham project totaling \$37 million, assuming the bonds are issued by December 31, 1997. The difference between the \$37 million carryforward and the actual bond issuance will require additional bond cap allocation.

To AIDEA's knowledge, there has been no State Bond Committee allocation of the 1996 cap. Historically, the State Bond Committee has been able to manage the annual \$150 million cap and carryforwards to provide allocations to all projects requiring cap.

Senator Steve Rieger

April 18, 1996

Page 3

Interest Rates For Taxable Loan Participations Financed Directly From AIDEA Assets.

- Interest rates for taxable loan participations financed directly from Authority assets are set as follows:

Fixed Rate: Depending on the term of the loan, fixed rate is based on 20 or 30 year Treasuries, plus 2.75%, set within seven (7) days of AIDEA funding of the loan.

Variable Rate: Based on a 90-day commercial paper plus 2.6%, and is adjusted quarterly.

- Rates for loan participations which qualify for tax-exempt financing are set as follows:

Cost of Funds (current bond market) plus a maximum of 1.5%.

The loan interest rate is equal to the cost of funds to the Authority, plus an amount necessary to pay for allocable expenses of operations which include loan servicing, loan loss and administrative expenses.

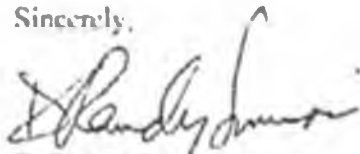
The Authority's cost of funds is determined through periodic inquiries to underwriters to determine the interest rate AIDEA would have to pay if it were to issue bonds.

Interest Rates on Loans Guaranteed By the Authority.

Under AIDEA's Business Assistance Program (loan guarantee), statutes require that the interest rate the bank sets for the loan may not exceed 2.75%. Since inception AIDEA has guaranteed 21 loans under the Business Assistance Program. The interest rates charged by the bank on guaranteed loans have varied from 1% over prime (provided on a loan guarantee in conjunction with the Rural Development Initiative Fund (RDIF) program), up to 2.75% over the prime rate as published in the Wall Street Journal.

We hope we have answered the Committee's questions completely. If additional information is required, please do not hesitate to contact me.

Sincerely,



D. Randy Simmons
Development and Finance Manager

Scnator Steve Rieger
April 18, 1996
Page 4

cc: The Honorable Senator Taylor
The Honorable Scnator Green
The Honorable Senator Lincoln
The Honorable Senator Adams
William R (Riley) Snell

h all/kohmer/rieger

**ALASKA INDUSTRIAL
DEVELOPMENT
AND
EXPORT AUTHORITY**

**FINANCIAL ANALYSIS
March 28, 1996**

Control Number
08-4527-96

Prepared by:
The Division of Legislative Audit

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347

March 28, 1996

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached analysis is submitted for your review.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY FINANCIAL ANALYSIS

March 28, 1996

Control Number
08-4527-96

The accompanying analysis was prepared in response to a committee request to review the assets of the Alaska Industrial Development and Export Authority (AIDEA) and restrictions on those assets. We will provide any additional analysis or detail deemed necessary as the legislature continues its review of the unrestricted assets of AIDEA.

The fieldwork procedures utilized in the course of developing the conclusions and discussion presented in this analysis are discussed in the Objectives, Scope, and Methodology section.

We would like to acknowledge the cooperation and professionalism of AIDEA's staff during our review.

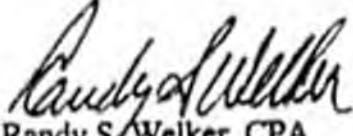

Randy S. Welker, CPA
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology	1
Organization and Function	3
Report Conclusions	5
Appendix:	
A. Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96).....	13

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Based on a request from the Legislative Budget and Audit Committee, we performed a financial analysis of the Alaska Industrial Development and Export Authority (AIDEA). The purposes of the analysis were as follows:

1. To determine the amount of unrestricted cash and investments that would be available for transfer to the state General Fund in FY 97 through FY 01 beyond that required to meet debt covenants and AIDEA operations.
2. To determine the required debt covenants and the current bond ratings of AIDEA's outstanding debt.

Scope and Methodology

AIDEA management and staff prepared cash flow analyses of its operations for the period January 1, 1996, through June 30, 2014. The analyses forecast the sources and uses of financial resources of its unrestricted accounts.

We reviewed the estimates on the cash flow analyses to determine if they were consistent with prior financial operations and whether they considered known future transactions. Major assumptions used in the projection of loan and bond issuance activities were reviewed for reasonableness. The Board of Directors' minutes were reviewed for the period July 1995 through February 1996 for discussion of potential loan and project activity.

AIDEA has two bond resolutions that currently affect its operations:

- Pre-1990 debt covenants and
- Revolving Fund bond covenants to become fully in effect when all pre-1990 debt is retired or defeased.

We reviewed these bond resolutions and the individual bond issues' official statements to determine the normal redemption schedule, early redemption provisions, call and in-substance defeasance options, interest rates, and restrictions on AIDEA's assets. The most recent bond ratings by Moody's and Standard & Poor's were obtained.

Also, we obtained and reviewed a copy of the March 1993 report by Bartle Wells Associates entitled *Alaska Industrial Development and Export Authority Review of Financial Position*. Bartle Wells Associates are independent public finance advisors located in San Francisco, California. They were contracted by the Division of Legislative Finance to conduct the review.

(Intentionally left blank)

ORGANIZATION AND FUNCTION

The Alaska Industrial Development and Export Authority (AIDEA or Authority) was created by an act of the Alaska State Legislature in 1967. It is a public corporation of the State, constituting a political subdivision of the Department of Commerce and Economic Development but with a separate and independent legal existence.

The Authority's statutory purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. Since AIDEA's inception through 1981, its activities were largely limited to the issuance of nonrecourse, tax-exempt industrial development bonds. In 1980, AIDEA's enabling legislation was amended to enhance its role in economic development through the authorization to issue general obligation bonds.

Tax Reform of 1986 restricts AIDEA's operations

Changes in the federal tax laws in 1986 restricted AIDEA's ability to use tax-exempt bonds. In order to access the tax-exempt bond market and to strengthen AIDEA, legislation was passed in 1987 that permitted the Authority to conduct its operations through a "Revolving Fund" established under AS 44.88 with a change in designation of the Enterprise Development Fund and the Economic Development Fund as accounts under the Revolving Fund. Amounts deposited in the Revolving Fund may be pledged to the payment of bonds of the Authority or expended for the purposes of the Authority. This allowed the Authority to issue general obligation bonds through its Revolving Fund to assist in financing projects that would be owned by it and leased to another entity for operation.

Further, in 1990, the State's moral obligation under AS 44.88 to fund deficits of the capital reserve funds securing AIDEA's general obligation bonds issued on or before January 1, 1989, was deleted.¹ Then in December 1990, AIDEA issued its first series of Revolving Fund bonds. These were not secured with a capital reserve fund as were previous bond issuances. The bond resolution for this and all subsequent issuances contained more lenient covenants. Thus, AIDEA has two bond resolutions with covenants that govern its financial activities, one related to the pre-1990 indebtedness and one related to bonds issued under the Revolving Fund after 1990. However, the bond resolution covenants related to the pre-1990 debt are more restrictive and prevail as long as any of those bonds remain outstanding. The requirements of both of these bond resolutions are discussed in further detail in the Report Conclusions section.

Programs used by AIDEA to finance State's economic growth

AIDEA utilizes a variety of financing mechanisms. All of AIDEA's financings and projects must be economically feasible. They must enhance the economy of the State and provide or

¹The elimination of the provision was effective for bonds issued by the Authority after January 1, 1989, except for refunding bonds issued to retire bonds that are secured by a capital reserve fund created on or before that date.

maintain jobs for Alaskans. They must also demonstrate the ability to repay the related debts. The following are descriptions of the financing mechanisms used by AIDEA:

- Loan Programs

Loan Participation Program - AIDEA may participate in the permanent financing for manufacturing facilities, public-use projects and business enterprises to the extent of the lesser of 80% or \$10 million of the total loan. As of June 30, 1995, the Authority had \$202.2 million in outstanding loan participations of which \$91.9 million had been funded with unrestricted cash.² (Refer to Appendix A for a schedule of loan participations funded with unrestricted cash.)

Business Assistance Program - AIDEA provides a guarantee up to 80% of the principal balance of a loan but not more than \$1 million; however, guarantees for multiple loans to an individual borrower may not cumulatively exceed \$1 million. The program has a \$50 million limitation and no more than \$25 million of guarantee may be for loans in which the amount of the loan guarantee exceeds \$500,000. As of June 30, 1995, the Authority had \$857,000 in outstanding loan guarantees.

A subprogram within the Business Assistance Program is for loans of \$75,000 or less which may be secured or unsecured. To date, the Authority has not been requested to guarantee any unsecured loans.

- Development Finance Program

The Authority may finance, acquire, manage, and operate development projects that it intends to own and operate.³

As of June 30, 1995, the Authority owned and operated six projects: DeLong Mountain Transportation System (better known as the Red Dog Project), Skagway Ore Terminal, City of Unalaska Marine Center, Federal Express Aircraft Maintenance Facility, Healy Clean Coal Facility, and the Seward Coal Load-Out Facility.⁴ The total investment in these projects was approximately \$328 million.

- Export Assistance Program

This program is designed to foster and facilitate international trade by offering guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans. AIDEA has not received an application under this program.

²The 1986 Tax Reform has precluded the Authority from financing most loan participations through the issuance of tax-exempt bonds. The cost of taxable bonds generally does not make the loan participations economically feasible.

³AIDEA leases the project to a private participant or local government. AIDEA establishes the operating requirements and maintenance standards, and retains ownership of the project. The lessee is responsible for operating the project and paying all the operating and maintenance costs. A private participant may have the option to purchase the project in the future from AIDEA at fair market value, while projects done with local governments may revert to the local government at the termination of the lease.

⁴AIDEA has only a 49% interest in this project.

REPORT CONCLUSIONS

Our analysis indicates that the proposed withdrawals from the Alaska Industrial Development and Export Authority's (AIDEA or Authority) unrestricted cash by the Alaska Legislative Majority's Five-Year Budget Strategy will leave sufficient unrestricted cash and investments for the Authority to meet all debt requirements, meet the industry average debt coverage ratio,⁶ and provide for continuing operations. We estimate that the proposed \$130.5 million withdrawal would leave AIDEA a cushion of about \$90.3 million.

<u>Exhibit 1</u>			
Proposed Withdrawals Compared to Estimated Maximum Withdrawals			
(Amounts in Thousands)			
<u>Fiscal Year</u>	<u>Proposed Withdrawals⁵</u>	<u>Estimated Maximum Withdrawals</u>	<u>Difference</u>
1997	\$ 21,000	\$ 35,700	\$14,700
1998	26,600	44,200	17,600
1999	26,500	45,050	18,550
2000	28,000	47,600	19,600
2001	<u>28,400</u>	<u>48,280</u>	<u>19,880</u>
Totals	<u>\$130,500</u>	<u>\$220,830</u>	<u>\$90,330</u>

The Estimated Maximum Withdrawals assume continuation of the current level of loans, projects and operational expenses,⁷ and a return on investments of 6.4% which is based on the weighted average yield on investments held at December 31, 1995. Using these assumptions and the \$220.8 million in estimated withdrawals, it appears AIDEA would still meet all debt requirements and would meet the industry average ratio for debt coverage of 1.00 in FY 01.

