

HB

229

SFIN

FILE

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
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Official Business

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State Capitol, Room 518
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May 10, 2007

To
Miles Baker, Staff to Senator Stedman
Tim Grussendorf, Staff to Senator Lyman Hoffman

From
Mindy Rowland, Senate Finance Committee Secretary

HB 229-KENAI GASIFICATION PROJECT; RAILROAD BOND

The Committee reported this bill from Committee with a conceptual amendment, which was incorporated into a final Senate Finance Committee Substitute, 25-LS0737\E. The CS was transmitted to the Senate Secretary. Upon further review, Senator Stedman deemed additional clarification of the amendment in the language of the bill was necessary. A new final CS, 25-LS0737\M, was prepared, exchanged for the earlier final and transmitted to the Senate Secretary. A copy of this version is attached for your information and records.

SENATE CS FOR HOUSE BILL NO. 229(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Foster
SENATORS Wagoner, Green, Huggins, Stevens, Therriault

A BILL
FOR AN ACT ENTITLED

1 "An Act authorizing the Alaska Railroad Corporation to participate in a project
2 consisting of the acquisition, construction, improvement, maintenance, equipping, or
3 operation of real and personal property, including facilities and equipment, for the
4 Kenai gasification project and Port MacKenzie rail link, authorizing the corporation to
5 issue bonds to finance all or a portion of the project, and identifying these as bonds for
6 an essential public and governmental purpose; and providing for an effective date."

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

8 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
9 to read:

10 LEGISLATIVE FINDINGS, INTENT, AND STATEMENT OF PURPOSE. (a) The
11 legislature finds that

12 (1) Agrium's urea and ammonia plants in the northern Kenai Peninsula are in
13 danger of being permanently shut down because of a lack of adequate natural gas feedstock in

1 the area;

2 (2) closure of the Agrium plants will result in a loss of a significant number of
3 high paying jobs and tax base for the northern Kenai Peninsula as well as tax revenue to the
4 state;

5 (3) Agrium's Kenai gasification project will bring low-sulfur coal from Healy
6 to North Kenai where a low-emission coal gasification plant and electrical generation plant
7 will be built on land adjacent to Agrium's existing urea and ammonia plants;

8 (4) producing gas from coal will provide Agrium with an alternative feedstock
9 to natural gas, which is in short supply in Southcentral Alaska, and will allow Agrium to
10 continue to operate its urea and ammonia plants for the foreseeable future;

11 (5) the Kenai gasification project will also generate competitively priced
12 electricity for the regional power grid and excess carbon dioxide that could be used to
13 enhance oil recovery from the wells in Cook Inlet;

14 (6) the Alaska Railroad Corporation is uniquely suited to serve essential
15 functions of the state by providing, among other things, rail transportation of coal and other
16 freight and by financing all or a portion of the Kenai gasification project;

17 (7) the Kenai gasification project furthers the purposes of both the state and
18 the Alaska Railroad Corporation by creating a new market for the state's coal reserves at
19 Healy, which will be transported by rail from Healy to Port MacKenzie and by barge to the
20 northern Kenai Peninsula, creating revenue for the Alaska Railroad Corporation and for the
21 state and providing employment opportunities for residents of the state;

22 (8) these results are essential purposes of the state, and the achievement of
23 these purposes is critical to the health and welfare of the state.

24 (b) The purpose of this Act is to clarify the statutory functions and powers of the
25 Alaska Railroad Corporation by expressly including the power to participate in the Kenai
26 gasification project and to finance all or a portion of the project with bonds as described in
27 this Act.

28 (c) It is the intent of the legislature that

29 (1) this Act be construed broadly to permit the Alaska Railroad Corporation
30 the greatest flexibility to accomplish the purposes described in (b) of this section, within the
31 limitations set out in this Act; and

1 (2) other provisions of AS 42.40 in existence before the enactment of this Act
2 be similarly construed to complement the provisions of this Act.

3 * Sec. 2. AS 42.40 is amended by adding a new section to article 7 to read:

4 **Sec. 42.40.570. Kenai gasification project.** (a) The corporation may
5 participate in a project consisting of the acquisition, construction, improvement,
6 maintenance, equipping, and operation of real and personal property, including
7 facilities and equipment for the transportation of coal from Healy to the northern
8 Kenai Peninsula, and facilities and equipment for coal gasification and electrical
9 power generation adjacent to the Agrium fertilizer plants in the northern Kenai
10 Peninsula.

11 (b) The corporation may participate in a project consisting of the acquisition,
12 construction, improvement, maintenance, equipping, and operation of real and
13 personal property, including facilities and equipment, for the transportation of coal by
14 rail from Healy to Port MacKenzie and thereafter by barge to the northern Kenai
15 Peninsula.

16 (c) The corporation may finance all or a portion of the projects described in (a)
17 and (b) of this section through the issuance of its bonds.

18 * Sec. 3. AS 42.40.630 is amended by adding a new subsection to read:

19 (c) Before issuing bonds to provide the financing described in AS 42.40.570
20 for real or personal property to be owned in whole or in part by an entity other than the
21 corporation, the corporation shall enter into one or more contracts, leases, or other
22 forms of agreement that will, in the judgment of the corporation, provide sufficient
23 consideration to

24 (1) pay the principal of and interest on the bonds as they become due;

25 (2) create and maintain any reserves for the bond payments that the
26 corporation considers necessary or desirable; and

27 (3) pay all costs necessary to issue, service, or additionally secure the
28 bonds, including trustee's fees and bond insurance premiums, unless these costs are to
29 be paid from bond proceeds or by a party other than the corporation.

30 * Sec. 4. AS 42.40.695 is amended to read:

31 **Sec. 42.40.695. Public purpose of bonds.** Bonds of the corporation issued to

1 finance facilities described in AS 42.40.550 and AS 42.40.560 and bonds of the
 2 corporation issued to finance the acquisition, construction, improvement,
 3 maintenance, equipping, and operation of real and personal property, including
 4 facilities and equipment, described in AS 42.40.570 [AS 42.40.550] are issued by a
 5 public corporation and an instrumentality of the state for an essential public and
 6 governmental purpose.

7 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
 8 read:

9 LEGISLATIVE AUTHORIZATION AND APPROVAL. (a) Subject to the
 10 requirements of AS 42.40.630(c), enacted by sec. 3 of this Act, the Alaska Railroad
 11 Corporation is authorized to issue bonds under the power granted to it in AS 42.40.250 to
 12 participate in and finance all or a portion of the Kenai gasification project, including the
 13 acquisition, construction, improvement, maintenance, equipping, and operation of real and
 14 personal property, including facilities and equipment, for the transportation of coal by rail
 15 from Healy to the northern Kenai Peninsula and facilities and equipment for coal gasification
 16 and electrical power generation adjacent to the Agrium fertilizer plants in the northern Kenai
 17 Peninsula, and associated costs, including, without limitation, reserves for debt service and
 18 capitalized interest, if necessary or appropriate, and costs of issuance. The maximum principal
 19 amount of bonds that the Alaska Railroad Corporation may issue under this section is
 20 \$2,900,000,000, of which

21 (1) not more than \$2,600,000,000 of bonds may be issued for the project
 22 described in AS 42.40.570(a); and

23 (2) not more than \$300,000,000 of bonds may be issued for the project
 24 described in AS 42.40.570(b).

25 (b) The Alaska Railroad Corporation may issue the bonds authorized by (a) of this
 26 section in a single issuance or in several issuances, without limitation as to number of
 27 issuances or timing, and as the Alaska Railroad Corporation determines best furthers the
 28 purpose of financing the Kenai gasification project and related real and personal property,
 29 including facilities and equipment described in this section. The Alaska Railroad Corporation
 30 shall negotiate with Agrium U.S., Inc., or with one or more other entities as the Alaska
 31 Railroad Corporation considers appropriate, and shall enter into agreements with those

1 entities or one or more other entities to provide revenue sufficient to accomplish the purposes
2 described in AS 42.40.630(c), enacted by sec. 3 of this Act. In no event shall the general
3 credit of the state be pledged for the repayment of these bonds.

