

**SB**

**121**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

MAY 15 2005

SENATE FINANCE  
COMMITTEE

DATE: 4/29/05

FURTHER:

DATE TURNED  
IN TO OFFICE: 15 May 2005

Finance Committee considered

SENATE BILL NO. 121

SB 121 STATE OF AK CAPITAL CORP.; BONDS

"An Act establishing the State of Alaska Capital Corporation; authorizing the issuance of bonds by the State of Alaska Capital Corporation to finance capital improvements in the state; and providing for an effective date."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**CS Senate Bill:**

- Same Title
- New Title

**SCS House Bill:**

- Same Title
- Technical Title Change
- New Title w/  
SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

| Department | Date | Fiscal | Ind. | Zero | FN# |
|------------|------|--------|------|------|-----|
|            |      |        |      |      |     |
|            |      |        |      |      |     |
|            |      |        |      |      |     |
|            |      |        |      |      |     |
|            |      |        |      |      |     |

**PREVIOUS FISCAL NOTE(S):**

| Department | Date    | Fiscal   | Ind. | Zero | FN# |
|------------|---------|----------|------|------|-----|
| Revenue    | 2/11/05 | 110,4929 |      |      | #1  |
|            |         |          |      |      |     |
|            |         |          |      |      |     |
|            |         |          |      |      |     |
|            |         |          |      |      |     |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | Do PASS | Do NOT PASS | No REC | AMEND |
|---------------------------------|---------|-------------|--------|-------|
| <i>[Signature]</i>              | ✓       |             |        |       |
| <i>[Signature]</i>              | ✓       |             |        |       |
| <i>[Signature]</i>              |         |             |        |       |
| COCHAIR: <i>[Signature]</i>     | ✓       |             |        |       |
| COCHAIR: <i>[Signature]</i>     | ✓       |             |        |       |

# FISCAL NOTE

REPORTED OUT

MAY 15 2005

SENATE FINANCE  
COMMITTEE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: SB 121  
(S) Publish Date: 2/28/05

Revision Date/Time (Not if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title State of Alaska Capital Corporation RDU State of Alaska Capital Corporation  
Component \_\_\_\_\_  
Sponsor Rules Committee  
Requester Request of the Governor Component No. 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2006         | FY 2007         | FY 2008         | FY 2009         | FY 2010         | FY 2011         |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Personal Services      |                 |                 |                 |                 |                 |                 |
| Travel                 | 10.0            |                 |                 |                 |                 |                 |
| Contractual            | 6,700.0         | 100.0           | 100.0           | 100.0           | 100.0           | 100.0           |
| Supplies               |                 |                 |                 |                 |                 |                 |
| Equipment              |                 |                 |                 |                 |                 |                 |
| Land & Structures      |                 |                 |                 |                 |                 |                 |
| Grants & Claims        |                 |                 |                 |                 |                 |                 |
| Debt Service           | 9,782.9         | 39,764.0        | 36,490.4        | 36,354.4        | 36,400.6        | 36,460.5        |
| <b>TOTAL OPERATING</b> | <b>16,492.9</b> | <b>39,864.0</b> | <b>36,590.4</b> | <b>36,454.4</b> | <b>36,500.6</b> | <b>36,560.5</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|

**FUND SOURCE** (Thousands of Dollars)

|  |                 |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1002 Federal Receipts                                      |                 |                 |                 |                 |                 |                 |
| 1003 GF Match  |                 |                 |                 |                 |                 |                 |
| 1004 GF  |                 |                 |                 |                 |                 |                 |
| 1005 GF/Program Receipts                                   |                 |                 |                 |                 |                 |                 |
| Bond Proceeds  | 6,700.0         |                 |                 |                 |                 |                 |
| Alaska Capital Income Account and Earnings on Fund Balance | 9,792.9         | 39,864.0        | 36,590.4        | 36,454.4        | 36,500.6        | 36,560.5        |
| <b>TOTAL</b>   | <b>16,492.9</b> | <b>39,864.0</b> | <b>36,590.4</b> | <b>36,454.4</b> | <b>36,500.6</b> | <b>36,560.5</b> |

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

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

The bill creates the State of Alaska Capital Corporation which will enter into operating agreements that will provide annual appropriations equal to the annual available fund balance in the Alaska Capital Income Account. This stream of payments will be leveraged into up to \$350 million in bond proceeds that will be placed into a construction fund to pay for capital improvements and costs of issuing bonds.

The Corporation will enter into flexible payment operating agreements that will provide the ability to appropriate fund balance in the Alaska Capital Income Account to the Corporation. As fund balance fluctuates with volatility, appropriated operating agreement payments will also fluctuate.

Prepared by: Deven Mitchell, Debt Manager Phone \_\_\_\_\_  
Division: Treasury Date/Time: 2/11/05 8:39 AM  
Approved by: Jerry Burnett, Special Assistant to the Commissioner Date: 2/11/2005  
Agency: Department of Revenue

FISCAL NOTE # 1

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. SB 121

ANALYSIS CONTINUATION

The corporation will leverage the flexible payment operating agreements through the issuance of flexible amortization bonds. The flexible amortization bonds will provide the ability to manage possible volatility in available fund balance in the Alaska Capital Account. A minimum annual payment amount will be established through a 40 year interest only payment schedule with a 40 year balloon principal payment. The actual annual payment will be based on available appropriations to the corporation, and as excess funds are received principal will be retired.

Annual amount available for appropriation in this fiscal note are based on the projected realized return rate of 7.61% on funds from fiscal year 2005 through fiscal year 2016. At this level of realized earnings the annual appropriation to the corporation will be \$33,525,656. All available fund balance in the Alaska Capital Income Account will be requested for appropriation by the corporation on an annual basis. The actual account balance is expected to vary from year to year, but the assumption of an average annual realized return rate of 7.61% is below the last 20 year average of 8.94%.

Although only \$9.8 million in expenditures funded from the Alaska Capital Income Account in fiscal year 2005 and 2006 the corporation will receive an appropriation for the available fund balance in the account in both 2005 and 2006. The balance of the appropriation will be used to fund structural enhancements including a debt service reserve fund equal to ten percent of par on outstanding bonds, and revenue fund balance equal to the upcoming year's nominal interest payment.

The \$6.6 million in contractual costs in fiscal year 2006 will fund costs associated with creating the structure for and issuing the bonds of the corporation. These costs will include underwriters, financial advisor, bond counsel, rating agencies, publishing, advertising, and other associated expenses of the corporation. The annual \$100,000 increment will fund annual operation and accounting costs of the corporation.

---

BACKGROUND PAPER

**Use of the Amerada Hess  
Settlement to Fund  
Capital Projects**

*Office of Management and Budget*

---

March 8, 2005

## Amerada Hess Royalty Oil Dispute and Settlement

### Settlement's History

The fight with North Slope oil producers started in 1977, almost as soon as oil began to flow through the Trans-Alaska pipeline. That year the state filed a lawsuit accusing oil companies of undervaluing their oil and gas and thus denying the state the full value of its 12.5% royalty share. In 1989, the state filed claims against 15 companies for \$902 million. The dispute became known as the Amerada Hess case, named after the first company listed alphabetically in the lawsuit.<sup>1</sup>

Royalty oil is the state's ownership share of the crude coming out of the ground. The state takes its royalty share in two ways: in-kind, which is sold to Railbelt refineries and a Fairbanks electrical utility; and in value, which is sold back to the producers and priced at the wellhead net of transportation costs. The problem came in figuring out how to value the royalty oil. The state claimed that the companies used "bookkeeping fictions and intracorporate transactions" to under value the oil at market and overstate transportation costs, which combined to artificially lower the wellhead value.<sup>2</sup> The production at issue occurred between 1977 and 1986 from the Kuparuk River and Prudhoe Bay oilfields.