Further, the debt coverage ratio is above the industry average ratio the very next fiscal year, FY 02, and this ratio as well as the debt covenant amounts and ratios continue to grow stronger in the years thereafter. Thus, it appears additional withdrawals could be taken in the years beyond FY 01. However, because of AIDEA's trend toward the financing of large projects and its dependence on the health of the State's economy to maintain low delinquency and foreclosure rates, future loan and project financing activities are difficult to estimate. Due to the potential wide variances between the cash flow projections and actual outcomes, any projections should be viewed with caution and updated on a frequent basis.

The point of noncompliance with bond requirements or the industry average ratio for debt coverage can be estimated through cash flow calculations. The point at which AIDEA's bond ratings are diminished is one of a continuum, beginning with a negative outlook by the rating agencies and ending with a noninvestment grade rating that virtually makes AIDEA's bonds no

¹Per House Bill 412.

⁶This is the ratio of unrestricted cash and investments plus net loans receivable over bonds outstanding which is an indication of the Authority's ability to pay its major debts (bonds) and is an indicator of its long-run solvency. The ratio is crucial to bond analysts as the Revolving Fund bonds are general obligation bonds backed by the full faith and credit of AIDEA's Revolving Fund. The industry average ratio was obtained from the *ALMANAC of Business and Industrial FINANCIAL RATIOS, 1995*, Leo Troy, Ph.D.

⁷To maintain constant service levels in terms of loans and operational expenses, these amounts were adjusted to reflect assumed inflation of 3% per annum. New projects were assumed to be \$85 million for FY 97 and \$50 million per year thereafter.

longer marketable. A negative outlook by the bond rating agencies may occur with the proposed withdrawals, while with the Estimated Maximum Withdrawals it is even more likely. However, even with the maximum withdrawals, AIDEA remains in compliance with all bond covenants and the industry average ratio for debt coverage is met.

Nevertheless, if more than the \$220.8 million was transferred, before AIDEA's bonding abilities were severely restricted, AIDEA would likely trim its financing activities so that a bond default did not occur. Thus, the real risk relates more to the withdrawals' impact on AIDEA's development activities rather than on its bond ratings. AIDEA would likely decrease the loan program activity it funds with unrestricted cash to avoid problems with its ability to issue bonds. Refer to Appendix A for a listing of loans funded with unrestricted cash between FY 91 and FY 96.

Current bond covenants easily met

As discussed in the Organization and Function section, AIDEA has two bond resolutions that govern its financial activity. As long as any pre-1990 indebtedness remains outstanding, the bond covenants related to those bonds are in effect. The current bond covenants in effect are as follows:

- **Minimum unrestricted surplus requirement.** Unrestricted surplus as defined in the bond covenants may not be less than the lesser of \$200 million or the amount of the bonds outstanding, and in no event less than \$100 million.
- **Minimum debt service coverage requirement.** Net income as defined in the bond covenants may not be less than 150% of the annual debt service payments on the outstanding bonds.
- **Liquidity covenant.** AIDEA must maintain in the Revolving Fund cash and government obligations maturing within one year in an amount at least equal to 25% of the unrestricted surplus as defined in the bond resolution.

On January 10, 1996, AIDEA issued a report to the legislature on its unrestricted assets as of June 30, 1995, as required by statute. A cash flow projection for the fiscal years 1996 through 2014 was attached to the report. The assumptions for these cash flow projections are those used by bond analysts in preparing official statements for new bond issuances. The assumptions are ultra conservative in that they assume no new loan or project financing activities, a 4% rate of return on investments, and that operational expenditures will be the appropriated budget amount for the first year with that amount being inflated by 2% for each year thereafter.

AIDEA reported that it would meet its bond covenant requirements according to this cash flow projection. Those covenant requirements are as shown in Exhibit 2 along with the actual results as of June 30, 1995.

<u>Covenant</u>	<u>Requirement</u>	<u>Actual</u>
Minimum Unrestricted Surplus	\$124,600	\$436,200
Liquidity Requirement	\$ 31,100	\$ 64,562
Minimum Debt Service Coverage ¹	150%	265%

The cash flow projections we reviewed began with the December 31, 1995, balances. Cash flow projections were prepared for the remainder of

FY 96 through FY 14 with the above described ultra conservative assumptions. We also requested cash flow projections be prepared using the same assumptions but to include projections for additional loan and project financing activities for the same period.

Using these two cash flow projections, we deducted the \$220.8 million in Estimated Maximum Withdrawals. In both cases, the bond covenant requirements were easily met. At the end of FY 01 after the last withdrawal is taken the covenant requirements as compared to the projections were as follows:

<u>Covenant</u>	<u>No New Activity</u>		<u>With New Loans & Projects</u>	
	<u>Requirement</u>	<u>Projected</u>	<u>Requirement</u>	<u>Projected</u>
Minimum Unrestricted Surplus	\$156,345	\$401,546	\$200,000	\$374,387
Liquidity Requirement ²	\$ 39,086	\$ 39,086	\$ 50,000	\$ 50,000
Minimum Debt Service Coverage	150%	347%	150%	228%

As shown above, AIDEA exceeds its bond covenant requirements in FY 01 after the withdrawals. According to the cash flow projections, the projected amounts and ratios rise once the withdrawals end in FY 01.

Bond covenants may become less restrictive

The pre-1990 bond resolution permits AIDEA to defease the related bonds before their scheduled maturity dates. In addition, the bond issues each may be refunded under the Revolving Fund Bond Resolution. When all of the pre-1990 indebtedness is either defeased or retired, the Revolving Fund Bond Resolution with its bond covenants becomes fully effective.

¹The actual debt service coverage ratio is the lowest coverage ratio reflected in the cash flow projections included with AIDEA's report to the legislature.

²The requirement and projection are the same for analysis purposes. As the projected cash and investments substantially exceed this requirement, we assume that AIDEA would maintain the minimum liquidity balance.

Until that time, only the liquidity covenant of this resolution is effective along with the pre-1990 bond covenants. The Revolving Fund bond covenants will result in the following changes:

- The net income calculation for purposes of determining the debt service coverage ratio includes a portion of the unrestricted investment securities held in the Revolving Fund. This, in effect, increases revenues making it easier for the net income to be 150% of the annual debt service payments on the outstanding bonds.
- The definition of unrestricted surplus is broadened to include the Revolving Fund versus only the equity in the Enterprise Development Account. However, this amount must be reduced by the amount of the liquidity covenant and the loan guarantees outstanding which were not reductions under the pre-1990 indebtedness covenants.

Exhibit 4 assumes the Revolving Fund Bond Resolution covenant requirements become effective in FY 97.¹⁰ Also, this cash flow projection utilizes the weighted average yield for investments held as of December 31, 1995, for the assumed rate of return on investments (6.4%) rather than the ultra conservative rate of 4% used by bond analysts. Using this cash flow projection, we deducted the Estimated Maximum Withdrawals of \$220.8 million. Again, the bond covenant requirements were easily met. At the end of FY 01 after the last estimated withdrawal is taken the covenant requirements as compared to the projections were as follows:

<u>Exhibit 4</u> Projected June 30, 2001 Bond Covenant Requirements Using a 6.4% Rate of Return on Investments (Amounts in Thousands)		
	With New Loans & Projects and Application of New Covenants	
<u>Covenant</u>	<u>Requirement</u>	<u>Projected</u>
Minimum Unrestricted Surplus	\$200,000	\$475,000
Liquidity Requirement ¹¹	\$ 50,000	\$ 50,000
Minimum Debt Service Coverage	150%	254%

As shown in Exhibits 3 and 4, the withdrawal of \$220.8 million under all three assumptions does not cause AIDEA to be in noncompliance with its required bond covenants. Based on the

¹⁰AIDEA management is currently considering refunding the outstanding pre-1990 indebtedness if interest rates on bonds remain low enough to make the transaction economically feasible (i.e., current bond interest rates are lower than the rate of the outstanding bonds). The reduction in cost of funds through the refunding of the bond issues is passed on to the borrowers on the loans pledged to the original bond issue. AIDEA management has completed three such refundings between 1993 and 1995 resulting in a reduction of the interest rate on the pledged loans of between 1.70% and 3.43%.

¹¹See previous footnote 9.

results of these cash flow projections, it does not appear withdrawals of up to \$220.8 million would severely hamper AIDEA's continued operations. However, due to the large dollar projects financed by AIDEA and its reliance on a healthy state economy for growth and to limit delinquencies and foreclosures, these projections could vary greatly with actual outcomes. Therefore, we recommend the legislature move cautiously in the withdrawal process and we recommend these projections be updated if further withdrawals are considered.

AIDEA's general obligation bonds currently rated at mid-level investment grade

AIDEA received bond ratings from both Moody's and Standard & Poor's as shown in Exhibit 5. According to a *Moody's Municipal Credit Report* dated April 26, 1995, a bond rating of "A" was given to AIDEA's Revolving Fund Bonds.¹² In *Standard & Poor's Creditweek Municipal* dated September 18, 1995, a rating of "A" was given to AIDEA's general obligation bonds with capital reserves (pre-1990 bond issuances) and a rating of "A-" to its general obligation bonds without capital reserves (Revolving Fund bonds).

While each individual rating agency uses its own symbols to signify the credit risk associated with a security, both agencies classify bond ratings into investment grade and speculative grade. For example, Moody's and Standard & Poor's four investment grade ratings are as follows: Aaa, Aa, A, and Baa; and AAA, AA, A, and BBB, respectively. Any other long-term ratings are considered speculative. Plus and minus signs are used with a rating symbol to indicate the relative position within the rating category.

Maintaining an investment grade level rating is important as many financial investors only buy investment grade securities. If AIDEA's rating was to drop below investment grade, not only would the interest rate increase for a new bond issue, but the marketability of the bonds would be severely impacted.

<u>Exhibit 5</u>		
<u>Bond Ratings of Outstanding Issues</u>		
<u>Type of Bond Issue</u>	<u>Moody's Rating</u>	<u>Standard & Poor's Rating</u>
Variable Demand/Fixed Rate Bonds	A	A
Tax-exempt Umbrella Bonds	A	A
Revolving Fund Bonds	A	A-
Refunding Revolving Fund Bonds	A	A
Project Revenue Bonds	Aaa	AAA

Reaction of the credit rating agencies to the withdrawal of unrestricted cash

In Moody's 1995 credit report cited above, the analyst made the following comment:

The legislature is currently considering legislation in the course of the state's budget adoption which would transfer \$17 million of the Authority's cash to the general fund. . . . This transfer, if adopted,¹³ would create a credit concern

¹²Moody's had previously issued ratings on AIDEA's other outstanding bond issues.

¹³Governor Knowles vetoed the \$17 million transfer as a source of funding for the FY 96 state operating budget.

for the Authority as its substantial cash balances have been a traditional source of its credit strength. [Footnote added.]

The analyst further explains that

. . . Bonds are general obligations of the Authority, which is very well capitalized. . . the ratio of assets in the form of loans, cash and investments, to bond liabilities is very favorable.