4 (c) This authorization extends to bonds issued to refund the bonds authorized in this
5 Act. The principal amount of the bonds authorized in this Act may be increased in an issue of
6 refunding bonds in an amount equal to the costs of refunding if the refunding is undertaken to
7 achieve debt service savings.

8 (d) This section constitutes the approval required by AS 42.40.285 for the issuance of
9 the bonds described in this section.

10 (e) In this section, "bonds" means bonds, bond anticipation notes, notes, refunding
11 bonds, or other obligations.

12 * Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 **TERMINATION OF AUTHORITY FOR KENAI GASIFICATION PROJECT**
15 **BONDS; ISSUED BONDS VALID.** (a) The authorization described in sec. 5(a)(2) of this Act
16 to issue bonds of the Alaska Railroad Corporation under AS 42.40.570(b) terminates June 30,
17 2012.

18 (b) The authorization described in sec. 5(a)(1) of this Act to issue bonds of the Alaska
19 Railroad Corporation under AS 42.40.570(a) terminates June 30, 2015.

20 (c) Notwithstanding the termination of the authorizations made by (a) and (b) of this
21 section, bonds of the Alaska Railroad Corporation that are issued not later than the respective
22 termination dates set out in (a) and (b) of this section are valid and binding obligations of the
23 corporation under AS 42.40.670.

24 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
 MAY 10 2007
 SENATE FINANCE COMMITTEE

DATE: 5/8/07

FURTHER:

DATE TURNED
 IN TO OFFICE: 10 May 2007

Finance Committee considered HOUSE BILL NO. 229 am

HB 229 KENAI GASIFICATION PROJECT; RAILROAD BOND

"An Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project and Port MacKenzie rail link, authorizing the corporation to issue bonds to finance all or a portion of the project, and identifying these as bonds for an essential public and governmental purpose; and providing for an effective date."

and recommends:

- be replaced with SCS or CS HB 229 (FIN)
- adopt previous SCS or CS CS forthcoming
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

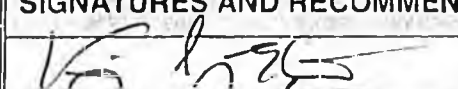




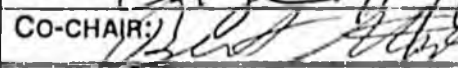

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Elton			✓	
	Thomas			✓	
	Dyson			✓	
	Huggins	✓			
	Olson			✓	
CO-CHAIR: 	Hoffman			✓	
CO-CHAIR: 	Stedman			✓	

Exchanged
for "M" version
25-LS0737AE

SENATE CS FOR HOUSE BILL NO. 229(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Foster

SENATORS Wagoner, Green, Huggins, Stevens, Therriault

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1 "An Act authorizing the Alaska Railroad Corporation to participate in a project
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9 to read:

10 LEGISLATIVE FINDINGS, INTENT, AND STATEMENT OF PURPOSE. (a) The
11 legislature finds that

12 (1) Agrium's urea and ammonia plants in the northern Kenai Peninsula are in
13 danger of being permanently shut down because of a lack of adequate natural gas feedstock in

LEGAL SERVICES

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

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

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 16, 2007

SUBJECT: SCS HB 229(FIN): comments concerning the committee substitute and remarks related to the House-adopted bill, HB 229 am (Work Order No. 25-LS0737\E)

TO: Senator Bert Stedman
Co-Chair of the Senate Finance Committee

FROM: Jack Chenoweth
Assistant Revisioner

Transmitted with this memo is the committee substitute to reflect action taken this morning in the Senate Finance Committee. You will find the new material, added in to the Senate Finance Committee Substitute to respond to direction given, principally in proposed

-- AS 42.40.570(b), added by bill section 2 (dividing the project authorization described in the Act into two components and expressly authorizing the rail-to-Port MacKenzie project component);

-- specific division of the project into its two components in the authorization provided in paragraphs (1) and (2) of bill section 5(a); and

-- bill section 6, a new section (setting a termination date on authorizations for the bonds for the respective project components and expressly validating obligations of the Alaska Railroad Corporation for both components that are issued before the respective bond authorization termination dates).

*

I need to advise you of two bill drafting matters --

1. Please be aware that *the measure in the form that was passed by the House, HB 229 am, does not include any reference in the text of the bill itself that makes specific reference to the proposed rail connection to Port MacKenzie* -- the reference to this component of the project appears only in the bill title and, by inference, in the House decision to increase the bond authorization by \$300 million to \$2.9 billion dollars. The House-adopted floor amendment that made these modifications (2007 House Journal, p. 873, April 23, 2007) omitted any substantive change to the text describing the project

Senator Bert Stedman

May 10, 2007

Page 2

and dealt only with the bill title and the increase in the authorization. Therefore, in drafting the Senate Committee Substitute to reflect the decision of the Finance Committee, it became necessary to supply the bill with the missing references to the rail connection to Port MacKenzie.

2. The omission of the reference to the project in the body of the bill is a weakness in the House-passed bill. Please appreciate that, if the Senate does not adopt the Senate Finance Committee Substitute (with its provisions limiting the period within which project bonds may be authorized and issued) in place of the House-passed bill and instead the debate in the Senate proceeds on the basis of the House-adopted bill, because the House-passed bill omits any reference in the body of the bill to the rail-to-Port MacKenzie component authorization, the members who favor that component of the project should think about correcting this omission in the House-passed measure before HB 229 is before the Senate on final passage.

JBC:med

07-312.med

Enclosure

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 229
(H) Publish Date: 4/16/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Kenai Gasification Project; Railroad Bond RDU _____
Component Alaska Railroad Corporation
Sponsor Chenault
Requester House Finance Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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						
-----------------------------	--	--	--	--	--	--

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation authorizes the Alaska Railroad Corporation (ARRC) to issue up to \$2,600,000,000 in tax-exempt bonds to finance a portion of the Agrium Kenai Gasification Project which includes facilities and equipment for the transportation of Alaska coal; and facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator.

Prepared by: Wondy Lindskoog, Assistant Vice President, Corporate Affairs Phone 907.265.2498
Division: Alaska Railroad Corporation Date/Time 3/30/07 6:32 PM
Approved by: Emil Notti, Commissioner Date 3/30/2007
Agency: Commerce, Community, and Economic Development

FISCAL NOTE #1

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 229

ANALYSIS CONTINUATION

Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds. Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds.

ARRC is a public corporation supported by revenues generated through its freight, passenger and real estate services. Because ARRC does not receive state funding for operations or capital improvements and is operated as an independent state-owned enterprise, this legislation would not create a fiscal impact for the State.

adopted
5/10/07

SENATE FINANCE COMMITTEE

AMENDMENT No. #1

By Sen. Stedman

To: HB 229 am SENATE BILL No. _____

To: _____ SENATE BILL No. _____

Conceptual Amendment:

Place a 5 year sunset date on the portion of authorization (\$300 mill) in the bill allocated to the Mat-Su Rail Extension to Pt. Mackenzie

Place an 8 year sunset date on the balance of the authorization (\$2.6 Bill) to finance the facilities & equipment associated with the Agrium Kenai Gasification Project.