The case became the longest running legal battle between the state and North Slope producers, lasting 18 years. One issue that came up early in the course of the litigation was that since 25% of royalty payments are dedicated to the Permanent Fund, earnings from settlement payments would eventually trickle into annual dividends paid out to Alaska residents. This issue was first raised in 1987 when three oil company defendants filed a lawsuit in federal district court to enjoin the Amerada Hess case from proceeding to trial in any court in Alaska. They claimed they could not receive a fair trial in Alaska because every judge and juror had a financial interest in the outcome of the case by reason of their respective annual Permanent Fund Dividends, which would be increased by any earnings derived from damages awarded to the state in Amerada Hess.<sup>3</sup>

---

<sup>1</sup> The Amerada Hess company was actually a very minor player in the case and settled out of court with the state in 1989 for \$319,000.

<sup>2</sup> "State Settles Oil Fight - \$100 Million Ends 18-Year Battle," Ralph Thomas, *Anchorage Daily News*, April 7, 1995.

<sup>3</sup> Transmittal from Governor Hickel for SB 213, March 18, 1991.

## *Amerada Hess Royalty Oil Dispute and Settlement*

In June 1988, the federal district court dismissed the action, ruling that the due process issue must be addressed in the state court before being asserted in the federal court. The companies appealed. In 1989, the Ninth Circuit Court of Appeals encouraged the parties to seek a legislative solution. Governor Cowper immediately introduced corrective legislation. This was ultimately passed into law (Ch 38, SLA 1989) in May 1989. Codified as AS 43.23.045 (b) Dividend Fund, it provided that:

*income earned on money awarded after trial in State v. Amerada Hess, et al, 1JU-77-847 Civ. (Superior Court, First Judicial District) shall be treated in the same manner as the Alaska permanent fund except that it is not available for distribution to the (dividend) fund, and shall be annually deposited into the principal of the Alaska permanent fund.*

Independently, in April of the same year the Ninth Circuit affirmed the district court's disposition, requiring the oil companies to raise the issue of disqualification in state Superior Court. The companies sought review by the U.S. Supreme Court but their petition was denied.

In October 1990, the companies filed a motion to disqualify the Alaska courts. In March 1991, Judge Carpeneti ruled that AS 43.23.045(b) removes most, but not all, of the sources of revenue flowing to the Permanent Fund dividend that created the bias. He also found that the statute failed to prevent additional monies from going to the dividend fund as a result of the so-called Amerada Hess price adjustment clauses in royalty-in-kind (RIK) contracts. He agreed with claims by the oil companies that if the state prevailed, it would result in a \$300 million judgement against refineries and the Fairbanks utility for in-kind purchases. Part of any judgement then would flow to the Permanent Fund and increase Permanent Fund Dividends (by \$10 in the first year, increasing to about \$40 in FY2015).

According to Judge Carpeneti, this failure to deal with RIK recoveries would require the Alaska court to disqualify itself. The result was another piece of legislation introduced by Governor Hickel in March of 1991 that became part of a more comprehensive rewrite of Permanent Fund statutes (19 Ch 134 SLA 1992) that included repealing AS 43.23.045(b) above. A new section was added to AS 37.13.145 Disposition of Income statute:

*(d) Notwithstanding (b) of this section, income earned on money awarded in or received as a result of State v. Amerada Hess et al, 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgement, or adjustment to a royalty-in-kind*

*contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available to the dividend fund, and shall be annually deposited to the principal of the Alaska permanent fund.*

One final note on the legal history: 19 Ch. 134 SLA 1992 contained a conditional repealer stating that if the Alaska Supreme Court made a final determination that "no judge or juror is disqualified from serving as a judge or juror solely because the judge or juror may qualify to receive a permanent fund dividend," subsection (d) would be repealed, i.e., earnings on the Amerada Hess principal would be added into the annual dividend calculation.

Eventually, almost all of the state's claims were settled out of court. The final piece fell into place in 1995, when the state settled an assortment of gas royalty claims against three companies—BP, Exxon, and Mobil—for the last \$100 million of about \$1 billion in total settlements. Altogether the state spent nearly \$100 million in building its legal case. Over the course of the litigation, the share of settlements deposited into the Permanent Fund totaled \$194.1 million. Realized earnings on the Amerada Hess settlement money since the first deposit in FY 92 have added another \$230.3 million to the settlement principal, which totaled \$424.4 million at the end of FY 04.

## Amerada Hess Settlement

|         | Principal    |                    |             | Realized Earnings (over inflation) |                    |             | Inflation-proofing |                   |            | Total Settlement<br>Principal |
|---------|--------------|--------------------|-------------|------------------------------------|--------------------|-------------|--------------------|-------------------|------------|-------------------------------|
|         | Beginning    | Contributions      | Ending      | Beginning                          | Additions          | Ending      | Beginning          | Additions         | Ending     |                               |
| FY 1992 | Inception    | 82,099,000         | 82,099,000  | 0                                  | 0                  | 0           | 0                  | 2,005,000         | 2,005,000  | 84,104,000                    |
| FY 1993 |              | 16,411,000         | 98,510,000  | 0                                  | 4,641,000          | 4,641,000   | 2,005,000          | 4,541,000         | 6,546,000  | 109,697,000                   |
| FY 1994 |              | 13,213,000         | 111,723,000 | 4,641,000                          | 5,620,000          | 10,261,000  | 6,546,000          | 3,615,000         | 10,161,000 | 132,145,000                   |
| FY 1995 |              | 61,717,000         | 173,440,000 | 10,261,000                         | 6,145,000          | 16,406,000  | 10,161,000         | 5,060,000         | 15,221,000 | 205,067,000                   |
| FY 1996 |              | 2,860,000          | 176,300,000 | 16,406,000                         | 18,441,000         | 34,847,000  | 15,221,000         | 5,864,000         | 21,085,000 | 232,232,000                   |
| FY 1997 |              | 7,847,000          | 184,147,000 | 34,847,000                         | 21,377,000         | 56,224,000  | 21,085,000         | 7,058,000         | 28,143,000 | 268,514,000                   |
| FY 1998 |              | 24,622,000         | 208,769,000 | 56,224,000                         | 31,254,000         | 87,478,000  | 28,143,000         | 6,853,000         | 34,996,000 | 331,243,000                   |
| FY 1999 |              | 0                  | 208,769,000 | 87,478,000                         | 36,086,000         | 123,564,000 | 34,996,000         | 5,102,000         | 40,098,000 | 372,431,000                   |
| FY 2000 |              | 6,886,000          | 215,655,000 | 123,564,000                        | 30,331,000         | 153,895,000 | 40,098,000         | 8,307,000         | 48,405,000 | 417,955,000                   |
| FY 2001 |              | 13,587,000         | 229,242,000 | 153,895,000                        | 7,687,000          | 161,582,000 | 48,405,000         | 14,543,000        | 62,948,000 | 453,772,000                   |
| FY 2002 |              | (35,159,000)       | 194,083,000 | 161,582,000                        | (23,384,000)       | 138,198,000 | 62,948,000         | (5,154,000)       | 62,112,000 | 394,393,000                   |
| FY 2002 |              | 0                  | 194,083,000 | 138,198,000                        | 0                  | 138,198,000 | 62,112,000         | 4,318,000         | 62,112,000 | 394,393,000                   |
| FY 2003 |              | 0                  | 194,083,000 | 138,198,000                        | 0                  | 138,198,000 | 62,112,000         | 6,160,000         | 68,272,000 | 400,553,000                   |
| FY 2004 |              | 0                  | 194,083,000 | 138,198,000                        | 14,713,000         | 152,911,000 | 68,272,000         | 9,133,000         | 77,405,000 | 424,399,000                   |
|         | <b>Total</b> | <b>194,083,000</b> |             | <b>Total</b>                       | <b>152,911,000</b> |             | <b>Total</b>       | <b>77,405,000</b> |            |                               |

Note: FY2002 reductions are the result of an audit correction of an over deposit of settlement principal and related earnings.