In Standard & Poor's report the analyst explains the rationale for the bond ratings, in part, as follows:

The ratings on Alaska Industrial Development & Export Authority's bonds reflect the Authority's large unrestricted cash and investment balances and good annual debt service coverage. . . the maintenance of the Authority's cash balances remains a rating concern, as these monies provide the Authority with the capital and liquidity to continue to make loans and continue its programs. . . Standard & Poor's will continue to monitor the state's commitment to these programs and related cash balances in the future.

In the Bartle Wells Associates' March 1993 report, Alaska Industrial Development and Export Authority Review of Financial Position, it reported that the rating agencies expressed the following concerns:

The rating agencies expressed concern about AIDEA's trend toward development projects and the resulting greater exposure to individual projects and leases. The potential for delinquency of a single large project puts greater pressure on AIDEA's finances than delinquencies of several smaller loans. Such concentration increases rating agency concern about AIDEA's cash balance -- and potential withdrawals.

Bartle Wells Associates stated further in its report

[t]he withdrawal by the Legislature of funds from AIDEA would be harmful to AIDEA in the future rating of its bonds. Such a withdrawal would result in a direct reduction of interest income, one of AIDEA's major revenue sources, and would establish a negative precedent and expectation by the rating agencies.

We do not know the degree to which bond ratings would be affected by a withdrawal of the Authority's unrestricted cash. It is safe to assume the more assets that are withdrawn from AIDEA, the greater the likelihood of a decrease in its bond ratings. As previously discussed, one of the factors considered in determining the financial strength of a company is the ratio

of unrestricted cash and investments plus net loans receivable over bonds outstanding. The withdrawal of assets from AIDEA decreases this ratio and may negatively affect the bond rating. Withdrawal of an amount greater than the \$220.8 million discussed above would pull this ratio below the industry average and would likely impact the rating.

(Intentionally left blank)

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Anchorage	Fiscal Year 1992			
	ARC Partnership	\$3,187,500	\$2,550,000	Northrim Bank Bldg.
	Harvey, Sylenda M.	465,000	370,000	Retail
	Alout Corp.	1,150,000	920,000	Office
	Sadler's Furniture, Inc.	2,000,000	1,600,000	Retail
	Chez Braun Partnership	975,000	780,000	Office
	Subtotal - Fiscal Year 1992	7,777,500	6,220,000	
	Fiscal Year 1993			
	Blackhawk, Inc.	3,900,000	3,120,000	Executive Suite Hotel
	Golstein, Robert	1,200,000	580,000	4th Ave. Theater
	Brown, Norman C.	647,500	518,000	Office/Warehouse
	H&S Enterprises Ltd.	800,000	640,000	Office/Warehouse
	Sludnek, Joseph J.	5,033,328	4,025,000	Alyeska Bldg.
	Anchorage Hotel Assoc.	2,573,333	1,595,000	Westmark Hotel
	Tennison, Dorine D.	637,500	420,000	Warehouse
	5430 Partnership	709,110	565,000	Office/Warehouse
	Larson, Robert C. & Norella S.	1,200,000	960,000	Office
Subtotal Fiscal Year 1993	16,700,771	12,803,000		
Fiscal Year 1994				
AK Computer Brokers	495,000	395,000	Retail	
Spohnholz, Clifford & Mary	193,200	150,000	Alaska Spring	
AK Club Partners	7,970,000	6,375,000	Health Club	
Bethel Native Corp.	1,065,000	850,000	Office/Warehouse	
Red Robin AK, Inc.	487,500	390,000	Equipment	
Diamond Development Co.	1,650,000	1,320,000	Red Robin Restaurant	
Knight, Russell	136,500	105,000	Retail/Warehouse	
DesJarlais, Gerald J. & Doris E.	618,750	495,000	Summit Paving	

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	Sunrise Plaza Partners	350,000	175,000	Retail
	Arms/Natale/Nelson	386,250	305,000	Mini-storage
	Garnbell Investments	1,113,750	890,000	Saturn Dealership
	L&S Industries	435,000	345,000	Club 25 / Landmark Bldg
	Auka Say Co. Profit Sharing Trust	2,300,000	1,380,000	Office
	Subtotal Fiscal Year 1994	17,200,050	13,175,000	
	Fiscal Year 1995			
	Lim, Dong Joon	1,100,000	880,000	Bank Angus Inn
	Johnson, James M. & Janel M.	4,200,000	3,360,000	Johnson's Tire
	Ginnell, David	750,000	600,000	Steel Fabrication Shop
	AK Wild Berry Products, Inc.	1,225,000	980,000	Retail
	AK Club Partners	1,365,000	1,090,000	Health Club
	Barrett Inn, Inc.	6,100,000	4,880,000	Motel
	Federal Express	706,475	706,475	Maintenance Facility
	Subtotal Fiscal Year 1995	15,446,475	12,496,475	
	Fiscal Year 1996			
	Borocki, Stan & Robin	750,000	600,000	Retail/Office
	A&M Motors	1,900,000	1,520,000	RV Dealership
	Hartig, Rhodes, Norman, Mahoney & Edwards	637,500	510,000	Office
	Hickel, Waller H. & Rebeca	1,650,000	1,320,000	Office/Retail
	Subtotal Fiscal Year 1996 (2/29)	4,937,500	3,950,000	
	Total Amount for Anchorage	62,063,196	Total AIDEA Portion 48,644,475	
Bethel	Fiscal Year 1993			
	Omni Enterprises, Inc.	1,000,000	800,000	Grocery Store
	Total Amount for Bethel	1,000,000	Total AIDEA Portion 800,000	

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Cordova	Fiscal Year 1995			
	AK Commercial Co.	1,958,745	1,565,000	Retail
	Total Amount for Cordova	1,958,745	Total AIDEA Portion 1,565,000	
Dillingham	Fiscal Year 1994			
	Baumgartner, Robert	241,970	190,000	Retail
	Total Amount for Dillingham	241,970	Total AIDEA Portion 190,000	
Dutch Harbor	Fiscal Year 1992			
	Factory Trawler Supply Inc.	5,700,000	4,332,000	Office/Warehouse
	Fiscal Year 1994			
	Harbor Enterprises, Inc.	2,100,000	1,680,000	Warehouse/Office
	Fiscal Year 1995			
	AK Commercial Co. (Dutch Harbor)	3,819,000	3,055,200	Retail
	Atlas Asset Management	5,500,000	2,720,000	Vessel
	Subtotal Fiscal Year 1995	9,319,000	5,775,200	
	Total Amount for Dutch Harbor	17,119,000	Total AIDEA Portion 11,787,200	
	Fairbanks	Fiscal Year 1994		
Construction & General Laborer's Building		1,605,000	1,155,000	Post Office
Beistline, William C. & Marcie A.		787,500	590,000	Office
Ramras, Jay B.		1,350,000	990,000	Retail
Subtotal Fiscal Year 1994		3,742,500	2,735,000	
Fiscal Year 1995				
Floerchinger, Robert & Catherine		300,000	240,000	Yukon Title Co. Inc. Bldg

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	Fiscal Year 1996			
	Pauline Rhodes Trust	225,000	180,000	Shop/Office
	Total Amount for Fairbanks	4,267,500	Total AIDEA Portion 3,155,000	
Homer	Fiscal Year 1993			
	Hennick, Daniel & Elizabeth	657,900	435,000	Retail
	Fiscal Year 1994			
	Circle D.E. Pacific Corp.	3,375,000	2,700,000	Wood Ch'p Equipment
	Fiscal Year 1995			
	Lands End Acquisition Corp.	2,001,404	1,490,000	Motel
	Total Amount for Homer	6,034,304	Total AIDEA Portion 4,625,000	
Juneau	Fiscal Year 1992			
	Space Unlimited, Inc.	220,000	180,000	Mini-storage
	Fiscal Year 1993			
	Douglas Trucking Inc.	448,647	310,000	Warehouse
	Fiscal Year 1994			
	Abel, Don & Lois	1,075,335	845,000	Retail/Lumber Yard
	Dillon, Paul & Findley, Tom	513,750	410,000	Office
	Subtotal Fiscal Year 1994	1,589,085	1,255,000	
	Fiscal Year 1995			
	Western Pioneer Inc.	4,125,000	3,300,000	Fuel Distr. Facility

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	Fiscal Year 1996			
	Hickok, Terry & Patricia	590,000	375,000	Office/Retail
	Total Amount for Juneau	6,972,732	Total AIDEA Portion 5,420,000	
Kenai	Fiscal Year 1993			
	Norville, Allan J.	6,250,000	5,000,000	Carri's - Kenai
	Fiscal Year 1994			
	Swanson, Richard & Judith	898,000	580,000	Office/Warehouse
	Roberts, Daniel & Jacquelyn	276,000	220,000	Kentucky Fried Chicken
	Subtotal Fiscal Year 1994	1,174,000	800,000	
	Fiscal Year 1995			
	Tesoro AK Petroleum Co.	15,000,000	10,000,000	Vacuum Units
	Total Amount for Kenai	22,424,000	Total AIDEA Portion 15,800,000	
Ketchikan	Fiscal Year 1993			
	Carlani Properties	415,000	330,000	Office
	Fiscal Year 1994			
	Creek Street Development Partnership	420,000	330,000	Retail
	Hospitality Unlimited	2,681,900	1,335,000	The Landing
	Subtotal Fiscal Year 1994	3,101,900	1,665,000	
	Total Amount for Ketchikan	3,516,900	Total AIDEA Portion 1,995,000	
Kodiak	Fiscal Year 1994			
	Waldo's Enterprises, Ltd.	1,850,000	1,260,000	Retail
	Total Amount for Kodiak	1,850,000	Total AIDEA Portion 1,260,000	

ALASKA STATE LEGISLATURE

DEPT. OF REVENUE AND GENERAL SERVICES

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Kotzebue	Fiscal Year 1991			Air Terminal/Hangar
	Baker Aviation, Inc.	675,000	540,000	
	Total Amount for Kotzebue	675,000	Total AIDEA Portion 540,000	
Petersburg	Fiscal Year 1996			Hotel
	Murrison, George S. & Nancy K.	1,031,250	825,000	
	Total Amount for Petersburg	1,031,250	Total AIDEA Portion 825,000	
Seward	Fiscal Year 1993			Vessel
	Kenal Explorer Assoc., Inc.	1,152,765	920,000	
	Total Amount for Seward	1,152,765	Total AIDEA Portion 920,000	
Sitka	Fiscal Year 1992			Office/Warehouse
	Satre Elvending Partnership	400,000	320,000	
	Total Amount for Sitka	400,000	Total AIDEA Portion 320,000	
St. Mary's	Fiscal Year 1994			Grocery Store
	St. Mary's Native Corp.	1,280,000	1,020,000	
	Total Amount for St. Mary's	1,280,000	Total AIDEA Portion 1,020,000	
Thorne Bay	Fiscal Year 1996			Retail/Fuel Facility
	Scudero, Jerry & Candace	319,000	255,000	
	Total Amount for Thorne Bay	319,000	Total AIDEA Portion 255,000	
Unalaska	Fiscal Year 1994			Retail
	Moses, Carl E. & Larasa G.	575,000	460,000	
	Total Amount for Unalaska	575,000	Total AIDEA Portion 460,000	