SENATE CS FOR HOUSE BILL NO. 229(FIN)
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9 to read:

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11 legislature finds that

12 (1) Agrium's urea and ammonia plants in the northern Kenai Peninsula are in
13 danger of being permanently shut down because of a lack of adequate natural gas feedstock in

1 the area;

2 (2) closure of the Agrium plants will result in a loss of a significant number of
3 high paying jobs and tax base for the northern Kenai Peninsula as well as tax revenue to the
4 state;

5 (3) Agrium's Kenai gasification project will bring low-sulfur coal from Healy
6 to North Kenai where a low-emission coal gasification plant and electrical generation plant
7 will be built on land adjacent to Agrium's existing urea and ammonia plants;

8 (4) producing gas from coal will provide Agrium with an alternative feedstock
9 to natural gas, which is in short supply in Southcentral Alaska, and will allow Agrium to
10 continue to operate its urea and ammonia plants for the foreseeable future;

11 (5) the Kenai gasification project will also generate competitively priced
12 electricity for the regional power grid and excess carbon dioxide that could be used to
13 enhance oil recovery from the wells in Cook Inlet;

14 (6) the Alaska Railroad Corporation is uniquely suited to serve essential
15 functions of the state by providing, among other things, rail transportation of coal and other
16 freight and by financing all or a portion of the Kenai gasification project;

17 (7) the Kenai gasification project furthers the purposes of both the state and
18 the Alaska Railroad Corporation by creating a new market for the state's coal reserves at
19 Healy, which will be transported by rail from Healy to Port MacKenzie and by barge to the
20 northern Kenai Peninsula, creating revenue for the Alaska Railroad Corporation and for the
21 state and providing employment opportunities for residents of the state;

22 (8) these results are essential purposes of the state, and the achievement of
23 these purposes is critical to the health and welfare of the state.

24 (b) The purpose of this Act is to clarify the statutory functions and powers of the
25 Alaska Railroad Corporation by expressly including the power to participate in the Kenai
26 gasification project and to finance all or a portion of the project with bonds as described in
27 this Act.

28 (c) It is the intent of the legislature that

29 (1) this Act be construed broadly to permit the Alaska Railroad Corporation
30 the greatest flexibility to accomplish the purposes described in (b) of this section within the
31 limitations set out in this Act; and

1 (2) other provisions of AS 42.40 in existence before the enactment of this Act
 2 be similarly construed to complement the provisions of this Act.

3 * Sec. 2. AS 42.40 is amended by adding a new section to article 7 to read:

4 Sec. 42.40.570. Kenai gasification project. (a) The corporation may
 5 participate in a project consisting of the acquisition, construction, improvement,
 6 maintenance, equipping, and operation of real and personal property, including
 7 facilities and equipment, for coal gasification and electrical power generation adjacent
 8 to the Agrium fertilizer plants in the northern Kenai Peninsula.

9 (b) The corporation may participate in a project consisting of the acquisition,
 10 construction, improvement, maintenance, equipping, and operation of real and
 11 personal property, including facilities and equipment, for the transportation of coal by
 12 rail from Healy to Port MacKenzie and thereafter by barge to the northern Kenai
 13 Peninsula.

14 (c) The corporation may finance all or a portion of the projects described in (a)
 15 and (b) of this section through the issuance of its bonds.

16 * Sec. 3. AS 42.40.630 is amended by adding a new subsection to read:

17 (c) Before issuing bonds to provide the financing described in AS 42.40.570
 18 for real or personal property to be owned in whole or in part by an entity other than the
 19 corporation, the corporation shall enter into one or more contracts, leases, or other
 20 forms of agreement that will, in the judgment of the corporation, provide sufficient
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 24 corporation considers necessary or desirable; and

25 (3) pay all costs necessary to issue, service, or additionally secure the
 26 bonds, including trustee's fees and bond insurance premiums, unless these costs are to
 27 be paid from bond proceeds or by a party other than the corporation.

28 * Sec. 4. AS 42.40.695 is amended to read:

29 Sec. 42.40.695. Public purpose of bonds. Bonds of the corporation issued to
 30 finance facilities described in AS 42.40.550 and AS 42.40.560 and bonds of the
 31 corporation issued to finance the acquisition, construction, improvement,

Amendment
 #1

1 maintenance, equipping, and operation of real and personal property, including
 2 facilities and equipment, described in AS 42.40.570 [AS 42.40.550] are issued by a
 3 public corporation and an instrumentality of the state for an essential public and
 4 governmental purpose.

5 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
 6 read:

7 LEGISLATIVE AUTHORIZATION AND APPROVAL. (a) Subject to the
 8 requirements of AS 42.40.630(c), enacted by sec. 3 of this Act, the Alaska Railroad
 9 Corporation is authorized to issue bonds under the power granted to it in AS 42.40.250 to
 10 participate in and finance all or a portion of the Kenai gasification project, including the
 11 acquisition, construction, improvement, maintenance, equipping, and operation of real and
 12 personal property, including facilities and equipment, for the transportation of coal by rail
 13 from Healy to Port MacKenzie and thereafter by barge to the northern Kenai Peninsula and
 14 facilities and equipment for coal gasification and electrical power generation adjacent to the
 15 Agrium fertilizer plants in the northern Kenai Peninsula, and associated costs, including,
 16 without limitation, reserves for debt service and capitalized interest, if necessary or
 17 appropriate, and costs of issuance. The maximum principal amount of bonds that the Alaska
 18 Railroad Corporation may issue under this section is \$2,900,000,000, of which

19 (1) not more than \$2,600,000,000 of bonds may be issued for the project
 20 described in AS 42.40.570(a); and

21 (2) not more than \$300,000,000 of bonds may be issued for the project
 22 described in AS 42.40.570(b).

23 (b) The Alaska Railroad Corporation may issue the bonds authorized by (a) of this
 24 section in a single issuance or in several issuances, without limitation as to number of
 25 issuances or timing, and as the Alaska Railroad Corporation determines best furthers the
 26 purpose of financing the Kenai gasification project and related real and personal property,
 27 including facilities and equipment described in this section. The Alaska Railroad Corporation
 28 shall negotiate with Agrium U.S., Inc., or with one or more other entities as the Alaska
 29 Railroad Corporation considers appropriate, and shall enter into agreements with those
 30 entities or one or more other entities to provide revenue sufficient to accomplish the purposes
 31 described in AS 42.40.630(c), enacted by sec. 3 of this Act. In no event shall the general

1 credit of the state be pledged for the repayment of these bonds.

2 (c) This authorization extends to bonds issued to refund the bonds authorized in this
3 Act. The principal amount of the bonds authorized in this Act may be increased in an issue of
4 refunding bonds in an amount equal to the costs of refunding if the refunding is undertaken to
5 achieve debt service savings.

6 (d) This section constitutes the approval required by AS 42.40.285 for the issuance of
7 the bonds described in this section.

8 (e) In this section, "bonds" means bonds, bond anticipation notes, notes, refunding
9 bonds, or other obligations.

10 * Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to
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14 to issue bonds of the Alaska Railroad Corporation under AS 42.40.570(b) terminates June 30,
15 2012.

16 (b) The authorization described in sec. 5(a)(1) of this Act to issue bonds of the Alaska
17 Railroad Corporation under AS 42.40.570(a) terminates June 30, 2015.

18 (c) Notwithstanding the termination of the authorizations made by (a) and (b) of this
19 section, bonds of the Alaska Railroad Corporation that are issued not later than the respective
20 termination dates set out in (a) and (b) of this section are valid and binding obligations of the
21 corporation under AS 42.40.670.

22 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

#1



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 10 May 2007 TIME: 10:20 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 2

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please

SCS HB 229 (FIN) 25-LS0737\C.A

plus 1 conceptual amendment-
attached

This
Mindy

House Bill 229
Alaska Railroad Corporation Position Statement
May 7, 2007

House Bill 229 would authorize the Alaska Railroad Corporation (ARRC) to issue up to \$2,900,000,000 in tax-exempt bonds to finance facilities and equipment for the transportation of coal from Healy to Kenai and facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

This legislation provides the Alaska Railroad only a broad and general authorization to issue bonds. The bonds would be issued to enable the Kenai Coal Gasification Project, which could include the Willow to Port MacKenzie rail extension if it is determined that it supports a preferred business case. Of the \$2.9 billion total, most would be conduit financing. Agrium and its partners would be responsible for paying the debt on up to \$2.4 billion. A revenue source for payment of the \$300 million Mat-Su rail extension portion has not yet been identified. That determination is not necessary at this point for purposes of figuring a general issuance authority, but would definitely have to be worked out prior to any actual bond issuance. The Alaska Railroad would cover debt service up to \$200 million in order to finance associated locomotives, track work and two coal train consists. Payments would be figured out of project revenue.