## **Legislation to Leverage Amerada Hess Settlement Earnings To Finance Capital Projects**

### **Summary**

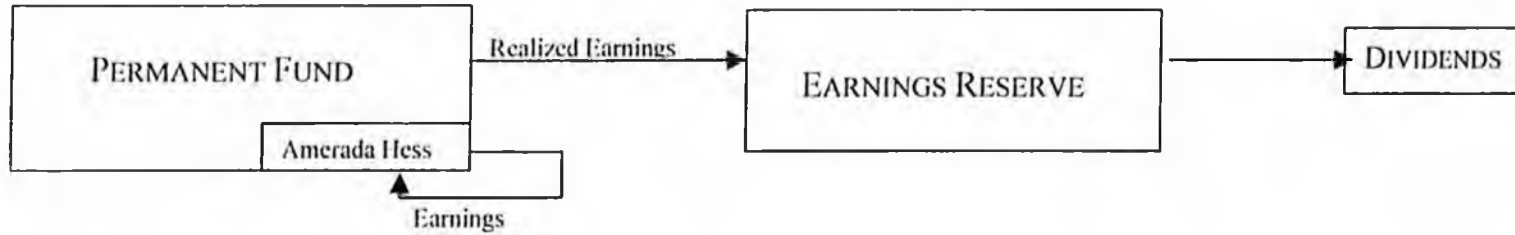
1. **Create the Alaska Capital Fund (HB 187, SB 122)**
  - Legislation establishes the Alaska Capital Fund
  - The realized earnings off of the Amerada Hess principal (expected to be in the \$30+ million/yr. range) would be deposited into the Alaska Capital Fund.
  - The Alaska Capital Fund is established within the Earnings Reserve Account of the Permanent Fund
    - ✓ The purpose of putting it in the ERA instead of the general fund is so the balance can be carried forward without being subject to the annual CBR sweep.
    - ✓ The ability to carry fund balance forward is critical to providing security of payment to Wall Street despite expected volatility of earnings.
    - ✓ The Alaska Capital Fund would be invested the same as the ERA and retain its own earnings.
    - ✓ The Alaska Capital Fund would accumulate realized earnings for 2 years, beginning in FY 05, before being drawn down to pay debt service.
    - ✓ The accumulated balance would fund reserve accounts to secure debt.
  - AS 37.13.145(c) would be changed so there would be no inflation proofing of the Amerada Hess principal from the Alaska Capital Fund.
    - ◆ Changes are made to the Alaska Permanent Fund section of the FY 05 and 06 budget bills so that Amerada Hess realized earnings are deposited into the Alaska Capital Fund and Amerada Hess principal is exempt from inflation proofing.
    - ◆ The Amerada Hess portion of Permanent Fund principal would remain at \$424 million thereafter.

**2. State of Alaska Capital Corporation Created (HB 188, SB 121)**

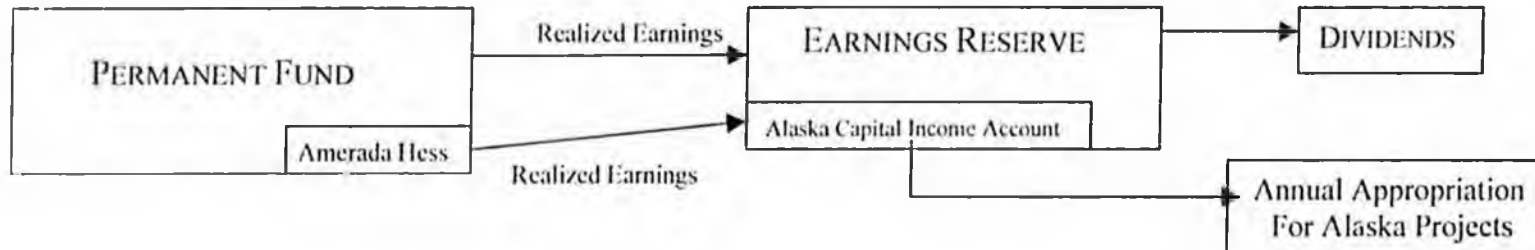
- Legislation establishes the State of Alaska Capital Corporation. The Corporation is closely linked to the Department of Revenue and State Bond Committee that would issue stand-alone moral obligation debt of the state totaling \$343 million.
  - ◆ The Alaska Capital Fund would be the source of revenue to pay debt service on bonds issued by the corporation.
  - ◆ Historically the Permanent Fund average annual earnings have been 9.64% and the ten year forecasted rate of realized return is 7.04%.
  - ◆ Modeling shows debt service may be paid with a realized rate of return as low as 5.5%, but given market volatility it is extremely important to be able to withstand short term bear markets.
  - ◆ A debt service reserve fund and an advance funded debt payment account along with the fund balance of the Alaska Capital Fund provide a high probability of an available funding source.
- Debt service on the bonds will be paid through annual legislative appropriations from the Alaska Capital Fund to the Corporation.
  - ◆ The moral obligation of the state is necessary to provide further assurance to bondholders that annual debt service payments will continue even during improbable unanticipated prolonged down market periods, when there may be low or negative Amerada Hess realized earnings paid into the Alaska Capital Fund.
  - ◆ Consultations with credit rating agencies and financial advisors have provided assurance that there will be no negative effect on the state's credit rating by issuing these bonds.
  - ◆ Investment grade ratings in the "A" range are expected on the bonds.
  - ◆ Bonds will be issued with a requirement to pay interest only with a final, theoretical principal maturity date of 20 years. Purchasers, however, understand that the actual repayment of principal will be based on Amerada Hess earnings deposited into the Alaska Capital Fund. Expectations are that the bonds will be paid off much sooner than 20 years.

# ALASKA CAPITAL INCOME ACCOUNT

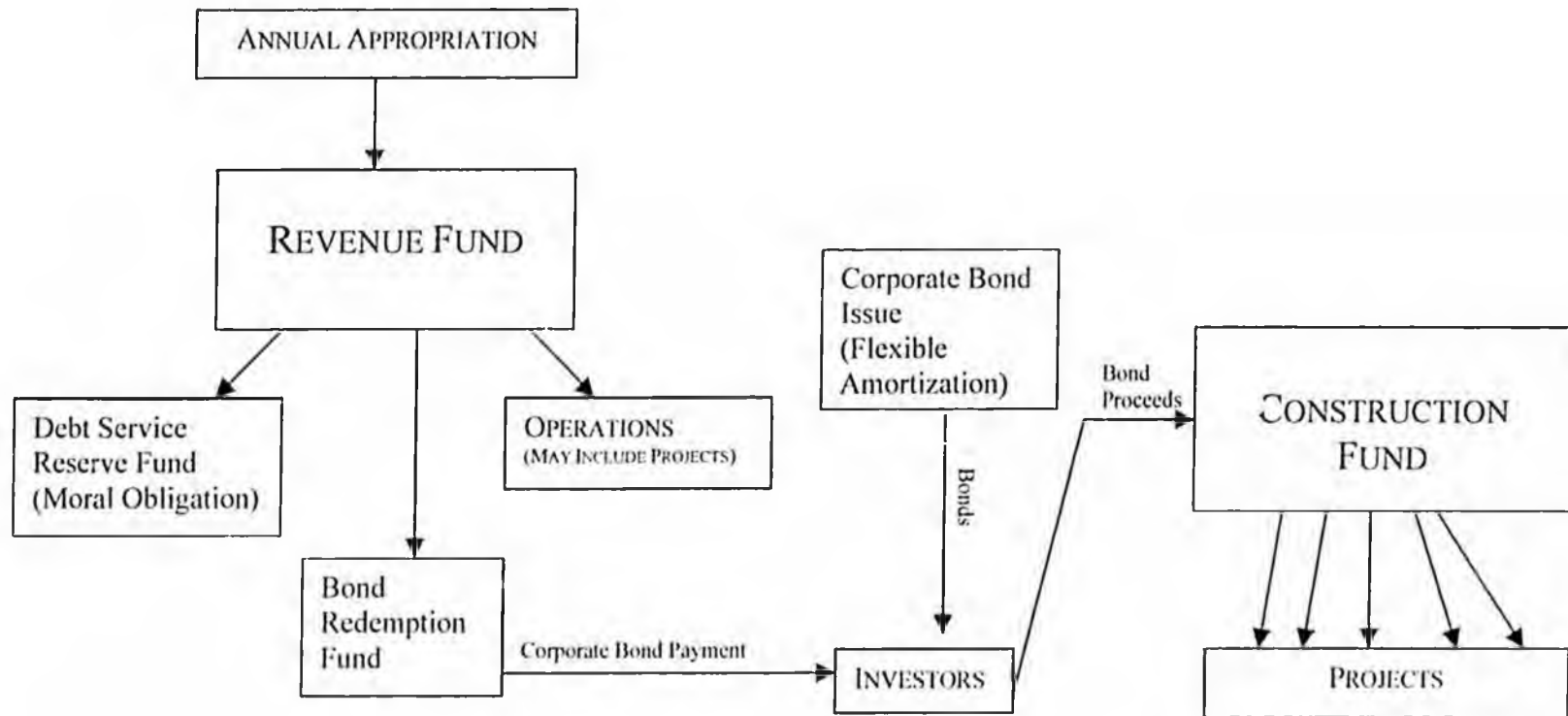
## CURRENT



## PROPOSED (HB 187, SB 122)



STATE OF ALASKA CAPITAL CORPORATION (HB 188, SB 121)