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY '91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Valdez	Fiscal Year 1994			
	Derifield, Reta	414,461	330,000	Retail
	Total Amount for Valdez	414,461	Total AIDEA Portion 330,000	
Various	Fiscal Year 1993			
	Imarpiqamut Part.	11,000,000	5,500,000	Vessel
	Fiscal Year 1994			
Peninsula Airways, Inc.	2,561,123	1,875,000	Aircraft	
Total Amount for Various	13,561,123	Total AIDEA Portion 7,375,000		
Wasilla	Fiscal Year 1996			
	Syre, David	2,000,000	1,600,000	Sotkir's Bay Golf Course
	Total Amount for Wasilla	2,000,000	Total AIDEA Portion 1,600,000	
Wrangell	Fiscal Year 1995			
	Harding, Bruce	344,272	200,000	Lodge
	Total Amount for Wrangell	344,272	Total AIDEA Portion 200,000	
Grand Total Amount for All Locations		\$149,201,218	Grand Total AIDEA Portion \$109,086,675	

APPENDIX A

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

Total Amounts All Locations by Fiscal Year

1991	\$ 875,000	\$ 540,000
1992	14,097,500	11,052,000
1993	37,625,083	26,098,000
1994	39,205,989	29,145,000
1995	46,493,492	33,578,675
1996 (as of 2/29/96)	11,104,154	8,675,000
	<u>\$149,201,218</u>	<u>\$109,086,675</u>

Source: Alaska Industrial Development and Export Authority

200 Years Under the Sun • Exchange, AL 35203
Tel. (907) 541-3000 • Fax (907) 551-4555

A I D E A

April
May
June
July
August
September
October
November
December

A I D E A ' S M I S S I O N

"To promote, develop and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment." This was the mandate given to the newly created Authority by the Alaska Legislature in 1967. Twenty years later, in 1987, legislators expanded the powers of the Authority to provide financing guarantees for exports of Alaska goods and changed the name to the "Alaska Industrial Development and Export Authority". In 1993, the Legislature restructured the Alaska Energy Authority (AEA) and turned oversight responsibilities for AEA-owned projects over to AIDEA.

AIDEA accomplishes its mission by providing various means of financing and by facilitating the financing of industrial, manufacturing, export and business enterprises and facilities within the state. AIDEA also has the authority to own and operate facilities which advance this goal.

C O N T E N T S

AIDEA'S MISSION	1
GOVERNOR'S LETTER FROM THE EXECUTIVE DIRECTOR	2 3
MAJOR ACTIVITIES	6
AIDEA'S PROGRAMS	12
INDEPENDENT AUDITORS' REPORT	15
FINANCIAL STATEMENTS	16
EXEMPTION FROM TAXATION	28
AIDEA'S BOARD MEMBERS	28

THE GOVERNOR'S LETTER



DEAR ALASKANS,

As Governor of the State of Alaska, creating jobs for Alaskans and diversifying our economy have been two of my highest priorities. While the oil and gas industry will continue to play a dominant role in our state's economy for many years to come, we know these resources are finite. We must continue to look at other opportunities to keep our economy growing, and nurture businesses involved in tourism, fishing, the development of other natural resources and value-added products.

AIDEA was established in 1967 to advance Alaska's economic prosperity and create jobs for Alaskans. Its overall mission is two-fold: AIDEA helps develop the infrastructure the state needs to support private sector development, building such projects as roads, ports, power plants and airport facilities. AIDEA also works with the financial community to provide long-term capital to the state's commercial community, financing businesses large and small.

AIDEA's role has grown and changed over the years. Today it is financially strong and well positioned to help finance Alaska's growth into the 21st century. It remains a strong partner in its work with the Legislature, the state's financial institutions and the business community.

We are pleased to present to you this report on AIDEA's programs and activities over Fiscal Year 1995.

Sincerely,

A handwritten signature in dark ink, which appears to read "Tony Knowles". The signature is fluid and cursive, written in a professional style.

Tony Knowles
Governor

FROM THE EXECUTIVE DIRECTOR

AIDEA played a key role in meeting the state's need for long-term commercial financing in Fiscal Year 1995, funding \$41 million in loan participations.

The volume of commercial loan activity continued to reflect the ongoing growth in the visitor industry. AIDEA helped finance major hotel projects in Southeast, Southcentral and Interior Alaska, committed to finance a new tourist attraction in Juneau, and provided assistance for many smaller projects around the state. An Authority loan participation helped to serve Kodiak's seafood processing industry through its development of an environmentally sound waste disposal facility.

The Authority provided additional funding for the Rural Development Initiative Fund (RDIF) administered by the Department of Community and Regional Affairs. Since its inception, RDIF has helped rural business owners to obtain more than 250 jobs in Rural Alaska. Equally successful has been the program's effectiveness in leveraging additional capital from other sources to help

capital-poor areas of the state. For every dollar provided by RDIF, more than four additional dollars have come from other types of financing. A Q Electronics,

Rome is one example of how RDIF dollars can be leveraged. This small electronics store needed capital to broaden its product line and testing equipment to enhance service capabilities. With a \$15,000 grant from the Bureau of Indian Affairs Business

Development Program and \$9,864 from RDIF, the store's owners were able to secure \$45,000 in financing from a commercial lender. AIDEA guaranteed \$20,000 of the loan.

AIDEA continued its strong support of the state's mining industry. Following a lengthy environmental permitting process, construction began on the Healy Clean Coal Project near Denali National Park. The project will enhance the exportability of the state's vast coal reserves and provide a stable supply of electricity for Alaska's Interior.

The Authority purchased a 49 percent equity interest in the Seward coal facility from Southeast Alaska. The purchase helps



AIDEA SIGNED A NEW CONTRACT WITH SHELL OIL COMPANY INTERNATIONAL, HEALY, ALASKA, FOR THE HEALY CLEAN COAL PROJECT. THE AIDEA CONTRACT IS BEING AS A PART OF THE AND THE PROJECT OPERATING FOR ONE YEAR. THE PROJECT IS FINANCED FROM CANADA AND OTHER SOURCES. THE PROJECT IS BEING FINANCED FOR ALASKA.



PHOTO COURTESY OF THE ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC SAFETY. THE PHOTO SHOWS A CONSTRUCTION SITE AT THE ANCHORAGE INTERNATIONAL AIRPORT. THE PHOTO SHOWS A CONSTRUCTION SITE AT THE ANCHORAGE INTERNATIONAL AIRPORT. THE PHOTO SHOWS A CONSTRUCTION SITE AT THE ANCHORAGE INTERNATIONAL AIRPORT.

preserve 100 industry jobs and keeps intact a contract to export Alaska coal to Korea through 1995.

In August, 1995, AIDEA signed a new contract with Anvil Range Mining Corporation, reactivating the Skagway Ore Terminal, which provides year-round jobs for Alaskans. The facility was closed in 1993 when the original operator filed for protection from creditors and was later liquidated.

In Northwest Alaska, Cominco Alaska Incorporated, operator of the Bird Dog Mine, reported significant new ore deposits that may extend the mine's operations by two decades or more. AIDEA has been asked to investigate the feasibility of enlarging the ore concentrate storage building and other port facilities at the Authority-owned Dalton Mountain Transportation System (DMTS). DMTS includes a port and road to support the mine in the Kotzebue area.

The Authority completed a major investment in the state's transportation system when Federal Express moved into its new aircraft maintenance facility at Anchorage International Airport. The facility strengthens

Alaska's position as an international air crossroads by expanding available services. It also creates permanent, high-skill jobs and brings to Alaska a pilot base for MD-80 aircraft, providing a direct infusion of income into the state's economy.

Early in 1995, AIDEA was asked to provide additional financial assistance for MarkAir. The Authority's Board unanimously accepted the recommendation of a special Blue Ribbon Commission that examined the airline's request for a \$40 million loan guarantee. The Commission recognized the many economic benefits MarkAir brought to Alaska, but concluded that the risks associated with the proposed financing were too great and the request did not fall within any of the Authority's statutory or regulatory programs.

Unfortunately, the airline discontinued its Alaska operations, leaving only its subsidiary to operate within the state.

AIDEA looked to the future when it began work with the Alaska Aerospace Development Corporation to study the feasibility of developing a satellite launch

facility on Kodiak Island and a satellite tracking facility in Fairbanks. The Kodiak Launch Complex offers a number of advantages, including its safe, nearly unobstructed Polar launch zones for low Earth orbit satellites. Fairbanks offers advantages for providing satellite tracking, telemetry and data retrieval services with its successful history of launches at Poker Flats, and its state-of-the-art Arctic Region Supercomputing Center.

Coeur d'Alene Mines Corporation has approached AIDEA about the possibility of financing a portion of the Kensington Mine Project. The mine, which is located outside of Juneau, would create 10 jobs, including 300 direct mining positions. Construction is estimated to cost approximately \$185 million, and the mine is expected to be commercially viable for 12 years. AIDEA participation would most likely be in the financing of solid waste disposal facilities ("mine tailings") and power generation facilities.

The City of Craig has approached AIDEA to request financial assistance for an industrial marine

facility. The project concept includes private sector investment at an industrial park facility, similar to AIDEA's involvement in the expansion of the Unalaska Marine Center.

Additionally, when the Alaska Legislature restructured the Alaska Energy Authority (AEA) in 1993, it turned oversight responsibilities for AEA-owned projects over to AIDEA, and directed AEA to transfer day-to-day operations of its projects to the private sector. Local utilities now operate all six of AEA's hydroelectric projects. The Authority continued discussions with Radebelt utilities on the northern and southern intertie projects, but progress has been slow.

AIDEA appreciates the continued support shown by Alaska's residents, lawmakers, the executive branch and the business community. In the years ahead, we look forward to continuing our mission of advancing the general prosperity of the people of Alaska.

Respectfully submitted,



William H. (Bobby) Snell
Executive Director

MAJOR ACTIVITIES



FEDERAL EXPRESS MOVED TO THE AIRCRAFT MAINTENANCE FACILITY AT ANCHORAGE INTERNATIONAL AIRPORT IN THE SPRING OF 1995. THE ALDEA OWNED FACILITY WAS FINANCED THROUGH TAX-EXEMPT BONDS SOLD BY THE AUTHORITY AND WILL BE REPAID BY FEDERAL EXPRESS THROUGH USER FEES.

DEVELOPMENT PROGRAM ACTIVITIES HEALY CLEAN COAL PROJECT

Construction began in May on the Healy Clean Coal Project near Denali National Park. The \$267 million project consists of a power plant using a combustion system that burns coal from adjacent coal fields in stages to minimize air pollution.

The three-year construction phase will support approximately 200 jobs. Once in commercial operation, the facility will provide Interior Alaska with a stable source of low-priced electricity, create 35 to 40 new jobs in Healy and augment eight coal-powered generators.

The clean coal project grew out of a nationwide competition to test new technologies to help solve the international problem of acid rain. Alaska was selected as one of 14 demonstration sites and received a \$117 million federal

grant to help support the project. The plant will link Alaska coal directly to an environmentally sound technology, thereby increasing the attractiveness of the state's large coal reserves on the export market.

FEDERAL EXPRESS AIRCRAFT MAINTENANCE FACILITY

Federal Express moved into the aircraft maintenance facility at Anchorage International Airport in the spring of 1995. The ALDEA-owned facility strengthens Alaska's role as an international air crossroads and supports Anchorage International Airport's position as the nation's largest airport in terms of landed cargo weight. It also creates permanent, high-skill jobs.