In terms of process, before any bonds are sold the Alaska Railroad Board of Directors would be required to approve each and every bond issuance up to the maximum allowed by the legislature. Of course the proposals must also pass muster with the financial markets.

The Mat-Su rail extension would be approximately 40 miles long and may prove to be very beneficial for the Kenai Coal Gasification Project. Construction of a rail line extension from Willow to Port MacKenzie would not only encourage interior natural resource development and possibly assist the State in the construction of a natural gas pipeline by serving as a more strategically located port for offloading project materials and supplies, but it may markedly improve the economics for other in-state commercial business operations besides Agrium.

Prior approval to sell project bonds makes the complex and lengthy financial preparations go much smoother when the market is comfortable that the State of Alaska is already on board and does not represent a risk of disapproval in the latter stages of the sale calculations and negotiations.

It is the Railroad's opinion that pre-approving the bond sale also provides needed protection for the Port MacKenzie rail link EIS appropriation asked for in the budget, since it would now link a specific project proposal to the \$12 million dollar request.

Kenai Gasification Project

Tentative Timeline

- **May 2007**
 - Legislative authorization for ARRC bonds supporting Kenai Gasification Project (KGP) received

- **July 2007**
 - KGP Phase 2a Front End Engineering Design (FEED) study complete
 - Scope: near completion of engineering design, site layout, refinement of capital cost
 - Phase 2b begins
 - Scope: additional engineering work, integration plan for existing facility, environmental permitting begins, early construction plan

- **September 2007**
 - Additional KGP strategic partners identified

- **Fall 2007**
 - Financing documentation process begins
 - IRS Private Letter Ruling process begins
 - Necessary for use of ARRC tax-exempt authority

- **July 2008**
 - KGP Detailed Design and Engineering begins
 - \$150 million estimate
 - Scope: completion of detailed engineering and construction plan, procurement of long lead-time equipment

- **Summer/Fall 2008**
 - Private Letter Ruling received, initial financing commences
 - Alaska Railroad Board approves bond issuance

- **Summer 2009**
 - Initiate construction
 - Capital markets accessed as necessary based upon construction schedule

- **2012**
 - Commissioning

The Alaska Railroad Corporation is not obligated to pay this bond or the interest on this bond except from the revenue or assets pledged for it; and neither the faith and credit nor the taxing power of the State of Alaska or of a political subdivision of the State of Alaska is pledged to the payment of this bond.

No. R-2006-1

\$4,065,000

**ALASKA RAILROAD CORPORATION
CAPITAL GRANT RECEIPTS BOND, SERIES 2006
(FEDERAL TRANSIT ADMINISTRATION SECTION 5307
URBANIZED AREA FORMULA FUNDS AND SECTION 5309
FIXED GUIDEWAY MODERNIZATION FORMULA FUNDS)**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATED DATE</u>	<u>CUSIP</u>
4.000%	August 1, 2008	August 22, 2006	01176PAA8

Registered Owner: CEDE & CO.

Principal Amount: FOUR MILLION SIXTY-FIVE THOUSAND DOLLARS (\$4,065,000)

The ALASKA RAILROAD CORPORATION, a public corporation of the State of Alaska ("ARRC") duly organized and existing under the Alaska Railroad Corporation Act, AS 42.40.010 et seq. ("Act"), for value received, hereby promises to pay (but only out of the sources hereinafter provided) to the Registered Owner identified above or registered assigns, upon presentation and surrender hereof, the Principal Amount identified above on the Maturity Date specified above, and to pay (but only out of the sources hereinafter provided) interest on said Principal Amount from the later of the Dated Date of this 2006 Bond or the most recent date to which interest has been paid or provided for. Interest on this 2006 Bond (computed on the basis of a 360-day year consisting of twelve 30-day months) is payable on February 1 and August 1 of each year, commencing February 1, 2007, until the payment in full of such Principal Amount.

Principal of this 2006 Bond is payable in lawful money of the United States of America at the corporate trust office of U.S. Bank National Association, in Seattle, Washington, or its successor in trust, as Trustee and Paying Agent ("Trustee"), and payment of the interest hereon shall be made to the person in whose name this 2006 Bond is registered at the close of business on the fifteenth day preceding each interest payment date ("Record Date") by check or bank draft mailed or delivered by the Trustee to such Registered Owner at such Registered Owner's address as it appears on the registration books of ARRC maintained by the Trustee, in Seattle, Washington, as Registrar ("Registrar") or, at the option of a Registered Owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer of immediately available funds to

NEW ISSUE-BOOK-ENTRY ONLY**RATINGS:** (See "RATINGS" herein)

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2006 Bonds, including interest accruing in the form of original issue discount, will not be includible in the gross income of the holders thereof for federal income tax purposes, on the assumption that the Corporation complies with its covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, and interest on the 2006 Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the 2006 Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed by Section 56 of the Code on certain corporations. In the opinion of Alaska Bond Counsel, under existing laws, interest on the Bonds is free from taxation by the State except for transfer, estate and inheritance taxes, and except to the extent that inclusion of said interest in computing the corporate alternative minimum tax under Section 55 of the Code may affect the corresponding provisions of the State of Alaska corporate income tax. See "TAX MATTERS" herein.

**\$76,390,000****ALASKA RAILROAD CORPORATION****Capital Grant Receipts Bonds, Series 2006****(FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds)****Dated:** Date of Delivery**Due:** August 1, as shown on the inside cover page

The Alaska Railroad Corporation Capital Grant Receipts Bonds, Series 2006 (FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds) (the "2006 Bonds"), are being issued pursuant to a Trust Indenture, dated as of August 15, 2006 (the "Indenture"), between the Alaska Railroad Corporation (the "Corporation") and U.S. Bank National Association, as Trustee (the "Trustee"). The 2006 Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of 2006 Bonds will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of 2006 Bonds will not receive 2006 Bonds representing their beneficial ownership interest in the 2006 Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The 2006 Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. See "DESCRIPTION OF THE 2006 BONDS - Book-Entry Only System" and APPENDIX E - "DTC AND ITS BOOK-ENTRY SYSTEM" herein.

Interest on the 2006 Bonds, which is payable on February 1 and August 1 of each year, commencing February 1, 2007, and principal on the 2006 Bonds, is payable by the Trustee to Cede & Co. Such interest and principal payments are to be disbursed to the beneficial owners of the 2006 Bonds through their respective DTC Participants or DTC Indirect Participants. The 2006 Bonds are subject to redemption prior to maturity under the circumstances and at the redemption prices described herein. See "DESCRIPTION OF THE 2006 BONDS - Optional Redemption of 2006 Bonds."

The 2006 Bonds are limited obligations of the Corporation payable solely from and secured solely by all amounts received by the Corporation from its share of FTA Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization Formula Funds (collectively, the "Grant Receipts") and amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund). See "SECURITY FOR THE 2006 BONDS." The 2006 Bonds are not a general obligation of the Corporation, and the revenues, funds and assets of the Corporation (other than the Grant Receipts) are not pledged or required to be used for the payment of the 2006 Bonds or the interest thereon. The Indenture creates no liens upon any physical properties of the Corporation. The 2006 Bonds do not constitute a debt, liability, or obligation of the State of Alaska (the "State") or any political subdivision of the State. Neither the faith and credit nor the taxing power of the State or of a political subdivision of the State is pledged to the payment of the 2006 Bonds. The Corporation has no taxing power.