| Alaska Capital Income Account (HB 187, SB 122) |                        |                   |                       |                    |                |  |  |   |  |
|--|------------------------|-------------------|-----------------------|--------------------|----------------|--|--|---|--|
| Am Hess Principal                              |                        |                   | 424,399,000           |                    |                |  |  |   |  |
| Am Hess Transfer Rate                          |                        |                   |                       |                    |                |  |  |   |  |
| Blended Rate                                   |                        |                   |                       |                    |                |  |  |   |  |
|  | Realized Earnings Rate | Beginning Balance | Amerada Hess Earnings | Transfer to SOA CC | Ending Balance |  |  |   |  |
| 2005   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2006   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2007   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2008   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2009   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2010   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2011   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2012   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2013   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2014   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2015   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2016   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2017   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2018   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2019   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2020   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2021   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2022   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  | Average annualized realized earnings rate             |  |
| 2023   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  | 7.04%   |  |
| 2024   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  | * Total return is forecast at 7.61% which will result |  |
| 2025   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  | in AM Hess principal growth of .57% annually that is  |  |
| 2026   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  | not reflected in this model                           |  |
| 2027   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2028   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2029   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2030   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2031   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2032   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2033   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2034   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2035   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2036   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2037   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |
| 2038   | 7.04%                  | -                 | 29,877,690            | 29,877,690         | -              |  |  |   |  |

**State of Alaska Capital Corporation (HB 188, SB 121)**

Revenue Fund

|      | Borrowing Rate | Earnings Rate | Beginning Balance | Lease Appropriation Received | Outstanding Bonds | Nominal Interest Payments | Flexible Principal Payments | Earnings on Fund Balance | Transfers In | DSRF or CF Transfers out / Operations Expense | Ending Balance |
|------|----------------|---------------|-------------------|------------------------------|-------------------|---------------------------|-----------------------------|--------------------------|--------------|---|----------------|
| 2005 | 6.00%          | 2.00%         | -                 | 29,877,690                   | -                 | -                         | -                           | -                        | -            | -   | 29,877,690     |
| 2006 | 6.00%          | 2.00%         | 29,877,690        | 29,877,690                   | 326,096,837       | 9,782,905                 | -                           | 1,134,948                | -            | 32,709,684                                    | 18,397,738     |
| 2007 | 6.00%          | 2.00%         | 18,397,738        | 29,877,690                   | 326,096,837       | 19,565,810                | -                           | 1,792,385                | -            | 100,000                                       | 30,402,002     |
| 2008 | 6.00%          | 2.00%         | 30,402,002        | 29,877,690                   | 326,096,837       | 19,565,810                | 21,148,072                  | 1,821,278                | -            | 100,000                                       | 21,287,088     |
| 2009 | 6.00%          | 2.00%         | 21,287,088        | 29,877,690                   | 304,948,765       | 18,296,926                | 14,570,926                  | 1,716,391                | -            | 100,000                                       | 19,913,317     |
| 2010 | 6.00%          | 2.00%         | 19,913,317        | 29,877,690                   | 290,377,839       | 17,422,670                | 14,945,666                  | 1,693,684                | -            | 100,000                                       | 19,016,354     |
| 2011 | 6.00%          | 2.00%         | 19,016,354        | 29,877,690                   | 275,432,173       | 16,525,930                | 15,842,183                  | 1,675,566                | -            | 100,000                                       | 18,101,496     |
| 2012 | 6.00%          | 2.00%         | 18,101,496        | 29,877,690                   | 259,589,990       | 15,575,399                | 16,828,387                  | 1,656,724                | -            | 100,000                                       | 17,132,123     |
| 2013 | 6.00%          | 2.00%         | 17,132,123        | 29,877,690                   | 242,761,603       | 14,565,696                | 17,878,420                  | 1,636,733                | -            | 100,000                                       | 16,102,429     |
| 2014 | 6.00%          | 2.00%         | 16,102,429        | 29,877,690                   | 224,883,183       | 13,492,991                | 18,994,137                  | 1,615,497                | -            | 100,000                                       | 15,008,487     |
| 2015 | 6.00%          | 2.00%         | 15,008,487        | 29,877,690                   | 205,889,046       | 12,353,343                | 20,179,492                  | 1,592,935                | -            | 100,000                                       | 13,846,278     |
| 2016 | 6.00%          | 2.00%         | 13,846,278        | 29,877,690                   | 185,709,554       | 11,142,573                | 21,438,821                  | 1,568,966                | -            | 100,000                                       | 12,611,539     |
| 2017 | 6.00%          | 2.00%         | 12,611,539        | 29,877,690                   | 164,270,733       | 9,856,244                 | 22,776,740                  | 1,543,500                | -            | 100,000                                       | 11,299,744     |
| 2018 | 6.00%          | 2.00%         | 11,299,744        | 29,877,690                   | 141,493,993       | 8,489,640                 | 24,198,155                  | 1,516,446                | -            | 100,000                                       | 9,906,085      |
| 2019 | 6.00%          | 2.00%         | 9,906,085         | 29,877,690                   | 117,295,838       | 7,037,750                 | 25,708,274                  | 1,487,703                | -            | 100,000                                       | 8,425,453      |
| 2020 | 6.00%          | 2.00%         | 8,425,453         | 29,877,690                   | 91,587,564        | 5,495,254                 | 27,312,635                  | 1,457,166                | -            | 100,000                                       | 6,852,420      |
| 2021 | 6.00%          | 2.00%         | 6,852,420         | 29,877,690                   | 64,274,929        | 3,856,496                 | 29,017,118                  | 1,424,724                | -            | 100,000                                       | 5,181,219      |
| 2022 | 6.00%          | 2.00%         | 5,181,219         | 29,877,690                   | 35,257,811        | 2,115,469                 | 30,827,972                  | 1,719,648                | 32,609,684   | 100,000                                       | 36,344,800     |
| 2023 | 6.00%          | 2.00%         | 36,344,800        | 29,877,690                   | 4,429,839         | 265,790                   | 4,429,839                   | 1,646,374                | -            | 100,000                                       | 63,073,234     |
| 2024 | 6.00%          | 2.00%         | 63,073,234        | 29,877,690                   | -                 | -                         | -                           | 1,574,991                | -            | 100,000                                       | 94,425,915     |
| 2025 | 6.00%          | 2.00%         | 94,425,915        | 29,877,690                   | -                 | -                         | -                           | 2,208,379                | -            | 100,000                                       | 126,411,983    |
| 2026 | 6.00%          | 2.00%         | 126,411,983       | 29,877,690                   | -                 | -                         | -                           | 2,854,562                | -            | 100,000                                       | 159,044,235    |
| 2027 | 6.00%          | 2.00%         | 159,044,235       | 29,877,690                   | -                 | -                         | -                           | 3,513,800                | -            | 100,000                                       | 192,335,724    |
| 2028 | 6.00%          | 2.00%         | 192,335,724       | 29,877,690                   | -                 | -                         | -                           | 4,186,355                | -            | 100,000                                       | 226,299,769    |
| 2029 | 6.00%          | 2.00%         | 226,299,769       | 29,877,690                   | -                 | -                         | -                           | 4,872,497                | -            | 100,000                                       | 260,949,956    |
| 2030 | 6.00%          | 2.00%         | 260,949,956       | 29,877,690                   | -                 | -                         | -                           | 5,572,501                | -            | 100,000                                       | 296,300,146    |
| 2031 | 6.00%          | 2.00%         | 296,300,146       | 29,877,690                   | -                 | -                         | -                           | 6,286,646                | -            | 100,000                                       | 332,364,482    |
| 2032 | 6.00%          | 2.00%         | 332,364,482       | 29,877,690                   | -                 | -                         | -                           | 7,015,219                | -            | 100,000                                       | 369,157,391    |
| 2033 | 6.00%          | 2.00%         | 369,157,391       | 29,877,690                   | -                 | -                         | -                           | 7,758,510                | -            | 100,000                                       | 406,693,590    |
| 2034 | 6.00%          | 2.00%         | 406,693,590       | 29,877,690                   | -                 | -                         | -                           | 8,516,817                | -            | 100,000                                       | 444,988,096    |
| 2035 | 6.00%          | 2.00%         | 444,988,096       | 29,877,690                   | -                 | -                         | -                           | 9,290,443                | -            | 100,000                                       | 484,056,229    |
| 2036 | 6.00%          | 2.00%         | 484,056,229       | 29,877,690                   | -                 | -                         | -                           | 10,079,698               | -            | 100,000                                       | 523,913,617    |
| 2037 | 6.00%          | 2.00%         | 523,913,617       | 29,877,690                   | -                 | -                         | -                           | 10,884,898               | -            | 100,000                                       | 564,576,205    |
| 2038 | 6.00%          | 2.00%         | 564,576,205       | 29,877,690                   | -                 | -                         | -                           | 11,706,365               | -            | 100,000                                       | 606,060,259    |