The facility accommodates wide-bodied aircraft, enabling Federal Express to provide line maintenance on its fleet of jets and offer routine maintenance for other air carriers. Federal

Express operates an international package-sorting facility at Anchorage International Airport, and accounts for more than 270 landings a month.

The facility was financed through the sale of tax-exempt bonds sold by the Authority and invested cash, and will be repaid by Federal Express through user fees.

SKAGWAY ORE TERMINAL

With metal prices moving upward, Anvil Range Mining Corporation, owner of the Faro Mine in the Yukon Territory, negotiated a contract with AIDEA for use of the Skagway Ore Terminal. The agreement is the first time an AIDEA development project has evolved into a second-generation use.

The facility serves as a warehouse and ship loading operation for ore concentrates exported from the mineral-rich Yukon Territory and northern British Columbia to



CONSTRUCTION BEGAN IN MAY ON THE HEALY ORE CONCENTRATOR PROJECT NEAR DENALI NATIONAL PARK. THE FACILITY WILL PROVIDE INTERIOR ALASKA WITH A STABLE SOURCE OF LOW PRICED ELECTRICITY INTO THE FUTURE AND CREATE 35 TO 40 NEW JOBS.



AIDEA will provide construction services for the Mount Roberts Tramway in Juneau. A major tourist attraction expected to begin in the summer of 1996.

international markets. AIDEA's ownership of the terminal enhances Skagway's ability to compete for the transshipment of ore concentrates and the backhaul of supplies to the mines.

AIDEA purchased the terminal in 1990 to help bring stability to Skagway's major year-round industry and to fund environmental renovations. The facility was closed in 1993 when the original operator filed for protection from creditors and was later liquidated.

CREDIT PROGRAM

ACTIVITIES

Mount Roberts Tramway

Construction began in the Summer of 1995 on the Mount Roberts Tramway, a major addition to the visitor industry infrastructure in Juneau. The tram will carry people from a base facility adjacent to the cruise ship dock to a viewing platform, restaurant, shops and Native Cultural Center at the

1,756-foot level of the mountain. Tram developers expect the project to be completed in time for the 1996 tourist season. Sixty jobs will be created at the facility.

AIDEA will provide \$8.6 million in long-term financing for the project. The tramway and related facilities are owned by the Mount Roberts Development Corporation in a limited partnership with Goldbelt, Inc., the Native Village Corporation for Juneau.

CANDIA HOUSE

Petersburg's historic Scandia House reopened in the Summer of 1995, just months after it was destroyed by fire. The new 12,000-square-foot hotel contains 21 guest rooms and retail space. AIDEA provided a \$1 million loan participation.

Originally built in 1906, the Scandia House serves Petersburg's growing visitor industry and is listed on the National Register of Historic Properties.

A & M MOTORS

An AIDEA loan participation of \$1.5 million helped the state's leading recreational vehicle dealership expand into a new facility in Anchorage. Located adjacent to its headquarters building, A & M's new 17,820-square-foot complex includes a service department, an additional showroom, a large parts department and business offices. A & M has been in business since 1968 and its latest expansion created another six jobs.



AN AIDEA LOAN PARTICIPATION HELPED SAVE HISTORIC SCANDIA HOUSE AFTER IT PETERBURG REBUILT IN TIME FOR THE VISITOR SEASON.

POTENTIAL DEVELOPMENT PROJECTS

CITY OF CRAIG

The City of Craig approached AIDEA to finance and build a public use dock and industrial park. One of the fastest-growing areas in the state, the Prince of Wales Island community wants to improve its seafood and boating services. The proposed development would include a



AIDEA IS STUDYING THE POSSIBILITY OF FINANCING THE KODIAK LAUNCH COMPLEX ON 3,100 ACRES OF STATE-OWNED LAND ON KODIAK ISLAND. IF THE PROJECT GOES FORWARD, THE FACILITY WOULD BE THE ONLY TWIN-STREAMER RUN COMMERCIAL LAUNCH RANGE IN THE NATION.

boat launch ramp, causeway, staging area with a 300-foot dock and a developed industrial park for cannery and fuel service facilities.

KODIAK LAUNCH FACILITY

Legislation in 1995 provided AIDEA with authorization to issue up to \$20 million in bonds to finance the development of the Kodiak Launch Complex on Kodiak Island and the Fairbanks Satellite Spaceport. AIDEA is working on the project in conjunction with the Alaska Aerospace Development Corporation. If due diligence finds the proposals financially viable, Alaska could develop the first non-federally run commercial launch range in the United States. As proposed, the Kodiak facility would launch small rockets with satellite payloads up to 8,000 pounds into low earth polar orbit. The satellites would provide communications, remote

sensing and scientific information. The satellite ground station in Fairbanks would handle tracking and telemetry services for the satellites as well as the down-linking of data. The new high-technology private industry would create substantial year-round employment in a field with enormous potential for growth and would position the state to attract other aerospace-related industries.

POTENTIAL ENERGY PROJECTS UNDER REVIEW SNETTISHAM HYDROELECTRIC PROJECT

Legislation remains pending in the U.S. Congress authorizing the sale of this 78-megawatt project to the state. Snettisham serves the Juneau-Douglas area and would be operated by Alaska Electric Light and Power. The estimated cost of the project is currently \$75 million.

GOAT LAKE
HYDROELECTRIC PROJECT

This 6-megawatt project near Skagway would be operated by Alaska Power and Telephone. The estimated cost of the project is \$7 million to \$10 million

UPPER CHELKOOT LAKE
HYDROELECTRIC PROJECT

An economic and financial feasibility review is under way on this 2.5-megawatt project near Haines, which carries an estimated price tag of \$12 million to \$14 million



THE BRINE ICE HAYS COMPANY OF JUNEAU HAS APPROVED WIDE-OPEN LICENSE AND BUILT A FISHING BOAT AND UNDERWAY FOR THE WEST COAST OF ALASKA TO FISHING INDUSTRY



A & M FLEETWOOD, THE STATE'S LARGEST RECREATIONAL VEHICLE DEALERSHIP, EXPANDED INTO A NEW FACILITY IN ANCHORAGE WITH THE HELP OF AN AIDEA LOAN PROGRAM.

AIDEA provides capital to finance economic growth in Alaska. Projects financed by AIDEA range from multimillion dollar ports to working capital loan guarantees for small businesses. All AIDEA projects and financing must be economically feasible. Projects must enhance the economy of the state and provide or maintain jobs for Alaskans. The projects must also demonstrate the ability to repay their debts. These criteria were set by the Alaska Legislature when AIDEA was established in 1967.

AIDEA's variety of financing mechanisms allows it to provide financing for a wide array of projects. The financing mechanisms are

DEVELOPMENT FINANCE PROGRAM

Through this program AIDEA may own and operate projects that bring economic benefits to the people of Alaska. Such projects typically provide infrastructure support

AIDEA'S PROGRAMS

for resource utilization and development. To qualify for AIDEA financing, a project must be compatible with the local economy and endorsed by the local government. Projects must also be financially feasible. In other words, revenues from user fees and leases must be sufficient to repay the costs of the project. Projects requiring more than \$10 million in financing must receive statewide support through an authorization from the Alaska Legislature. Examples of projects financed through AIDEA's development finance program include the Federal Express Aircraft Maintenance Facility, Healy Clean Coal Project, Delaring Mountain Transportation System (Red Dog mine port and road), Seward Utro Terminal and Unalaska Marine Center. Possible projects currently being considered include an industrial marine center project in Craig and the Kodiak Launch Facility.

LOAN PARTICIPATION PROGRAM

The loan participation program provides long-term financing to Alaska businesses for new or existing projects, or for the refinancing of existing loans. AIDEA participation may total up to 80 percent of a loan originated by a commercial lending institution, with total participation not to exceed \$10 million. Projects financed to date include a large variety of commercial facilities ranging from office buildings, warehouses and retail establishments to hotels, fishing vessels and manufacturing facilities.

FINANCIAL ASSISTANCE PROGRAM

The loan guarantee program provides financial institutions up to an 80 percent guarantee on the principal balance of a loan. AIDEA's added degree of support can make project financing a viable alternative to capital leases.



A LOAN PARTICIPATION PROGRAM IS ONE OF 50 AIDEA'S PROGRAMS TO ASSIST WITH THE LOCAL DEVELOPMENT INITIATIVES FINANCED WHICH IS FINANCED BY AIDEA. FINANCED IN 1991, 80% OF THE \$100,000,000 FINANCED FROM AIDEA TO FINANCE LOCAL BUSINESS FINANCING. AIDEA AND LOCAL FINANCING INSTITUTIONS.



AIDEA HAS BEEN ASKED TO CONSIDER EXPANSION OF THE PORT FACILITIES AT THE COLON. MAINTAIN TRANSPORTATION SYSTEM, WHICH CONSISTS OF A 17 MILE ROAD AND 100 TONS OF THE APPROXIMATE CAPACITY TO SERVE THE REGION. A SIGNIFICANT NEW DEVELOPMENT MAY BE THE LIFE OF THE MOUNTAIN AND THE MAINTENANCE OF THE EMPLOYMENT IN WORKING.

to \$1 million available to borrowers who might not otherwise obtain commercial financing. A streamlined program targeted to assist small businesses and entrepreneurs in rural areas provides guarantees on loans up to \$75,000 which may be unsecured. AIDEA also uses its business assistance program to support the Rural Development Initiative Fund (RDIF). The RDIF was established by the Legislature in 1992 and is administered by the Department of Community and Regional Affairs (DCRA) in conjunction with AIDEA. This loan program is targeted to create employment opportunities in rural Alaska by providing small, basic industries with business capital. Under the RDIF program, DCRA purchases a participation interest in each loan, AIDEA may guarantee a portion of the loan, and the financial institution services the loan. Only 10% may borrow

up to \$100,000 with two or more borrowers eligible for up to \$200,000.

EXPORT ASSISTANCE PROGRAM

This program is designed to encourage and facilitate international trade. It provides guarantees to financial institutions that make loans for export transactions. Guarantees may total up to 90 percent of a transaction, or \$1 million.