Payment of the principal of and interest on the 2006 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Financial Guaranty Insurance Company (the "Bond Insurer") simultaneously with the delivery of the 2006 Bonds.

FGIC

This cover page contains information for quick reference only. It is NOT a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The maturities, amounts, interest rates, and prices or yields of the 2006 Bonds are set forth on the inside cover page.

The 2006 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Blank Rome LLP, Philadelphia, Pennsylvania, Bond Counsel and Wohlforth, Johnson, Brocht, Cartledge & Brooking, P.C., Alaska Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Birch, Horton, Bittner and Christ, Anchorage, Alaska, Underwriters' Counsel and for the Corporation by its General Counsel. The 2006 Bonds are expected to be delivered through the facilities of DTC in New York, New York on or about August 22, 2006.

Citigroup**JPMorgan****Siebert Brandford Shank & Co., L.L.C.****UBS Investment Bank**

The date of this Official Statement is August 9, 2006.

Alaska State Legislature

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145 Main Street Loop
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Kenai, Alaska 99611
Phone: 907-283-7223
Fax: 907-283-7184

Representative Mike Chenault

Sponsor Statement HB 229

Title: "An Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project, authorizing the corporation to issue bonds to finance all or a portion of the project, and identifying these as bonds for an essential public and governmental purpose; and providing for an effective date."

Agrium U.S. Inc. currently owns and operates an ammonia and urea complex in Kenai, which is in danger of being permanently shut down due to a lack of adequate natural gas feedstock. Such a closing would have a harmful effect on the state through loss of jobs and tax base. The Agrium Kenai Gasification Project (the "Project") addresses this issue by bringing coal from Healy to Kenai where low emission coal gasification and electricity generation plants would be constructed, allowing Agrium to continue to operate its fertilizer plants at optimal capacity.

House Bill 229 will authorize the Alaska Railroad Corporation (ARRC) to issue up to \$2,900,000,000 in tax-exempt bonds to finance a portion of the Project which includes:

- facilities and equipment for the transportation of coal from Healy to Kenai; and
- facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

This bill will also allow ARRC to issue tax-exempt bonds for a rail extension project from the Railroad's main line near Willow to Port MacKenzie. This rail extension would be approximately 40 miles long and may prove to be very beneficial for the Kenai Coal Gasification Project.

ARRC is uniquely suited to participate in the Project by virtue of its ability to issue tax-exempt debt as authorized by the federal Alaska Railroad Transfer Act. A viable Project could mean significant incremental revenues to ARRC through movement of up to an additional 3 million metric tons of coal annually. The Project will also generate competitively priced surplus electricity for the regional power grid, generate excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet and continue to supply Alaska businesses and organizations with fertilizer.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator. Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds.

Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds. This legislation provides the Alaska Railroad only a broad and general authorization to issue bonds. The ARRC Board of Directors would be required to approve each bond issuance and the proposals must also pass muster with financial markets.

LEGAL SERVICES

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

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Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 16, 2007

SUBJECT: Sectional summary of HB 229 (Work Order No. 25-LS0737\C)

TO: Representative Mike Chenault
Attn: Lanie Snyder

FROM: Brian J. Kane *BJK*
Legislative Counsel

You have requested a sectional summary of HB 229, an Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project, and authorizing the corporation to issue bonds to finance all or a portion of the project.

Please note that a sectional summary of a bill is not the authoritative interpretation of a bill. The bill itself is the best statement of its contents.

Section 1 of the bill states the legislative findings, intent, and purpose regarding the Kenai gasification project and the need for the Alaska Railroad Corporation's involvement in the project.

Section 2 of the bill amends AS 42.40 by adding a new section regarding the Kenai gasification project. The new section allows the Alaska Railroad Corporation to fully participate in the transportation of coal from Healy to the northern Kenai Peninsula and development of facilities and equipment to Agrium fertilizer plants in the northern Kenai Peninsula. This section allows the corporation to finance the project by issuing bonds.

Section 3 of the bill amends AS 42.40.630 by adding a new subsection stating that before issuing bonds for funding of the project, the corporation will enter into one or more agreements that will provide sufficient consideration to pay the bonds as they become due, create and maintain any necessary reserves for the bond payments, pay all costs needed to issue, service, and additionally secure the bonds.

Section 4 of the bill amends AS 42.40.695 by expanding what the issued bonds can finance in order to conform to the bond requirements regarding the corporation and the Kenai gasification project.

Representative Mike Chenault

April 16, 2007

Page 2

Section 5 of the bill gives the legislative authorization and approval for the bonds to be issued based on the requirements of secs. 3 and 4 of the bill in an amount no greater than \$2,600,000,000, and defines the term "bonds."

Section 6 of the bill states that the Act takes effect immediately under AS 01.10.070(c).

BJK:med

07-245.med

Adopted: March 9, 2007

Resolution No. 2007-09

Relating to an Authorization for the Corporation to Take Necessary and Appropriate Steps to Prepare for the Issuance of Bonds to Finance all or a portion of the Agrium Kenai Gasification Project

WHEREAS, the Alaska Railroad Corporation ("ARRC") is a public corporation and instrumentality of the State of Alaska ("State"), organized and established pursuant to the Alaska Railroad Corporation Act ("Act"), whose mission includes providing transportation for freight and passengers and promoting the development of the State's land and natural resources and the long-term economic growth of the State; and

WHEREAS, Agrium, Inc.'s ("Agrium") urea and ammonia plants in North Kenai are in danger of being permanently shut down due to a lack of adequate natural gas feedstock in the area; and

WHEREAS, closure of the Agrium plants would result in a loss of a significant number of high paying jobs and tax base for the Kenai Peninsula as well as tax revenue to the State of Alaska ("State"); and

WHEREAS, Agrium's Kenai Gasification Project will bring low-sulfur coal from Healy to North Kenai where a low emission coal gasification plant and electricity generation plant will be built on land adjacent to Agrium's existing urea and ammonia plants; and

WHEREAS, producing gas from coal will provide Agrium with an alternative feedstock to natural gas which is in short supply in Southcentral Alaska and will allow Agrium to continue to operate its urea and ammonia plants for the foreseeable future; and

WHEREAS, the Agrium Kenai Gasification Project will also generate competitively priced electricity for the regional power grid and excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet; and

WHEREAS, ARRC desires to participate in Agrium's Kenai Gasification Project, which consists of the acquisition, construction, improvement, maintenance, equipping, and operation of real and personal property including facilities and equipment for the transportation of coal from Healy to North Kenai and for facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plants in North Kenai, and to finance all or a portion thereof through the issuance of its bonds (the "Project"); and

WHEREAS, the Project furthers the purposes of both the State and ARRC by creating a new market for the State's coal reserves at Healy that will be transported by rail, thus generating new revenue for ARRC and for the State and providing employment opportunities for residents of the State; and

WHEREAS, ARRC desires to issue one or more series of bonds or notes in an aggregate principal amount not to exceed \$2,600,000,000 (collectively, the "Bonds"), in order to finance all or a portion of the Project; and

WHEREAS, ARRC desires to authorize its Chief Executive Officer, Chief Financial Officer, General Counsel, Bond Counsel, Financial Advisors, Architects, Engineers and any other officer or official of the ARRC (collectively, the "Authorized Persons") to take certain preliminary actions with respect to the Project and the issuance of the Bonds; and

WHEREAS, in accordance with Section 42.40.285 of the Act, ARRC desires to request approval and authority from the legislature of the State for ARRC to issue the Bonds and enter into leases or other agreements in connection with the Project; and

WHEREAS, ARRC intends to be reimbursed (i) for expenditures for the Project paid not more than 60 days prior to the date of this Resolution, (ii) for expenditures pertaining to costs of issuance, (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the portion of the proceeds of the issue used to finance the Project, or (iv) for expenditures that do not exceed 20% of the portion of the aggregate issue price of the Bonds used to finance the Project which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2) of the Internal Revenue Code of 1986, as amended ("Code"); and

WHEREAS, ARRC intends that this Resolution be determined to be, among other things, a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code.