**State of Alaska Capital Corporation (HB 188, SB 121)**

Reserve Fund

|      | Earnings Rate | Beginning Balance | Additional Contributions | Earnings on Fund Balance | Earnings Transfer Out | Termination of Reserve | Ending Balance |
|------|---------------|-------------------|--------------------------|--------------------------|-----------------------|------------------------|----------------|
| 2005 | 4.00%         | -                 |                          |                          |                       | -                      | -              |
| 2006 | 4.00%         | -                 | 32,609,684               | 652,194                  | 652,194               | -                      | 32,609,684     |
| 2007 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2008 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2009 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2010 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2011 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2012 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2013 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2014 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2015 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2016 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2017 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2018 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2019 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2020 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2021 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2022 | 4.00%         | 32,609,684        |                          | 1,304,387                | 1,304,387             | -                      | 32,609,684     |
| 2023 | 4.00%         | 32,609,684        |                          | 652,194                  | 652,194               | 32,609,684             | -              |
| 2024 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2025 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2026 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2027 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2028 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2029 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2030 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2031 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2032 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2033 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2034 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2035 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2036 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2037 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |
| 2038 | 4.00%         | -                 |                          | -                        | -                     | -                      | -              |

| State of Alaska Capital Corporation (HB 188, SB 121) |               |                   |                          |                          |                   |                |   |  |  |  |  |
|--|---------------|-------------------|--------------------------|--------------------------|-------------------|----------------|---|--|--|--|--|
| Construction Fund                                    |               |                   |                          |                          |                   |                | Run Solver to force cell g38 to equal zero by changing cell d6. |  |  |  |  |
|  | Earnings Rate | Beginning Balance | Bond Proceeds /Transfers | Earnings on Fund Balance | Project Cash Flow | Ending Balance |   |  |  |  |  |
| 2005   | 3.00%         | -                 |                          | -                        |                   | -              |   |  |  |  |  |
| 2006   | 3.00%         | -                 | 326,096,837              | 9,625,031                | 20,150,000        | 315,571,868    |   |  |  |  |  |
| 2007   | 3.00%         | 315,571,868       |                          | 3,458,439                | 88,467,690        | 230,562,617    |   |  |  |  |  |
| 2008   | 3.00%         | 230,562,617       |                          | 2,221,338                | 84,694,733        | 148,089,222    |   |  |  |  |  |
| 2009   | 3.00%         | 148,089,222       |                          | 822,628                  | 94,070,000        | 54,841,850     |   |  |  |  |  |
| 2010   | 3.00%         | 54,841,850        |                          | 445,650                  | 25,577,500        | 29,710,000     |   |  |  |  |  |
| 2011   | 3.00%         | 29,710,000        |                          | 375,000                  | 5,085,000         | 25,000,000     |   |  |  |  |  |
| 2012   | 3.00%         | 25,000,000        |                          | 0                        | 25,000,000        | 0              |   |  |  |  |  |
| 2013   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2014   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2015   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2016   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2017   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2018   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2019   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2020   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2021   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2022   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2023   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2024   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2025   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2026   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2027   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2028   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2029   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2030   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2031   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2032   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2033   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
| 2034   | 3.00%         | 0                 |                          | 0                        |                   | 0              |   |  |  |  |  |
|  |               |                   |                          | total projects           | 343,044,923.00    |                |   |  |  |  |  |

Cheryl Frasca  
Re: Repeal of *Amerada Hess* earning sequestration  
requirement in AS 37.13.145(d)

January 28, 2005

## MEMORANDUM

State of Alaska  
Department of Law

**To:** Cheryl Frasca  
Office of the Governor

**Date:** January 28, 2005

**From:** Wilson L. Condon  
Assistant Attorney General  
Oil, Gas & Mining-Anchorage

**Tel. No.:** 269-5255

**File No.:** N/A

**Re:** Repeal of *Amerada Hess*  
earning sequestration  
requirement in AS 37.13.145(d)

### I. INTRODUCTION

In 1991 the legislature enacted the current version of AS 37.13.145(d) as part of provisions governing management of the Alaska Permanent Fund Corporation ("APFC"). The statute imposes a financial sequestration requirement on earnings from settlement proceeds received by the State in ANS Royalty Litigation, commonly known as the *Amerada Hess* ("*AmHess*") litigation. In relevant part, AS 37.13.145(d) requires that:

[I]ncome earned on money awarded in or received as a result of State v. *Amerada Hess*, et al., IJU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgment, or adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money . . . is not available for distribution to the dividend fund, and shall be annually deposited into the principal of the Alaska permanent fund.

The legislature adopted the statute in order to negate an argument advanced by producers during the *AmHess* litigation that no Alaska judge or juror could be impartial in the adjudication of the matter because they had a financial stake in the outcome. According to the producers, any judgment returned would ultimately be deposited into the Alaska Permanent Fund, affecting the size of the annual Permanent Fund Dividend ("PFD").

Cheryl Frasca  
Re: Repeal of *Amerada Hess* earning sequestration  
requirement in AS 37.13.145(d)

January 28, 2005

All issues in the *AmHess* litigation were concluded and the case dismissed in 1995. Since the statute was adopted, the APFC has always used a separate sub-account to isolate any *AmHess* proceeds and the income earned on those proceeds. This sub-account is part of the principal account of the permanent fund. The purpose of the sub-account is: (1) to ensure that *AmHess* earnings are not included in the amount from which the PFD is annually paid; and (2) to track the amount to be transferred annually from the Fund's realized earnings account to Fund principal, and thereafter be allocated to the *AmHess* sub-account. Presently, no additional *AmHess* litigation proceeds are due from the producers, but annual earnings allocations and adjustments continue to be handled in conformity with AS 37.13.145(d).