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY:

We have audited the accompanying combined balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund (A Component Unit of the State of Alaska) as of June 30, 1995 and 1994, and the related combined statements of income and retained earnings, changes in equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Alaska Industrial Development and Export Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements related to above present fairly, in all material respects, the financial position of the Alaska Industrial Development and Export Authority Revolving Fund (A Component Unit of the State of Alaska) as of June 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual project groups. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPMG Peat Marwick LLP

August 16, 1995

Anchorage, Alaska

COMBINED BALANCE SHEETS

JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION AT JUNE 30, 1995

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
Assets				
Cash and cash equivalents, partially restricted (note 5)	\$ 29,533,638	2,001,616	31,535,254	39,727,917
Investment securities, partially restricted (note 5)	230,147,128	125,672,964	355,820,122	409,645,853
Loans receivable	218,177,839	34,705,445	272,973,244	257,572,462
Less allowance for loan losses (note 6)	(16,395,317)	(1,817,357)	(18,212,704)	(16,599,006)
Net loans	201,782,522	32,888,088	254,754,540	241,073,456
Real estate and other investments (notes 3 and 6)	38,517,642	180,187,055	218,704,697	219,617,877
Accrued interest receivable	5,475,401	2,537,934	8,013,337	1,497,000
Prepaid fund maintenance	—	3,800,924	3,800,924	1,401,451
Investment in development projects (note 8)	109,325,884	—	109,325,884	72,109,759
Interest in state-owned	15,090,929	218,705	15,279,670	12,978,235
Common capital limited partnership investment	5,826,061	—	5,826,061	5,814,000
Other	1,141,426	2,450,447	3,902,063	4,943,556
	\$ 658,824,934	409,441,927	1,068,266,961	1,015,029,880
Liabilities				
Accounts payable and accrued liabilities	\$ 1,057,000	96,000,000	200,827,000	229,000,000
Accrued interest payable	2,102,310	1,714,794	3,817,104	4,628,900
Accounts payable - 2000 bonds	9,605,000	1,000,000	10,605,000	8,774,254
Other	1,000,000	99,117,111	100,117,111	1,000,000
Equity				
Common equity	203,065,675	141,511,743	344,577,418	300,100,000
Retained earnings	112,279,400	107,300,116	224,579,516	187,077,533
Other	5,000,000	15,000,000	20,000,000	25,000,000
Common equity and retained earnings (note 8) (253,345,075)	\$ 358,824,074	403,811,859	1,009,156,934	1,012,199,533

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION FOR 1993

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
Earnings				
Interest income				
Loans (note 6)	\$ 19,667,370	2,865,889	22,533,259	21,701,339
Investments	17,618,105	6,909,367	24,527,472	24,340,400
Direct financing leases	955,000	11,256,550	12,211,550	11,923,692
Total interest income	38,240,475	21,031,806	59,272,281	58,065,431
Other income	230,593	-	230,593	529,089
Gain on sale of securities	221,512	-	221,512	-
Total earnings	38,692,580	21,031,806	59,724,896	58,594,520
Expenses				
Personnel	8,021,454	6,942,407	14,963,861	17,177,170
General and administrative	3,674,713	252,618	3,927,331	2,934,519
Bad debt expense	-	175,026	175,026	175,026
Write-down and net expense associated with other real estate owned	202,036	6,724	208,760	1,440,359
Provision for loan and development losses (note 6)	3,500,000	-	3,500,000	2,000,000
Total expenses	15,398,203	7,876,775	23,274,978	23,727,074
Income before extraordinary item	23,294,377	13,155,031	36,449,418	34,867,446
Earnings before provision for income tax and Shareholders' Equity (note 10)				
Share income	23,294,377	13,155,031	36,449,418	37,531,559
Retained earnings at beginning of year	293,007,442	63,740,028	356,747,470	338,581,579
Retained earnings at end of year	\$ 316,291,824	107,305,138	423,596,962	477,113,137

COMBINED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED JUNE 30, 1995 AND 1994

	Contributed Capital	Retained Earnings	Total
Balance at June 30, 1993	\$ 1,000,000	356,747,470	357,747,470
Share income	-	37,531,559	37,531,559
Contributed capital	4,000,000	-	4,000,000
Dividend of June 30, 1994	100,000,000	(100,000,000)	-
Share income	-	36,449,418	36,449,418
Contributed capital	10,000,000	-	10,000,000
Balance at June 30, 1994	\$ 110,000,000	423,596,962	533,596,962

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION FOR 1995

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 23,893,058	13,568,018	37,461,076	32,511,558
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of premium and discount on investment securities	(232,738)	97,861	(134,877)	1,445,088
Gain on sale of securities	(221,512)	-	(221,512)	-
Provision for loan and development project losses	3,700,000	-	3,500,000	2,000,000
Amortization of prepaid bond insurance	-	175,026	175,026	175,026
Write-downs and net loss on sale of other real estate owned	229,537	22,279	251,816	628,341
Amortization of unamortized costs on direct financing leases	(955,600)	(11,256,550)	(12,212,150)	(11,023,692)
(Increase) decrease in accrued interest receivable and other assets	1,291,693	(469,332)	822,361	(1,086,357)
Increase (decrease) in accrued interest and accounts payable	5,442,199	11,765,411	3,676,789	(1,367,074)
Net cash provided by operating activities	29,940,518	127,614	30,324,452	22,492,599
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:				
Investment in direct financing leases	(4,356,496)	-	(4,356,496)	(13,434,614)
Direct financing lease receipts	2,055,272	11,967,074	14,022,346	13,192,059
Contributions to capital	18,187,580	-	18,187,580	3,867,690
Return of capital to State of Alaska	(50,000,000)	-	(50,000,000)	-
Payments on bonds	(1,910,000)	(1,865,000)	(3,795,000)	(4,145,000)
Net cash provided (used) by capital related financing activities	(59,023,244)	10,062,074	(39,941,150)	482,135
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES:				
Payments on bonds	(21,867,000)	-	(21,867,000)	(67,000,000)
Issuance of bonds	17,945,000	-	17,945,000	11,435,000
Net cash used by noncapital related financing activities	(3,922,000)	-	(3,922,000)	(55,565,000)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from maturities of securities	21,510,236	44,201,213	371,030,844	210,672,306
Proceeds from sales of securities	15,283,153	-	15,283,153	-
Proceeds from investment securities	2,754,127,273	(129,168,933)	(152,147,605)	(173,610,246)
Proceeds from vested interests	21,421,500	8,443,200	27,864,700	29,000,000
Loans originated	41,441,675	-	41,441,675	(2,245,000)
Loans to state development projects	(7,997,181)	-	(7,997,181)	(10,116,000)
Loans at fixed rate purchased	-	-	-	(1,718,000)
Net proceeds from origin and other real estate owned	4,000,000	3,000,000	7,150,000	1,160,000
Net investment in venture capital limited partnership	7,065	-	7,065	(3,000)
Net cash provided (used) by investing activities	23,799,013	(120,967,720)	2,450,940	(8,435,110)
Net increase (decrease) and cash equivalents	(29,075,726)	1,104,267	(26,920,674)	(33,675,140)
Cash and cash equivalents at beginning of year	9,867,343	1,860,574	16,727,917	18,082,781
Cash and cash equivalents at end of year	\$ 1,791,617	2,964,841	(1,192,757)	(4,592,359)

NOTE: Net cash provided by operating activities includes:

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

(1) ORGANIZATION AND OPERATIONS

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation passed by the Legislature of Alaska (Legislature) which established within the Revolving Fund the Enterprise Development Account and the Economic Development Account for separate and distinct purposes. The Authority is a component unit of the State of Alaska (State), constituting a political subdivision within the Department of Commerce and Economic Development but with separate and independent legal existence. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska, to relieve problems of unemployment, and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State.

In addition to the Revolving Fund, the Authority administers certain activities of the Alaska Energy Authority which are not included in the accompanying financial statements.

Enterprise Development Account A summary of programs available under the Enterprise Development Account is as follows:

- A loan participation program under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the issue of 80% of \$10,000,000 of the permanent financing for manufacturing facilities, public-use projects and business enterprises. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.
- An export assistance program designed to foster and facilitate international trade by offering guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans.
- A business assistance program providing up to a 75% guarantee of the principal balance to the financial institution making a loan. The maximum guarantee amount of any loan is \$1,000,000.
- A venture-capital program whereby the Authority has invested in a venture-capital partnership (the Titans Fund) with the purpose of inducing venture capitalists to invest in the state of Alaska investment opportunities. However, the Titans Fund is permitted to make investments outside of Alaska.

Economic Development Account Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help accomplish its mission. Current and separate projects undertaken through the Economic Development Account include:

- The Dalton Mountain Transportation System (Red Dog Project) which consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the Dalton Mountains in north eastern Alaska (see 3).
- Acquisition and development of a public use terminal port facility in Seward, Alaska, the Seward One Terminal (Seward Terminal). The Seward Terminal was financed by a \$21,000,000 bond issue completed in December 1993. The purchase of a public use port site to be a terminal and a fuel facility (Seward Fuel Farm) was financed using funds of the Enterprise Development Account.
- Construction of improvements to the Umanak Terminal Marine Center (Unalaska Project), a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a \$7,000,000 bond issue completed in December 1993.
- Construction of an aircraft hangar and maintenance facilities at the Anchorage International Airport Federal Express Project. The Federal Express Project was financed by a \$20,000,000 bond issue completed in September 1992.
- In fiscal year 1993, the Authority received a \$5,500,000 appropriation made by the 1993 Legislature, received a grant with matching funds from the U.S. Department of Energy, and received approval by the 1993 Legislature to issue up to \$85,000,000 of bonds to assist in the development of a coal-fired power plant in Healy, Alaska known as the Healy Clean Coal Project (Healy Project). The Healy Project will receive approximately \$127,000,000 of funding from the U.S. Department of Energy, Clean Coal Technology, III Demonstration Grant Program. An additional \$10,000,000 had been received from the U.S. Department of Energy. In May 1995, the Authority purchased a 50% interest in the Healy Clean Coal Project for approximately \$1,000,000. The purchase was subject to specific conditions of the company's demand note and registration, a certificate and a separate guarantee.
- The Authority is authorized to issue up to \$10,000,000 of bonds to finance the acquisition, construction and equipping of a hangar to be located at the Anchorage International Airport which would have provided aircraft maintenance, freight storage and cargo handling and operations and a parking lot to be located at Healy, Alaska. Alaska Airlines, Inc. (Alaska Airlines) Alaska Airlines and plans to bond the facility. However, the Authority continues to have the legal obligation to issue and fund the facility.
- The Authority also has pending a \$4,000,000 financing project located at the Anchorage International Airport (the potential cost of this facility project is \$10,000,000). Authority involvement is \$1,000,000 for a public facility in the Unalaska System through a public facility development fee derived and paid to Unalaska, Unalaska System Borough and \$3,000,000 for the construction of a transportation-organized facility to be added and a public facility to be constructed at Anchorage.
- The Authority is also authorized to issue bonds to issue \$1,000,000 to finance the acquisition, development and construction of a public port facility in Seward and the Healy, Alaska and Unalaska, Alaska Clean Coal Project.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Other. The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction between a business enterprise and a purchaser of the bonds. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or other funds of the business enterprise. Changes in federal tax laws have significantly reduced the Authority's ability to provide tax-exempt financing under this program and to date there has been little or no demand for taxable financing. The Authority is authorized to issue revenue bonds to finance the construction of power transmission facilities to be owned by electric utilities in a collective amount not to exceed \$185,000,000.

Financial Statement Presentation. In the accompanying financial statements, the column entitled Enterprise Development Activities and Unrestricted Economic Development Projects includes the Enterprise Development Account, the Seward Terminal, the Unalaska Project, Federal Express, Seward Coal Leasement and Healy Projects of the Economic Development Account.

The column entitled Restricted Economic Development Project includes the Red Dog Project of the Economic Development Account (note 3). The amounts reflected in this column are restricted assets of the Revolving Fund and are not available to meet general claims against the Authority.

The combined financial statements include all of the activities of the Enterprise Development and Economic Development Accounts.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents consist of cash and highly liquid investments.

Investments. Investments are recorded at cost, adjusted for the amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income.

Loans and Interest Income. Loans are primarily secured by first deeds of trust on real estate located in Alaska and are typically insured against advanced loss principal payments collected. Interest income is accrued monthly. Accrual of interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are restricted. Future collections of interest on these loans are recorded as interest income when received.