NOW, THEREFORE, the ARRC Board of Directors does resolve as follows:

Section 1. Authorization to Take Actions in Preparation for the Issuance of the Bonds. ARRC hereby authorizes the Authorized Persons to perform such acts on behalf of ARRC as shall be necessary and appropriate to prepare for the issuance of the Bonds in one or more series in a maximum aggregate principal amount not to exceed \$2,600,000,000, including, but not limited to: (a) requesting approval and authority from the legislature of the State for the issuance of the Bonds; (b) obtaining a ruling or rulings from the IRS with respect to the applicability of certain provisions of the Code to ARRC; (c) selecting one or more investment banking firms to serve as underwriter(s) for the Bonds (such selection to be made in accordance with the rules, regulations and procedures of ARRC); (d) obtaining ratings for the Bonds and credit enhancement for the Bonds, if deemed necessary or appropriate; and (e) performing such other tasks and taking such other actions necessary to structure the terms of the Bonds and to prepare documents

relating to the authorization, issuance and sale of the Bonds, including appropriate disclosure documents to be used in connection with the offering of the Bonds.

Section 2. Declaration of Official Intent. ARRC hereby declares its intent:

(a) that the issuance of the Bonds by ARRC be in an amount reasonably expected not to exceed \$2,600,000,000 in aggregate principal amount for the Project; and

(b) that ARRC be reimbursed from the proceeds of the Bonds (i) for expenditures paid for the Project not more than 60 days prior to the date of this Resolution; (ii) for expenditures pertaining to costs of issuance; (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the proceeds of the issue; or (iv) for expenditures that do not exceed 20% of the aggregate issue price of the bonds which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2); and

(c) that this Resolution be determined to be a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code; and

(d) that the issuance of the Bonds occur not later than 18 months after the latest of (i) the date on which the earliest expenditure subject to Treas. Reg. § 1.150-2 is paid, (ii) the date on which the property is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or Treasury Regulations promulgated thereunder; and

(e) that ARRC is making this Declaration of Official Intent while reserving the right at all times to assert that it is not subject to the provisions of Section 150 of the Code by virtue of Section 1207(a)(6)(A) of the Alaska Railroad Transfer Act and Section 149(c)(2)(C) of the Code.

Section 3. Ratification of Prior Actions. All actions heretofore undertaken by the Authorized Persons in connection with the Project and the Bonds are hereby ratified, confirmed and approved.

Section 4. Preliminary Resolution. This Resolution is the authorization by ARRC to take the necessary and appropriate steps to prepare for the issuance of the Bonds. Final authorization of the issuance and sale of the Bonds shall be by subsequent resolution or resolutions of ARRC.

Section 5. Severability. In the event that any one or more of the provisions contained in this Resolution shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Resolution, and this Resolution shall be construed and enforced as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

Section 6. Repealer. All resolutions or parts thereof to the extent inconsistent herewith are hereby repealed, rescinded, canceled and annulled.

Section 7. Governing Law. The laws of the State shall govern the construction and interpretation of this Resolution.

Section 8. Effective Date. This Resolution shall take effect immediately upon adoption this 9th day of March, 2007.

Agrium

Kenai Nitrogen Operations

July, 2004



Summary of

Alaskan Direct Economic Impacts

"By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact."

- McDowell Group, October 2002

A recent study completed by the McDowell Group in April 2004 identified the following direct impacts of Agrium's Kenai Nitrogen Operations:

- ✓ Agrium spent \$101 million in Alaska in 2003
- ✓ \$77 million in purchases of goods and services from 384 Alaskan businesses
- ✓ \$22.0 million in direct payroll; including benefits, expenditures are \$29.5 million
- ✓ \$2.2 million in taxes and lease payments
- ✓ \$195,000 in charitable donations to 43 non-profit organizations and groups

Summary of

Alaskan Indirect Economic Benefits

For every one thousand cubic feet of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$9.35 in total economic output is generated.

- ✓ Agrium employees have 244 school age dependents or about 2.5 percent of the Central Peninsula student enrollment
- ✓ Agrium's total direct, indirect, and induced payroll impacts support 7.0 percent of the total Kenai Peninsula payroll
- ✓ Agrium total direct, indirect, and induced employment accounts for 4.0 percent of the total employment on the Kenai Peninsula

Did You Know?

- ✓ Agrium is the Kenai Peninsula's fourth largest private employer with an average employment of 230 people
- ✓ Agrium accounts for an additional 420 jobs in Alaska and the Kenai Peninsula Borough
- ✓ Agrium direct expenditures on the Kenai amounted to \$65 million in 2003 on goods and services provided by 320 Kenai Peninsula companies
- ✓ Agrium donations to local school and youth activities accounted for 54% of the company's charitable donations
- ✓ Agrium's Kenai Nitrogen Operations is the second largest nitrogen production complex in the U.S.A.
- ✓ Agrium's Kenai Nitrogen Operations accounts for about 6 percent of North America's nitrogen production
- ✓ In 2003, Agrium's Kenai Nitrogen Operations exported 1.2 million tons of ammonia and urea valued at \$200 million
- ✓ Agrium's Kenai Nitrogen Operations is one of Alaska's few value added industries



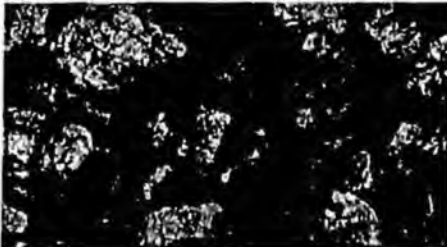
Agrium's Kenai Gasification Project



Agrium is pursuing an environmentally friendly technology that could add decades to the life of its Kenai Nitrogen Operations, support hundreds of well-paying jobs, preserve a major tax base and provide a new source of competitively priced power.

The Kenai Gasification Project would develop a world-class, low-emission coal gasification facility that would provide Alaska's largest value-added business the feedstock required to operate over the long-term. The Kenai fertilizer plant suspended manufacturing during the 2006-2007 winter season due to a shortage of natural gas and has operated below capacity in recent years as it sought new gas supply contracts in an increasingly tight market complicated by escalating prices.

How it works



First discovered in 1792, gas made from coal provided most of the fuel gas used in U.S. homes and businesses until the 1940s when natural gas became increasingly available. Modern gasification technology efficiently turns coal into a combustible gas that can be cleaned of virtually all pollutant-forming impurities.



Gasification is essentially the controlled, but incomplete combustion of carbon. It can be applied to many feedstocks including coal, biomass and heavy oil. The Kenai Gasification Project is examining the utilization of coal to provide the required feedstock.

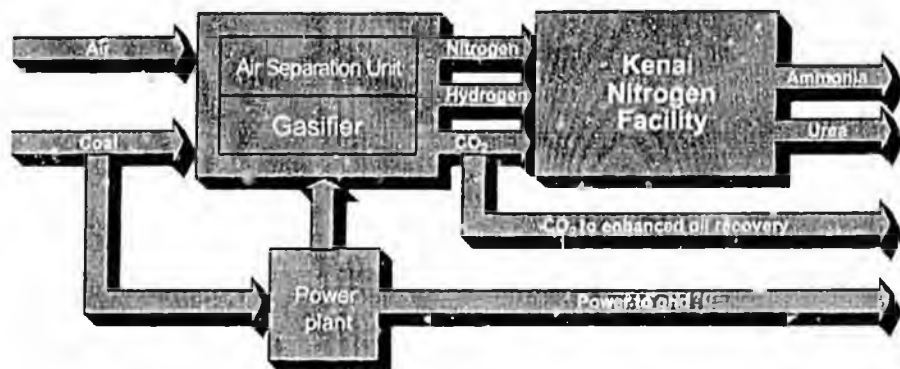
In the process, coal is fed into a gasifier unit where it is partly oxidized using pure oxygen to form a mixture of carbon monoxide and hydrogen, commonly called syngas because it can be synthesized into many forms.