## II. QUESTIONS PRESENTED

1. Can the legislature repeal AS 37.13.145 at this time?

## III. SHORT ANSWER

1. Yes, the legislature has authority to repeal the provisions of AS 37.13.145. However, the bias challenge raised by the producers in *AmHess* is one that is capable of repetition in future litigation. Most likely, it would be raised again.<sup>1</sup> Therefore, repeal of AS 37.13.145 may undermine the State's position in future litigation that Alaska judges and jurors are not financially impacted by litigation proceeds. The producers will argue that an agreement by the State to segregate future litigation proceeds is illusory. They will contend that any segregation requirement will eventually be repealed, and the money thereafter commingled with PFD funds. Thus, under their argument, judges and jurors will retain an expectation of recovery from the proceeds in the matter before them, thereby requiring their disqualification.

## IV. DISCUSSION

As long as there are no contractual promises enforceable under the federal Contract Clause,<sup>2</sup> a valid general act may effectively repeal or supersede the provisions of a prior

---

<sup>1</sup> This is so because the disqualification issue was never fully litigated on the merits through appeal in either the state or federal litigation arising out of *Hess*.

<sup>2</sup> U.S. Const. art. 1, § 10, cl. 2 ("[n]o State shall . . . pass any . . . Law impairing the Obligation of Contracts.").

Cheryl Frasca  
Re: Repeal of *Amerada Hess* earning sequestration  
requirement in AS 37.13.145(d)

January 28, 2005

act.<sup>3</sup> Here, there is no contractual promise with the *AmHess* parties to maintain a sequestration requirement for any fixed period of time, or indefinitely. No judicial order mandates the treatment. The reasons prompting enactment of the provision became moot when all issues in the case were settled in 1995. Thus, as a legal matter, the legislature is presently free to repeal the sequestration requirements of AS 37.13.145(d).

In practical terms, repeal of AS 37.13.145(d) would mean that the annual realized income of the Fund would be increased by the amount earned from approximately \$400 million of assets. Under the current distribution formula, this means that the amount of the annual PFD would be increased as a result of inclusion of *AmHess* proceeds in "the amount available for distribution to the dividend fund."<sup>4</sup> The *AmHess* judges and potential jurors will now belatedly realize larger PFDs from repeal of the provision.

Although no legal obstacle impedes repeal of AS 37.13.145(d), the legislature may care to balance the benefits of such repeal versus the potential negative consequences. In the benefit column, there will be fairly insubstantial savings of APFD accounting time and bookkeeping entries isolating the funds and the earnings on those funds. Also in the benefit column, there will be an increased annual PFD available for all Alaskans. In the negative column, the legislature may have furnished the producers an evidentiary basis to argue in future litigation that "we all know that proceeds of this lawsuit will eventually find their way into the PFD, and therefore, no Alaskan judge or juror can be impartial."

I cannot say that a future state or federal court would entertain such an argument based on a one-time incidence of repeal. It is even more tenuous to suggest, as the producers would, that Alaskan judges and jurors follow the requirements of PFD accounting so closely to know of the repeal of AS 37.13.145(d). However, it may unnecessarily complicate future litigation. Therefore, in the absence of a more compelling justification for repeal than I currently see, I would counsel leaving the statute on the books.

WLC:AMP:cb

---

<sup>3</sup> *State v. Lewis*, 559 P.2d 630 (Alaska 1977), *cert. denied*, 432 U.S. 901.

<sup>4</sup> AS 37.13.145(d).

The following Capital Projects are proposed for  
FY 06 funding by the Alaska Capital Fund

**Project Review Listing**  
**FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Administration**

| <u>AP/AL Project Title</u>  |                            | <u>Fund Source Total</u> |
|---|----------------------------|--------------------------|
| AP Public Building Facilities Projects                                  | 2000 Bond Funds            | \$6,902,000              |
| AP Maintenance Projects for Facilities Outside the Public Building Fund | 2000 Bond Funds            | \$3,098,000              |
|   | <b>General Fund Total:</b> | <b>0</b>                 |
|   | <b>Federal Total:</b>      | <b>0</b>                 |
|   | <b>Other Total:</b>        | <b>\$10,000,000</b>      |
|   | <b>Department Total:</b>   | <b>\$10,000,000</b>      |

**Department of Commerce, Community, and Economic Development**

| <u>AP/AL Project Title</u>        |                            | <u>Fund Source Total</u> |
|-----------------------------------|----------------------------|--------------------------|
| AP Energy Projects                | 2000 Bond Funds            | \$250,000                |
| AP City of Unalaska - Boat Harbor | 2000 Bond Funds            | \$2,000,000              |
| AP Tongass Coast Aquarium, Inc.   | 2000 Bond Funds            | \$100,000                |
|                                   | <b>General Fund Total:</b> | <b>0</b>                 |
|                                   | <b>Federal Total:</b>      | <b>0</b>                 |
|                                   | <b>Other Total:</b>        | <b>\$2,350,000</b>       |
|                                   | <b>Department Total:</b>   | <b>\$2,350,000</b>       |

**Department of Corrections**

| <u>AP/AL Project Title</u>   |                            | <u>Fund Source Total</u> |
|--|----------------------------|--------------------------|
| AP Institution Closed Circuit TV System Recording                                    | 2000 Bond Funds            | \$2,500,000              |
| AP Deferred Maintenance, Repair, and Renovations                                     | 2000 Bond Funds            | \$8,000,000              |
| AP Statewide Equipment Replacement   | 2000 Bond Funds            | \$450,000                |
| AP Community Jails Life, Safety and Security Renovations and Miscellaneous Equipment | 2000 Bond Funds            | \$100,000                |
|  | <b>General Fund Total:</b> | <b>0</b>                 |
|  | <b>Federal Total:</b>      | <b>0</b>                 |
|  | <b>Other Total:</b>        | <b>\$11,050,000</b>      |
|  | <b>Department Total:</b>   | <b>\$11,050,000</b>      |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing  
FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Fish and Game**

| <u>AP/AL Project Title</u>                                   |                            | <u>Fund Source Total</u> |
|--|----------------------------|--------------------------|
| AP Deferred Maintenance Facilities                           | 2000 Bond Funds            | \$400,000                |
| AP Fairbanks Infrastructure Renewal and Replacement Upgrades | 2000 Bond Funds            | \$200,000                |
| AP Vessel and Aircraft Repair and Maintenance                | 2000 Bond Funds            | \$278,500                |
| AP DIDSON Sonar Equipment Purchase                           | 2000 Bond Funds            | \$500,000                |
| AP Westward Region Chignik Weir Improvements and Repairs     | 2000 Bond Funds            | \$121,500                |
|  | <b>General Fund Total:</b> | <b>0</b>                 |
|  | <b>Federal Total:</b>      | <b>0</b>                 |
|  | <b>Other Total:</b>        | <b>\$1,500,000</b>       |
|  | <b>Department Total:</b>   | <b>\$1,500,000</b>       |

**Office of the Governor**

| <u>AP/AL Project Title</u>      |                            | <u>Fund Source Total</u> |
|---------------------------------|----------------------------|--------------------------|
| AP Governor's House Maintenance | 2000 Bond Funds            | \$100,000                |
|                                 | <b>General Fund Total:</b> | <b>0</b>                 |
|                                 | <b>Federal Total:</b>      | <b>0</b>                 |
|                                 | <b>Other Total:</b>        | <b>\$100,000</b>         |
|                                 | <b>Department Total:</b>   | <b>\$100,000</b>         |