Net Investment in Direct Financing Loans. The Authority issues various projects pursuant to certain agreements as more fully described in note 8, which are recorded in the accompanying financial statements as direct financing loans. Interest expense related to direct financing loans is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the loans.

Allowance for Loan Losses. The allowance for loan losses represents management's judgment as to the amount required to absorb potential losses on the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, regional conditions and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

Allowance for Lease Reserves. The allowance for lease reserves represents management's judgment as to the amount required to absorb potential unfavorable direct financing lease transactions. The factors used by management to determine the allowance required include individual lease delinquencies, property values, regional conditions and other factors. Management's opinion is that the allowance for lease reserves is required as of June 30, 1995.

Depreciation Expense. Depreciation expense is calculated over the life of the related fixed asset using the straight-line method.

Other Fixed Assets (Other). Other fixed assets represent property acquired through donations or purchased by deed or purchase of the state or that is sold to the state for a fixed price after the project is a viable business. Other fixed assets are recorded at the time of the sale of the property less the book value of the assets at the time of sale plus the property with an excess of book value over fair market value, less the allowance for cash flows. Upon sale, depreciation is deducted on the value of the property, net of cash flows, and is reported as a debit to the current period.

Verdey Capital Limited Partnership Investment. The Authority's Verdey Capital Limited Partnership investment represents an investment in the Verdey Fund. The investment is accounted for at the lower of cost or market.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Income Taxes—The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Authority is a political subdivision of the State performing an essential governmental function and is therefore exempt from federal and State income taxes.

Furniture and Equipment—Purchases of furniture and equipment are expensed as such items are the property of the State.

Appropriations and Grants—Appropriations and grants are recorded as additions to contributed capital when received.

15. RESTRICTED ECONOMIC DEVELOPMENT PROJECT

DeLong Mountain Transportation System—In 1984, the Legislature addressed the possibility of lending support to the development of lead and zinc mining in the DeLong Mountain area in northwestern Alaska through the facilities of the Authority by establishing the Economic Development Account. The 1985 Legislature enacted legislation providing authorization to proceed with the Red Dog Project and to issue bonds for financing. The Red Dog Project consists of a road and port to serve transport needs and to permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit (one of the largest zinc deposits in the world) and other mineral deposits expected to be developed in the area. To assist in providing funding for the Red Dog Project, the Legislature appropriated \$12,000,000 cash and net loans totaling \$131,511,300, previously participated in or made by the State's various borrowings in Alaska under seven economic assistance programs. When moneys are released from the pledge to bondholders of the DeLong Mountain Transportation Project Revenue Bonds, they revert to the Authority's unrestricted program under legislation passed in 1984 which required the payment of \$50,000,000 by the Authority to the State's General Fund during fiscal year 1995.

On July 23, 1995, the Authority entered into a contract with Comarco American Incorporated (Comarco) providing for the financing and construction, operation and maintenance of the DeLong Mountain Transportation System. The agreement provides that Comarco pays for the use of the DeLong Mountain Transportation System consisting of fifty-two miles of road and a port facility on the Alaskan coast, constructed and operated by the Authority. The annual tolls are the amount necessary to amortize the cost of the Red Dog Project over a thirty-year period at an interest rate of 5%. Toll payments began January 1, 1995. Certain payments to be made by Comarco are secured by letters of credit. The agreement with Comarco is a loan secured on the Authority's tax-exempt debt financing issue.

On August 7, 1990, the Authority entered into an agreement with SAA Regional Corporation, Inc. providing for a thirty-year purchase of bonds for the proposed port and road. A portion of the amount, \$1,100,000, was paid by the Authority for the entire lease term.

On March 21, 1987, the Authority issued \$100,000,000 of DeLong Mountain Transportation Project Revenue Bonds to finance the portion of the Red Dog Project which is a public port facility. All assets and free cash of the Red Dog Project are restricted to cover the Red Dog Project and are pledged to the repayment of the DeLong Mountain Transportation Project Revenue Bonds.

16. ADDITIONAL INFORMATION REGARDING TABLES AND ANALYSIS ATTACHED

Additional information regarding cash flows and financial activities for the six-month period (6/30/95) and fiscal year ending 6/30/95 are as follows:

	Economic Development Activities and Investments		Restricted Economic Development	
	Unrestricted Investment	Restricted Investment	Investment	Investment
Net cash provided by (used in) operations	\$ 10,000,000	10,000,000	10,000,000	10,000,000
Net cash provided by (used in) financing	1,000,000	1,000,000	1,000,000	1,000,000
Net cash provided by (used in) investing	1,000,000	1,000,000	1,000,000	1,000,000
Net change in cash and cash equivalents	\$ 12,000,000	12,000,000	12,000,000	12,000,000
Cash and cash equivalents at beginning of period	100,000,000	100,000,000	100,000,000	100,000,000
Cash and cash equivalents at end of period	\$ 112,000,000	112,000,000	112,000,000	112,000,000

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

(5) INVESTMENT SECURITIES

Major components of investment securities, the maturity distribution and carrying value at June 30, 1995 and 1994 (with combining information for 1995) follow:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
U. S. TREASURY SECURITIES MATURITY:				
Within one year	\$ 35,028,199	10,852,606	45,880,805	119,105,514
After one but within five years	77,600,358	106,973,794	184,574,152	156,171,061
After five but within ten years	2,996,891	2,951,778	5,948,669	-
After ten but within twenty-five years	922,094	-	922,094	-
	116,547,542	120,778,178	237,325,720	275,276,575
U. S. GOVERNMENT AGENCIES MATURITY:				
Within one year	22,171,196	3,047,520	25,218,716	51,077,774
After one but within five years	78,433,749	1,847,296	80,281,045	76,712,444
After five but within ten years	12,994,630	-	12,994,630	6,519,047
	113,599,575	4,894,816	118,494,402	134,309,274
	\$ 230,147,117	125,672,994	355,820,122	409,585,849

At June 30, 1995, the market value of investment securities was as follows:

Enterprise Development Activities and Unrestricted Economic Development Projects	\$ 230,147,117
Restricted Economic Development Project	125,672,994
	\$ 355,820,111

All investments and related future purchase agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 subcategory risk, the lowest subcategory risk classification as defined by Governmental Accounting Standards Board Statement No. 1 and Technical Bulletin No. 97-1.

Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolution. A summary of restricted amounts at June 30, 1995 and 1994 (with combining information at June 30, 1995) follows:

		Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Capital Reserve Funds	Restrictions: Self-issued bonds payments - bonds	\$ 762,000	4,457,575	5,219,575	17,441,000
Enterprise Funds	Unrestricted bonds Self-issued bonds	47,000	-	47,000	51,900
Enterprise Reserve	Funds held by Authority Self-issued bonds	1,494,000	-	1,494,000	1,494,000
Development Fund	Reserve for financing of wastewater treatment The City of Anchorage, Alaska	-	-	-	1,908,500
Business Assistance Fund	Guarantee for bonds issued	200,147	-	200,147	111,900
Enterprise Bond Reserve	Restrictions on cash and unissued bonds in relation to bond redemptions	-	-	-	7,000,000
Trust Funds	Self-issued bonds payments - bonds	-	118,822,000	118,822,000	195,207,000
		\$ 2,456,247	4,576,575	7,732,822	221,852,500

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Certain investment securities and repurchase agreements have been designated by the Board of Directors or otherwise for various purposes. A summary of designated amounts in the Enterprise Development Activities and Unrestricted Economic Development Projects at June 30, 1995 and 1994 follows:

	Designation	1995	1994
Business Assistance Fund	Guarantee business loans	\$ 5,162,853	5,261,886
Healy Project Funds	Construction costs	-	59,631,821
		\$ 5,162,853	64,893,707

(6) LOANS

The Authority grants secured commercial real estate and other loans to businesses throughout the State of Alaska. Although the Authority has a diversified loan portfolio, the borrowers' ability to honor their credit agreements is generally contingent upon economic conditions in the State.

Loans outstanding at June 30, 1995 and 1994 (with remaining obligation at June 30, 1995) are classified as follows:

Loan program type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1995		1994	
	#	Amount	#	Amount	#	Amount	#	Amount
Aggregated	75	\$ 10,261,821	729	\$ 34,795,445	614	\$ 45,032,499	1,075	\$ 56,723,313
Loan participation								
Jointly outstanding	151	\$2,002,179	-	-	151	\$2,002,179	157	\$3,441,000
Jointly funded	68	29,371,412	-	-	65	28,371,347	70	30,083,200
Internally funded	67	\$1,914,900	-	-	67	\$1,914,900	55	\$2,201,049
OFF-Loan financing	67	2,000,000	-	-	67	2,100,000	68	2,165,100
Other	51	2,384,000	-	-	51	2,544,000	65	2,687,000
	411	\$ 24,024,412	729	\$ 34,795,445	1,219	\$ 72,472,044	1,498	\$ 95,900,562

Delinquency of loans at June 30, 1995 and 1994 (with remaining obligation at June 30, 1995) follows:

Loan type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1995		1994	
	#	Amount	#	Amount	#	Amount	#	Amount
Current	392	\$ 22,879,225	693	\$ 31,629,025	603	\$ 43,885,154	1,064	\$ 26,141,000
30 days delinquent	68	14,923	574	1,668,811	7	2,145,000	132	3,823,000
60 days delinquent	64	1,000,000	209	1,011,111	10	444,000	57	1,454,000
90 days delinquent	61	25,710,000	223	2,095,000	64	10,402,000	122	11,440,000
	585	\$ 24,177,000	1,119	\$ 34,795,445	784	\$ 56,876,154	1,375	\$ 42,858,000

Loans which are more than 90 days past due are classified as nonaccrual. As of June 30, 1995, the amount of interest has been accrued but not recorded by \$4,000,000 and \$1,514,000 at June 30, 1995 and 1994, respectively. Loans are considered past due when principal has not been received in three loans are in arrears to \$1,000 for 1995 and \$1,000 for 1994. The amount of interest accrued and recorded in nonaccrual was \$1,000,000 for 1995 and \$1,000,000 for 1994.

Loans which are 90 days past due have been reclassified as nonaccrual. As of June 30, 1995, the amount of interest has been accrued but not recorded by \$1,000,000 and \$1,000,000 at June 30, 1995 and 1994, respectively. Loans are considered 90 days past due when principal has not been received in three loans are in arrears to \$1,000 for 1995 and \$1,000 for 1994. The amount of interest accrued and recorded in nonaccrual was \$1,000,000 for 1995 and \$1,000,000 for 1994.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

(7) ALLOWANCE FOR LOAN LOSSES

An analysis of changes in the allowance for loan losses for the years ended June 30, 1995 and 1994 (with combining information at June 30, 1995) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Balance at beginning of year	\$ 14,746,705	1,852,301	16,599,006	16,729,388
Provision for loan losses	1,701,655	-	1,701,655	1,000,000
Reversals of loans charged off	26,403	14,943	41,346	42,749
Losses charged off	(89,416)	(33,887)	(123,303)	(1,289,318)
Additions to allowance for purchased loans	-	-	-	116,187
 Balance at end of year	 \$ 16,385,347	 1,833,357	 18,218,704	 16,599,006

(8) NET INVESTMENT IN DIRECT FINANCING LEASES AND DEVELOPMENT PROJECTS

The Authority leases the Unalaska Project under terms of an agreement recorded as a direct financing lease, which transfers the Unalaska Project to the City of Unalaska after all financial obligations have been met. Minimum payments under the agreement are the amounts required to pay the annual debt service costs of the \$7,000,000 Revolving Fund Bonds issued December 10, 1991. The annual minimum lease payments range from \$742,000 to \$789,000.