Most of the syngas would be further refined into pure hydrogen using the same carbon monoxide shift reaction Agrium uses in the production of ammonia from natural gas. Water is used to convert the carbon monoxide into carbon dioxide while producing even more hydrogen. The hydrogen is used to make ammonia and the carbon dioxide is reacted with ammonia to make urea.



The project would require a new coal-fired power plant that could also supply surplus power to the Railbelt power grid. Homer Electric Association is the project partner taking the lead on power and supply issues.

The Components



All components of this project utilize existing, proven technology in a unique configuration to produce multiple benefits to Alaska and the Kenai Peninsula.

Coal – With a need of approximately three million metric tons of coal each year, the project is evaluating coal supplies along with transportation options.

Air Separation Unit – This unit processes air directly from the atmosphere to generate oxygen for the gasifier and the nitrogen used in the fertilizer process.

Gasifier – Coal is dried, pulverized and reacted with pure oxygen to form syngas. The gas is reacted with water to shift the carbon monoxide into carbon dioxide (CO₂) and hydrogen. The CO₂ is removed, along with sulfur and other impurities, and the pure hydrogen is shipped to the fertilizer plant.

Power Plant – Consists of coal-fired generation with state of the art emissions control technology. The power will supply steam and electricity to the other project components and additional electricity for sale into the grid.

Fertilizer Plant – At capacity, the facility can produce more than 1.5 million metric tons of anhydrous ammonia and urea each year. Changing the feedstock will require relatively minor modifications.

The Next Step

Agrium began investigating coal gasification during the winter of 2004 and is currently undertaking its Phase two analysis, which includes a detailed feasibility review and project permitting. If the decision is made to go forward, the facility could be operational by 2011.



Benefits for Alaska

- Provide an estimated 1,000 construction jobs; 900 direct and indirect permanent jobs.
- Utilize an economical and abundant feedstock that will provide an industrial anchor for the state's huge, but mostly undeveloped, coal reserves.
- Keep the second-largest nitrogen plant in the U.S. operating for decades.
- Diversify aging power generation and help eliminate the current reliance on Cook Inlet natural gas.
- Increase the Kenai Peninsula's tax base.
- Provide a surplus of CO₂ that could be injected into the aging Cook Inlet oil fields to produce an estimated 300 million barrels of additional crude production.

Agrium



For more information, please contact:

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Government & Public Relations
Lisa Parker
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OUR VIEW

Coal could replace gas

Agrium looks at coal gasification to supply Kenai fertilizer plant

The Kenai plant has been turning natural gas into urea for fertilizer for almost 40 years, but its future may well depend on the economics of turning coal into gas into urea.

It's called the Kenai Blue Sky Project, and Agrium U.S. Inc. and its partners are spending several million dollars to see if it will work. If it does, it could mean a much brighter future for the Kenai plant, for its workers and community, and, as a bonus, a new supply of electricity for Southcentral Alaska.

As the ready supply of Cook Inlet natural gas has dwindled, and as new gas fields carry a much higher price tag, the Agrium plant has had to curtail ammonia and urea production in recent years. No gas to feed the plant, no product coming out. The plant suspended operations this winter and is expected to restart about March 1, but even then it will run at much less than full capacity for lack of sufficient gas. Agrium's contracts with gas suppliers expire Oct. 31, 2007, putting next year's operations -- and a lot of jobs -- in jeopardy.

Rather than wait for an uncertain North Slope gas line and possible spur line into Southcentral, and rather than staking its future on new Cook Inlet gas discoveries at affordable prices, Agrium is studying the option of buying coal

from the Usibelli mine at Healy, 200 miles north of Anchorage. One plan is to move the coal by train to Anchorage, then barge it to Kenai, though other train and barge routes are possible.



In addition, the coal-fired plant would supply electricity to the Southcentral power grid.

Turning the coal into gas is the fun part.

Coal and pure oxygen would go into the heated gasifier unit and, in a simplified explanation, out would come the nitrogen, hydrogen and carbon dioxide gases needed to produce urea and ammonia. The car-

bon dioxide would be a welcome byproduct in Cook Inlet, where it can be reinjected into underground reservoirs to push out more oil. It's called "enhanced oil recovery" and it's a great way to pump more oil while keeping carbon dioxide out of the atmosphere.

In addition to producing gas feedstock for the fertilizer plant and providing for enhanced oil recovery, the coal-fired power plant at Kenai Blue Sky would have a lot of surplus electricity it could feed into the Southcentral power grid.

Agrium is evaluating proposals from different coal gasification equipment makers and anticipates selecting a company in January to handle environmental permitting for the project, which will be formidable.

Meanwhile, it is working with Usibelli to determine whether there are adequate coal reserves to supply Blue Sky for several decades. If it goes ahead, Blue Sky would consume up to 3 million metric tons of coal a year, almost twice what Usibelli mines for its existing customers.

Although Agrium had considered using coal from the Beluga field across Cook Inlet from its plant, the company decided it made more sense to buy coal from an existing mine rather than to try opening a new pit.

Agrium and its partners have put a lot of thought -- and money -- into Blue Sky. The Phase 1 feasibility study, at \$3 million, was all company money. Phase 2, preliminary engineering and permitting, is estimated at \$22 million, with \$2 million from the federally funded Denali Commission, \$5 million from the state, and the balance of \$15 million from Agrium and other partners.

The current schedule calls for Agrium's board to make a decision in the summer of 2008 on Phase 3, detailed engineering and design, estimated at \$100 million. Phase 4, construction, would run from spring 2009 to the end of 2011, at a cost of \$2 billion.

Blue Sky is a costly undertaking but, thankfully, Agrium is taking the chance.

BOTTOM LINE: A hopeful name for a needed project.

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Projects would add high value to coal

TIM BRADNER
ECONOMY*(Published: April 15, 2007)*

Alaskans are so focused on a possible \$30 billion-plus natural gas pipeline that two other projects of significance are largely off the radar screen. They are hugely important to Southcentral Alaska, however. Even more than the gas pipeline, I believe.

Both involve making value-added products from coal, a resource in plentiful supply in Alaska. The technologies being used have been long established, although they are expensive. The developers hope recent improvements will make them commercially economic in Alaska.

One proposal is by Agrium Corp. to do coal gasification at its Nikiski fertilizer plant. This would allow the plant to switch from natural gas to coal as a chemical feedstock, and thus ensure the future of the plant and the jobs it provides. Agrium now is in an advanced engineering stage with its plan and hopes to make a decision on whether to proceed with construction next year.

Agrium would use coal from the Usibelli coal mine at Healy.

The other proposal, still in an initial study stage, is for a large coal-to-liquids plant on the west side of Cook Inlet near the undeveloped Beluga coal fields, using coal from those fields.

There is not a coal mine at Beluga yet, although one is planned that would export coal. The coal-to-liquids plant, if it is built, would be a local customer for the mine, making an ultra-clean diesel, naphtha and other products from coal.

Both projects would require billions of dollars of capital investment, and would create thousands of jobs. They would have major, long-lasting effects in strengthening and diversifying the Southcentral economy.

A gasifier proposed at Agrium would convert coal into gas. This gas will contain the same chemicals, in different forms, as does natural gas now used by the plant. The company would use this as a substitute for natural gas in making urea fertilizer and ammonia. A 200 megawatt coal power plant also would be built to provide electricity to the plant, with about 75 megawatts of surplus power that could be sold to other electricity users.

Switching to coal as a feedstock has benefits. It would release gas Agrium now uses to make it available to others, such as local utilities to heat the homes and businesses of their customers.