**Department of Health and Social Services**

| <u>AP/AL Project Title</u>   |                 | <u>Fund Source Total</u> |
|--|-----------------|--------------------------|
| AP MH Crisis Treatment Facility - Phase 2  | 2001 Bonds MH   | \$2,500,000              |
| AP Bethel Youth Facility Security Improvements   | 2000 Bond Funds | \$233,900                |
| AP Anchorage Pioneer Home Emergency Generator Replacement                                      | 2000 Bond Funds | \$600,000                |
| AP Juneau Pioneer Home Roof Replacement  | 2000 Bond Funds | \$1,000,000              |
| AP Deferred Maintenance, Renovation, Repair and Equipment                                      | 2000 Bond Funds | \$1,500,000              |
| AP Pioneers' Homes Deferred Maintenance, Renovation, Repair and Equipment                      | 2000 Bond Funds | \$2,500,000              |
| AP Emergency Medical Services Ambulances and Equipment Statewide - Match for Code Blue Project | 2000 Bond Funds | \$425,000                |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing**  
**FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Health and Social Services**

| <u>AP/AL Project Title</u>  |                            | <u>Fund Source Total</u> |
|---|----------------------------|--------------------------|
| AP Juvenile Offender Management Information System Software Upgrade                       | 2000 Bond Funds            | \$325,000                |
| AP MH: Alaska Psychiatric Institute Automation Project                                    | 2001 Bonds MH              | \$674,200                |
| AP Senior Centers Deferred Maintenance, Construction, Renovation, Expansion and Equipment | 2000 Bond Funds            | \$1,000,000              |
| AP MH: Deferred Maintenance and Accessibility Improvements                                | 2001 Bonds MH              | \$150,000                |
|   | <b>General Fund Total:</b> | <b>0</b>                 |
|   | <b>Federal Total:</b>      | <b>0</b>                 |
|   | <b>Other Total:</b>        | <b>\$10,908,100</b>      |
|   | <b>Department Total:</b>   | <b>\$10,908,100</b>      |

**Department of Labor and Workforce Development**

| <u>AP/AL Project Title</u>                                 |                            | <u>Fund Source Total</u> |
|--|----------------------------|--------------------------|
| AP Alaska Vocational Technical Center Deferred Maintenance | 2000 Bond Funds            | \$2,500,000              |
|  | <b>General Fund Total:</b> | <b>0</b>                 |
|  | <b>Federal Total:</b>      | <b>0</b>                 |
|  | <b>Other Total:</b>        | <b>\$2,500,000</b>       |
|  | <b>Department Total:</b>   | <b>\$2,500,000</b>       |

**Department of Law**

| <u>AP/AL Project Title</u>       |                            | <u>Fund Source Total</u> |
|----------------------------------|----------------------------|--------------------------|
| AP Management Information System | 2000 Bond Funds            | \$1,000,000              |
|                                  | <b>General Fund Total:</b> | <b>0</b>                 |
|                                  | <b>Federal Total:</b>      | <b>0</b>                 |
|                                  | <b>Other Total:</b>        | <b>\$1,000,000</b>       |
|                                  | <b>Department Total:</b>   | <b>\$1,000,000</b>       |

**Department of Military and Veterans Affairs**

| <u>AP/AL Project Title</u>                                      |                 | <u>Fund Source Total</u> |
|---|-----------------|--------------------------|
| AP Anchorage Armory Expansion                                   | 2000 Bond Funds | \$500,000                |
| AP Military Youth Academy Dining Facility Renovation and Repair | 2000 Bond Funds | \$276,900                |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing**  
**FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Military and Veterans Affairs**

| <u>AP/AL Project Title</u>                                   |                            | <u>Fund Source Total</u> |
|--|----------------------------|--------------------------|
| AP Army Guard Deferred Maintenance, Renewal, and Replacement | 2000 Bond Funds            | \$500,000                |
|  | <b>General Fund Total:</b> | <b>0</b>                 |
|  | <b>Federal Total:</b>      | <b>0</b>                 |
|  | <b>Other Total:</b>        | <b>\$1,276,900</b>       |
|  | <b>Department Total:</b>   | <b>\$1,276,900</b>       |

**Department of Natural Resources**

| <u>AP/AL Project Title</u>   |                            | <u>Fund Source Total</u> |
|--|----------------------------|--------------------------|
| AP State Park Emergency Repairs  | 2000 Bond Funds            | \$400,000                |
| AP Forestry Buildings Repairs to Correct Fire and Life Safety Deficiencies Phase 2 | 2000 Bond Funds            | \$276,400                |
| AP Forestry Area Offices Hazmat Storage Facilities                                 | 2000 Bond Funds            | \$90,000                 |
| AP State Park Deferred Maintenance   | 2000 Bond Funds            | \$300,000                |
| AP Fire Suppression Engine and Truck Replacements                                  | 2000 Bond Funds            | \$400,000                |
| AP Replace Forestry Trailers at Copper River and Delta                             | 2000 Bond Funds            | \$233,600                |
| AP Rehabilitation of Anchor Point Campgrounds for Private Operations               | 2000 Bond Funds            | \$150,000                |
| AP Byers Lake Campground Rehabilitation  | 2000 Bond Funds            | \$100,000                |
| AP Nancy Lake Campground Rehabilitation  | 2000 Bond Funds            | \$300,000                |
| AP Harding Lake Campground Rehabilitation  | 2000 Bond Funds            | \$200,000                |
|  | <b>General Fund Total:</b> | <b>0</b>                 |
|  | <b>Federal Total:</b>      | <b>0</b>                 |
|  | <b>Other Total:</b>        | <b>\$2,450,000</b>       |
|  | <b>Department Total:</b>   | <b>\$2,450,000</b>       |

**Department of Public Safety**

| <u>AP/AL Project Title</u>            |                 | <u>Fund Source Total</u> |
|---------------------------------------|-----------------|--------------------------|
| AP Firefighting Engines and Equipment | 2000 Bond Funds | \$500,000                |
| AP Statewide Facilities Maintenance   | 2000 Bond Funds | \$718,800                |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing  
FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Public Safety**

| <u>AP/AL Project Title</u>                                | <u>Fund Source Total</u> |                    |
|---|--------------------------|--------------------|
| AP Electronic Fingerprint Services-Live Scan              | 2000 Bond Funds          | \$465,000          |
| AP Aircraft and Vessel Repair and Maintenance             | 2000 Bond Funds          | \$2,314,300        |
| AP Law Enforcement Equipment Replacement                  | 2000 Bond Funds          | \$1,177,100        |
| AP Live Burn Building at Fairbanks Fire Training Center   | 2000 Bond Funds          | \$150,000          |
| AP Burn Panel Installation at Juneau Fire Training Center | 2000 Bond Funds          | \$150,000          |
| <b>General Fund Total:</b>                                |                          | <b>0</b>           |
| <b>Federal Total:</b>                                     |                          | <b>0</b>           |
| <b>Other Total:</b>                                       |                          | <b>\$5,475,200</b> |
| <b>Department Total:</b>                                  |                          | <b>\$5,475,200</b> |

**Department of Transportation and Public Facilities**

| <u>AP/AL Project Title</u>  | <u>Fund Source Total</u> |               |
|---|--------------------------|---------------|
| * AP Governor's Transportation Initiative                               | 2000 Bond Funds          | \$108,000,000 |
| AL Anchorage Mid-Town Congestion and Truck Route Improvements           | 2000 Bond Funds          | \$26,000,000  |
| AL Glenn Highway Corridor   | 2000 Bond Funds          | \$30,500,000  |
| AL Kenai Peninsula Kalifornsky Beach Road Rehabilitation                | 2000 Bond Funds          | \$11,000,000  |
| AL Mat-Su Congestion Improvements                                       | 2000 Bond Funds          | \$21,000,000  |
| AL Richardson Highway Passing Lanes Segments                            | 2000 Bond Funds          | \$5,000,000   |
| AL Fairbanks University Avenue-Geist-Johansen Intersection Improvements | 2000 Bond Funds          | \$3,500,000   |
| AL Cordova Copper River Highway Rehabilitation                          | 2000 Bond Funds          | \$4,000,000   |
| AL McCarthy Road Major Maintenance                                      | 2000 Bond Funds          | \$2,000,000   |
| AL Stampede Road Improvements MP 0 to 8                                 | 2000 Bond Funds          | \$5,000,000   |
| * AP Governor's Transportation Access to Resources Initiative           | 2000 Bond Funds          | \$37,000,000  |
| AL Richardson Highway Shaw Creek Bridge                                 | 2000 Bond Funds          | \$2,500,000   |
| AL Elliott Highway Wastington Creek Bridge Replacement for Gas Pipeline | 2000 Bond Funds          | \$3,500,000   |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing**  
**FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Transportation and Public Facilities**