The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility is placed in service. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the \$27,000,000 Revolving Fund Bonds issued September 30, 1992.

Minimum annual toll fees for usage of the DeLore Mountain Transportation System return the cost of the East Day Project to the Authority over fifty years at an interest rate of 6.5%.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

The components of the Authority's net investment in direct financing leases at June 30, 1995 and 1994 (with combining information at June 30, 1995) are:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Minimum lease payments receivable	\$ 68,434,743	541,038,763	609,473,506	600,767,043
Less:				
Unearned income	29,917,101	360,851,708	390,768,809	380,749,166
Allowance for lease receivables	-	-	-	2,000,000
Net investment in direct financing leases	\$ 38,517,642	180,187,055	218,704,697	218,017,877

At June 30, 1995, future minimum lease payments receivable for each of the five succeeding fiscal years are:

Year ending	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	Combined
June 30, 1996	\$ 3,259,000	11,958,000	15,217,000
1997	3,678,000	11,958,000	15,636,000
1998	3,676,000	11,958,000	15,634,000
1999	3,671,000	11,958,000	15,629,000
2000	3,669,000	11,958,000	15,627,000

The Authority, under the terms of a Terminal Access Agreement recorded as a direct financing lease, had provided Curragh, Inc. (Curragh) with certain nonexclusive, priority rights in connection with the Starway Terminal. In 1993, Curragh instituted proceedings in Toronto, Ontario, Canada, under the Companies Creditors Arrangement Act (CCAA) and an ancillary proceeding under Section 304 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Alaska. Curragh has been liquidated and substantially all of Curragh's assets have been sold. As a result of Curragh's liquidation, the Authority reclassified the direct financing lease receivable of \$20,207,771 to investment in development projects in the accompanying financial statements in 1994. In August 1995, the Authority entered into an agreement with a Canadian mining company to use 75% of the Starway Terminal for the next seven years for an annual minimum user fee of \$2,582,500 per year; the contract contains optional renewal clauses for two additional seven-year terms. The Authority believes that additional users will be found for the remaining 25% of the Starway Terminal and that the new user will become another user of the Starway Terminal will be found at the end of the seven-year term, and that the recoverability of its investment is assured.

The Authority will lease the Healy Project to Golden Valley Electric Association, Inc. under a power sales agreement provided for a minimum annual payment of approximately \$4,451,000 beginning when the project is operational, currently scheduled for January 1, 1996.

The Authority will lease user fees in consideration of its interest in the Seward Coal Load-out facility. The user will continue to operate the facility at its own expense.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

(9) BONDS PAYABLE

The composition of bonds outstanding at June 30, 1995 and 1994 (with combining information at June 30, 1995) follows (maturity date information is as of June 30, 1995)

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
VARIABLE DEMAND-FIXED RATE BONDS 7.5% and 7.7%, issued October 30, 1984, maturing through 2004	\$ 6,645,000	-	6,645,000	7,300,000
TAX EXEMPT UMBRELLA BONDS:				
8.7% to 9.3%, issued June 12, 1985	-	-	-	10,365,000
7.7% to 8.125%, issued October 21, 1985, maturing through 2006	6,575,000	-	6,575,000	7,785,000
7.9% to 8.5%, issued December 19, 1985, maturing through 2006	5,730,000	-	5,730,000	6,550,000
8.0% to 8.75%, issued December 19, 1985, maturing through 2012	7,430,000	-	7,430,000	7,700,000
REVENUE FUND BONDS				
7.1% to 7.95%, issued December 13, 1980, maturing through 2010	20,255,000	-	20,255,000	21,035,000
6.45% to 7.3%, issued December 10, 1981, maturing through 2009	5,670,000	-	5,670,000	6,025,000
5.1% to 6.5%, issued September 30, 1982, maturing through 2014	27,225,000	-	27,225,000	28,000,000
4.9% to 6.2%, issued May 17, 1985, maturing through 2007	8,020,000	-	8,020,000	-
REVENUE REVENUE FUND BONDS:				
4.9% to 6.2%, issued June 3, 1983, maturing through 2010	16,405,000	-	16,405,000	23,250,000
4.7% to 5.9%, issued March 30, 1984, maturing through 2009	10,700,000	-	10,700,000	11,435,000
4.7% to 6.2%, issued May 17, 1985, maturing through 2007	9,825,000	-	9,825,000	-
DEVELOPMENT TRANSPORTATION PROJECT REVENUE BONDS:				
6.1% to 7.0%, issued March 17, 1987, maturing through 2017	-	92,000,000	92,000,000	94,145,000
	\$ 125,520,000	92,000,000	227,520,000	228,710,000

All of the 1995 Variable Demand-Fixed Rate (maturity and bearing date) bonds outstanding at June 30, 1995 are secured by the general assets of the City of Dallas, including the Enterprise Development Account and the Unrestricted Economic Development Account. The 1994 Variable Demand-Fixed Rate bonds are fully secured by cash proceeds of capital revenue bonds and pledged payments to terms of the bond indentures. At June 30, 1995, all assets of the Enterprise Development Account and the Unrestricted Economic Development Account are restricted for use in the Enterprise Development and Transportation Project Revenue Bonds which are ultimately secured by bond insurance proceeds.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

At June 30, 1995, principal portions of the bonds payable mature as follows:

Year ending June 30	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	Combined
1996	\$ 6,630,000	2,000,000	8,630,000
1997	7,145,000	2,120,000	9,265,000
1998	7,710,000	2,250,000	9,960,000
1999	8,160,000	2,395,000	10,555,000
2000	8,390,000	2,550,000	10,940,000
2001-2005	48,565,000	15,640,000	64,205,000
2006-2010	29,200,000	22,105,000	51,305,000
2011-2015	9,070,000	31,305,000	40,375,000
2016-2017	-	15,935,000	15,935,000
	\$ 124,570,000	\$46,300,000	220,870,000

Enterprise Development Account bond resolution covenants effective June 30, 1995 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than \$100,000,000. At June 30, 1995, the Authority has estimated that projected future coverage for any year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1995, unrestricted surplus was \$436,200,000.

(10) BOND REFINANCING AND DEFEASANCE

On May 17, 1995, the Authority issued \$9,825,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all of a bond issue. The refunding resulted in debt service payments approximately \$2,500,000 less than the refunded bonds over the next fifteen years. There was an economic gain of approximately \$1,400,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

On March 30, 1994, the Authority issued \$11,435,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all of a portion of three bond issues. The refunding resulted in debt service payments approximately \$4,500,000 less than the refunded bonds over the next sixteen years. There was an economic gain of approximately \$2,900,000. The financial statements reflect a \$473,526 extraordinary loss on refunding for the year ended June 30, 1994.

The Authority recognized an extraordinary loss of \$1,827,562 for the year ended June 30, 1994 from the March 30, 1994 defeasance of \$23,840,000 of bonds. The loss resulted from the deposit of United States Treasury securities costing \$26,663,000 (including accrued interest receivable) into an irrevocable trust, necessary to effect the defeasance transaction. The defeasance resulted in decreased interest expense of \$469,000 in fiscal year 1994 and total future debt service savings of \$36,563,000 over the remaining lives of the bonds defeased (assuming each had been paid out in accordance with their original repayment schedule).

The investment securities deposited into the irrevocable trust and interest earned thereon are sufficient to pay when due the principal or redemption price and interest on the defeased bonds. The bonds mature, or are subject to redemption, at 102% of the principal amount redeemed plus accrued interest prior to maturity on April 1, 1996 and 1997, depending on the particular bond. The source of funds used to purchase the investment securities for the defeasance was the Authority's unrestricted investments. Defeased bonds, aggregating \$19,785,000 and related interest payable at June 30, 1995, remain outstanding but are excluded from the Authority's balance sheet, as are the investment securities.

(11) RETIREMENT PLAN

The Authority and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), which is a multiple-employer retirement system offering a defined benefit pension plan to its participants. All full-time employees are required to participate. Employees are required to contribute 6.75% of their salary to the plan. The Authority is required to contribute an amount that is actuarially determined on an annual basis; the contribution rate for 1995 was 15.17%. The combined contribution requirement for the year ended June 30, 1995 was \$307,040. Covered payroll for the year ended June 30, 1995 was approximately \$1,400,000, consisting substantially all of the Authority's payroll.

NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty for employees hired after June 30, 1986, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit is equal to 2% of the member's highest three-year average monthly compensation for the first ten years of service, 2.25% for the second ten years of service and 2.5% thereafter. All service earned prior to July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members first hired after June 30, 1986 may elect major medical benefits.

The pension benefit obligation, the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The following is information related to the State as an employer taken as a whole and as at June 30, 1994, the most recent actuarial valuation (in millions):

PROJECTED BENEFIT OBLIGATION:		
Current retirees	Terminated participants	\$ 1,294
Current employees		1,008
		2,631
Net assets available for benefits		2,412
Unfunded pension benefit obligation		\$ 219

122) COMMITMENTS AND CONTINGENCIES

Commitments. As June 30, 1995, the Authority held approximately \$40 million of treasury and participation bonds maturing which had not yet been recorded or applied. Additionally, the Authority held approximately \$94.77 million of investments in trust for the construction of two intercity projects. The major asset liability account is located in the accompanying financial statements.

Environmental Issues. The Authority has identified certain parties and alleged liability under both common and contract law, with and without, undergoing environmental assessments. The Authority's policy is to incur no liability when the liability is not clearly established and the costs are reasonably estimable. As June 30, 1995, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

Other Commitments and Contingencies. The Authority, from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and other services, which are not reflected in the accompanying financial statements. As June 30, 1995, the Authority had no such commitments or liabilities. In the opinion of management, the financial statements of the Authority will not be affected materially by the future course of any such proceedings, disputes or other liabilities and commitments.

123) Other Financial Statements

123.1) STATE OF ALABAMA

The Authority, the Employment and Export Authority is a joint institution of the State of Alabama performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44-6-150 of the Authority will not be subject to federal or state income tax on the nature and extent of the tax exemption of the Authority's property.

All tangible personal and real property owned by Authority (personal and real property) owned by the Authority will be subject to the Mississippi State Tax on an exempt from Mississippi State property tax.

All other property taxes associated with the property owned by Authority (personal and real property) owned by the Authority will be subject to the Mississippi State Tax on an exempt from Mississippi State property tax.

123.2) Other Members

Chairman	Harry J. Butler, Jr., Leader and District 110
Vice-Chairman	Walter Hester, Executive Vice President and General Manager, 162
Other Board Members	Walter Hester, Executive Vice President and General Manager, 162 Walter Hester, Executive Vice President and General Manager, 162 Walter Hester, Executive Vice President and General Manager, 162

This report was prepared by the staff of the Authority and is not intended to be used for any other purpose.

This report was prepared at a cost of \$100,000 per year and is provided to the public at a cost of \$100,000 per year. A copy of this report is available to the Northwest Strategic Planning and Management Group.