Coal is in plentiful supply, and its price could be more stable than that of natural gas, which will be in short supply. This would allow the fertilizer plant to resume year-around operations and possibly expand. It is now operating seasonally because no gas is available during winter peak demand.

The switch to coal is necessary because if the plant continues to depend on gas its closure is likely. Agrium's plan is about preserving an existing value-added industry.

The coal-to-liquids project would be a new industry with the potential to create additional business in further processing and manufacturing of products.

This project is being evaluated by Alaska Natural Resources-to-Liquids, an Alaska firm, and the Chinese Petroleum Co. of Taiwan. Other companies are looking at becoming involved in the project. Alaska Industrial Development and Export Authority, the state development agency, is helping fund an assessment of coal resources and preliminary environmental work.

The partners have not sought publicity because they do not want to encourage public expectations until it is known if the project is profitable enough. They are not seeking government grants, either.

As with Agrium, the coal-to-liquids process starts with gasification to convert coal to gas. Instead of making fertilizer, however, this plant would make a synthetic crude oil that can be refined into clean diesel or other products, even a clean jet fuel, as the market demands. Most of the plant's products would be shipped to the Lower 48 where there is strong demand for these fuels because they're less polluting.

Coal-to-liquids plants have operated for decades in South Africa, and several new projects, using improved technology, are in the engineering phase or construction in China. The United States has a lot of coal, like China, and the federal government is now encouraging development of coal-to-liquids with tax credits.

Several coal-producing states and their governors, Montana being one example, are now working aggressively to attract one of these projects. An Alaska plant at Beluga, however, has an edge over a plant in Montana or another inland location because the site is at tidewater, an advantage in bringing in huge process modules during construction and in shipping products once the plant is going.

There is one more significant implication of these projects. In the long run the plants will encourage an extension of the Alaska Railroad to the new bulk commodities port at Port MacKenzie, across Knik Arm from Anchorage, and eventually, possibly, to the Beluga area. The railroad would bring coal from large coalfields in Interior Alaska to the plants and would also provide efficient transportation for development of other minerals in the Interior.

Agrium now plans to ship its coal from the Usibelli mine through the Port of Anchorage. Shipping the coal through Point MacKenzie will make more sense in the long run. Shipping coal to both projects will help make the rail extension feasible.

Tim Bradner writes for an Alaska economic reporting service. He also consults for private clients and writes for business publications. His opinion column appears every fourth Sunday.

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House OKs bond sale by railroad**TAX-FREE: The funds would allow Agrium to build a coal gasification plant in Kenai.**By TOM KIZZIA
Anchorage Daily News*(Published: April 26, 2007)*

Brushing off global warming concerns, the state House gave a boost to Agrium's Nikiski fertilizer plant Wednesday when it authorized the Alaska Railroad to sell \$2.9 billion in tax-free bonds for construction of a new coal gasification facility.

Agrium is studying whether to build a coal-conversion plant as a way to provide feedstock for its factory in the face of declining natural gas supplies. The tax-free railroad bonds would provide a financing mechanism for the plant and for new rail facilities necessary to haul coal from Healy.

The House added an amendment to the original bill increasing the bond authority by \$300 million to cover a possible 43-mile railroad spur line from Willow to Port MacKenzie. Among many unanswered questions about the project is whether coal would be shipped to Nikiski from the Port of Anchorage or from the Mat-Su facility at Port MacKenzie.

The railroad bond authority was approved by the House 35-0. The measure has not been discussed in the Senate yet.

Controversy arose Monday, when the measure first reached the House floor, over a move to impose limits on new carbon dioxide emissions created by the Nikiski project.

House Democrats argued that the financing measure was a chance to do more than offer lip service to the need to reduce emissions of greenhouse gases.

But the House voted 26-11 to reject a Democratic amendment that would have limited emissions at the new plant to levels produced by natural gas-fired power plants. Several Republicans who spoke in opposition were dismissive of extensive scientific studies identifying human-caused emissions as a major source of warming.

Rep. Mike Kelly, R-Fairbanks, called the effort to limit emissions a reaction to "junk science" that would impede future development of coal in Alaska.

"I've seen some research out that says it's not what us humans are doing," said Rep. Peggy Wilson, R-Wrangell, explaining why she opposed the amendment.

Agrium said it hopes to inject excess carbon dioxide into existing Cook Inlet oil wells to enhance oil recovery. But the company opposed any mandatory requirements.

"There's lots of friendly talk about reducing the greenhouse effect," said Rep. Les Gara, D-Anchorage, who offered the amendment, "but the only action we've taken this session is likely to exacerbate the problem."

PORT MACKENZIE RAIL

Another wrinkle developed over the Mat-Su rail extension to Port MacKenzie.

Agrium initially told legislators it was planning to ship coal through Anchorage because of uncertainties surrounding the unbuilt Mat-Su line. That comment stirred a reaction from borough officials and Mat-Su legislators, who see coal trains as the key to developing a line that could eventually serve other traffic crossing the Port MacKenzie dock.

The \$300 million increase in bond authority was a result. Proponents say the new rail line could divert the expected daily 100-car coal trains away from populated areas around Wasilla. But some Willow residents say they don't want to see the trains rumbling on a second line through their community.

Building the rail extension would remain an economic decision to be made by the railroad board. And the railroad must wait to see if Agrium decides to go ahead with the coal gasification plant. A decision is expected in 2008, Agrium officials have said.

The financing measure, HB 229, was introduced by Rep. Mike Chenault, R-Nikiski. Under the bill, only Agrium -- not the state or the state-owned railroad -- would be at risk if the project flops and the bonds can't be paid off, advocates said.

The plan rests on the Alaska Railroad's unique authority to issue tax-free bonds for non-governmental purposes. The authority was granted by Congress when the railroad was transferred to the state, but it has not been tested with the IRS.

Backers say the benefits to Alaska would include jobs and local tax revenues in the Kenai area, increased coal traffic for the railroad, and a fee paid by Agrium to the railroad.

Daily News reporter Tom Kizzia can be reached at tkizzia@adn.com or in Homer at 1-907-235-4244.

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April 19, 2007

Representative Mike Chenault
Finance Co-Chair
Alaska State Legislature
State Capitol, Rm 505
Juneau, AK 99801-1182

Dear Representative Chenault:

We have been informed by both Mr. Timothy Johnson of Agrium and General Patrick Gamble of the Alaska Railroad of a proposed amendment to HB229 that will increase the Alaska Railroad's bond authorization for the Fair Gasification Project from \$2.6 billion to \$2.9 billion. The additional authorization will be used for a rail line extension from Willow to Port MacKenzie. The Agrium and Alaska Railroad representatives have stated their support for this amendment. The Matanuska-Susitna Borough fully supports the amendment.

The Borough very much appreciates your continued support of this vital economic development project which will bring significant and long lasting statewide benefits. If you require any additional information please do not hesitate to contact me at 907-745-9689.

Sincerely,

A handwritten signature in black ink, appearing to read "John Duffy".

John Duffy
Borough Manager

SENATE COMMITTEE REPORT

DATE: 4/27/07

FURTHER:

Rules

DATE TURNED
IN TO OFFICE:

5/1/07

Resources Committee considered HOUSE BILL NO. 229 am

HB 229 KENAI GASIFICATION PROJECT; RAILROAD BOND

"An Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project and Port MacKenzie rail link, authorizing the corporation to issue bonds to finance all or a portion of the project, and identifying these as bonds for an essential public and governmental purpose; and providing for an effective date."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

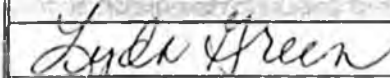

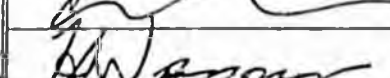

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	NO REC	AMEND
	Green	✓			
	Steven S. Wielochowski	✗			
	Wagoner	✓	✓		
CHAIR: 	Huggins	✓			