| <u>AP/AL Project Title</u>  |      |            | <u>Fund Source Total</u> |
|---|------|------------|--------------------------|
| AL Fairbanks: Richardson Highway - Northbound Chena Overflow Bridge for Gas Pipeline      | 2000 | Bond Funds | \$11,000,000             |
| AL DeLong Mountain: Port Expansion EIS Completion   | 2000 | Bond Funds | \$2,000,000              |
| AL North Slope: Foothills West Road EIS   | 2000 | Bond Funds | \$4,000,000              |
| AL North Slope: Bulien Point EIS  | 2000 | Bond Funds | \$5,000,000              |
| AL Dalton Highway: Surfacing Upgrades   | 2000 | Bond Funds | \$9,000,000              |
| AP Industrial Road Program  | 2000 | Bond Funds | \$10,000,000             |
| AP Airport Deferred Maintenance   | 2000 | Bond Funds | \$1,500,000              |
| AP Highway Deferred Maintenance   | 2000 | Bond Funds | \$3,000,000              |
| AP Facilities Deferred Maintenance and Critical Repairs                                   | 2000 | Bond Funds | \$8,000,000              |
| AP Emergency and Non-Routine Repairs  | 2000 | Bond Funds | \$500,000                |
| AP Alaska Marine Highway System - Vessel and Terminal Overhaul and Rehabilitation         | 2000 | Bond Funds | \$6,500,000              |
| AP Material Stockpiles - Dalton Highway, Glenn Highway, Richardson Highway and Tok Cutoff | 2000 | Bond Funds | \$600,000                |
| AP Harbor Deferred Maintenance  | 2000 | Bond Funds | \$3,000,000              |
| AP Hoonah Harbor Deferred Maintenance and Transfer  | 2000 | Bond Funds | \$3,500,000              |
| AP Petersburg North Harbor Deferred Maintenance and Transfer                              | 2000 | Bond Funds | \$2,500,000              |
| AP Statewide Airport Lease Lots Development   | 2000 | Bond Funds | \$4,000,000              |
| AP Willow Maintenance Station Replacement   | 2000 | Bond Funds | \$350,000                |
| AP WAN Infrastructure Upgrade   | 2000 | Bond Funds | \$185,000                |
| * AP Statewide Federal Programs   | 2000 | Bond Funds | \$56,500,000             |
| AL Federal-Aid Aviation State Match   | 2000 | Bond Funds | \$14,500,000             |
| AL Federal-Aid Highway State Match  | 2000 | Bond Funds | \$42,000,000             |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing  
FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Department of Transportation and Public Facilities**

| <u>AP/AL Project Title</u> | <u>Fund Source Total</u>               |
|----------------------------|--|
| AP Congressional Earmarks  |  |
|                            | 2000 Bond Funds \$15,000,000           |
|                            | <b>General Fund Total: 0</b>           |
|                            | <b>Federal Total: 0</b>                |
|                            | <b>Other Total: \$260,135,000</b>      |
|                            | <b>Department Total: \$260,135,000</b> |

**University of Alaska**

| <u>AP/AL Project Title</u>                  | <u>Fund Source Total</u>              |
|---|---------------------------------------|
| AP Strategic Land and Property Acquisitions |                                       |
|   | 2000 Bond Funds \$2,150,000           |
| AP Systemwide Minor Renewal and Renovation  |                                       |
|   | 2000 Bond Funds \$6,886,500           |
| AP Integrated Science Complex               |                                       |
|   | 2000 Bond Funds \$21,600,000          |
|   | <b>General Fund Total: 0</b>          |
|   | <b>Federal Total: 0</b>               |
|   | <b>Other Total: \$30,636,500</b>      |
|   | <b>Department Total: \$30,636,500</b> |

**Alaska Court System**

| <u>AP/AL Project Title</u> | <u>Fund Source Total</u>  |
|----------------------------|---------------------------|
| AP Bethel Courthouse       |                           |
|                            | 2000 Bond Funds \$825,000 |

\* Indicates an appropriation with allocations (amounts not included in totals)

**Project Review Listing**  
**FY06 Governor's Capital Budget**

**Multiple User Selected Fund Codes**

**Alaska Court System**

| <u>AP/AL Project Title</u>       | <u>Fund Source Total</u>             |
|----------------------------------|--------------------------------------|
| AP Deferred Maintenance Projects |                                      |
|                                  | 2000 Bond Funds \$300,000            |
|                                  | <b>General Fund Total: 0</b>         |
|                                  | <b>Federal Total: 0</b>              |
|                                  | <b>Other Total: \$1,125,000</b>      |
|                                  | <b>Department Total: \$1,125,000</b> |

---

|                                  |                      |
|----------------------------------|----------------------|
| <b>General Fund Grand Total:</b> | <b>0</b>             |
| <b>Federal Grand Total:</b>      | <b>0</b>             |
| <b>Other Grand Total:</b>        | <b>\$340,506,700</b> |
| <b>Grand Total:</b>              | <b>\$340,506,700</b> |

\* Indicates an appropriation with allocations (amounts not included in totals)



SB 121

FRANK H. MURKOWSKI  
GOVERNOR  
GOVERNOR@GOV.STATE.AK.US

P.O. Box 110001  
JUNEAU, ALASKA 99811-0001  
(907) 465-3500  
FAX (907) 465-3532  
WWW.GOV.STATE.AK.US

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 25, 2005

The Honorable Ben Stevens  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 111  
Juneau, AK 99801-1182

Dear President Stevens:

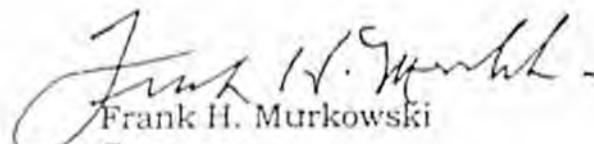
Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill establishing the State of Alaska Capital Corporation (corporation). The corporation would be a public corporation with the authority to issue bonds to finance up to \$350 million in state capital improvements, including the cost of issuing the bonds.

My intent is that the debt service on bonds issued by the corporation would be annually covered by appropriations from the earnings on the settlement proceeds derived from the *Amerada Hess* royalty settlement. I also am transmitting a companion bill that would separately identify the *Amerada Hess* earnings so that they are available to the legislature if there is a desire to use the money for this purpose.

The financing technique proposed in this bill would permit the state to leverage a funding source to obtain money for needed capital improvements from the sale of bonds on the major financial markets.

I urge your prompt and favorable action on this measure.

Sincerely yours,

  
Frank H. Murkowski  
Governor

Enclosure

MITTE COPY

**SENATE COMMITTEE REPORT  
First Committee of Referral**

DATE: 2/28/05

FURTHER: Finance

Date of 5-Day Notice: 3/24/2005  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 4/29/05

State Affairs Committee considered      SENATE BILL NO. 121

**SB 121 STATE OF AK CAPITAL CORP.; BONDS**

"An Act establishing the State of Alaska Capital Corporation; authorizing the issuance of bonds by the State of Alaska Capital Corporation to finance capital improvements in the state; and providing for an effective date."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

- Same Title
- New Title

**House Bill:**

- Same Title
- Technical Title Change
- New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

| Department | Date | Fiscal | Indel. | Zero | FN# |
|------------|------|--------|--------|------|-----|
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |

**PREVIOUS FISCAL NOTE(S):**

| Department | Date    | Fiscal | Indel. | Zero | FN# |
|------------|---------|--------|--------|------|-----|
| REV        | 2/10/05 | ✓      |        |      | 1   |
|            |         |        |        |      |     |
|            |         |        |        |      |     |
|            |         |        |        |      |     |
|            |         |        |        |      |     |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS: | DO PASS | DO NOT PASS | NO REC | AMEND |
|---------------------------------|---------|-------------|--------|-------|
| <i>[Signature]</i>              |         |             | ✓      |       |
| <i>[Signature]</i>              |         |             | ✓      |       |
| <i>[Signature]</i>              |         |             | ✓      |       |
| <i>[Signature]</i>              |         |             | ✓      |       |
| CHAIR: <i>[Signature]</i>       |         |             | ✓      |       |

*Elton  
Wagner  
+ Higgins  
DWS*

*Theresa*