

HB

74

<TARGET><BILL>HB 74</BILL><SUBJECT>HB
74</SUBJECT><COMM>HFIN28</COMM></TARGET>



ALASKA STATE LEGISLATURE
HOUSE FINANCE COMMITTEE

State Capitol, Room 519

Rep. Alan Austerman, Co-Chair

Rep. Bill Stoltze, Co-Chair

Thursday, April 4, 2013

9:00 AM

Agenda:

HB 74-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

Governor-Rules

Testifying in Person:

Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority, (AIDEA)

Sarah Sarah Fisher-Goad, Executive, Alaska Energy Authority, Department of Commerce, Community and Economic Development

Via Teleconference:

Mark Davis, Deputy Director, Alaska Industrial Development and Export Authority, (AIDEA)

Public Testimony OPEN

SB 23-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

Rules-Governor

Possible testifiers:

Emily Ford- Public Outreach/Liaison, AIDEA ENERGY, DCCED

+1 Ted Leonard, Executive director of AIDEA, DCCED

Sfg Sara Sarah Fisher-Goad, Executive, Alaska Energy Authority, Department of Commerce, Community and Economic Development

Szy Nick Szymoniak, Project Economist with AEA

Public Testimony Closed

Szy

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: CSHB 74(L&C)
Fiscal Note Number: 2
(H) Publish Date: 3/28/13

Identifier: HB074CS(L&C)-DCCED-AIDEA-03-26-13
Title: AIDEA: LNG PROJECT; DIVIDENDS; FINANCING
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Labor & Commerce

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Industrial Development and Export
Authority
Allocation: Alaska Industrial Development and Export
Authority
OMB Component Number: 1234

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services							
Travel							
Services	200.0		150.0	150.0	150.0	150.0	150.0
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	200.0	0.0	150.0	150.0	150.0	150.0	150.0

Fund Source (Operating Only)

1102 AIDEA Rcpt	200.0		150.0	150.0	150.0	150.0	150.0
Total	200.0	0.0	150.0	150.0	150.0	150.0	150.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	0.0		0.0	600.0	625.0	625.0	625.0
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/13

Why this fiscal note differs from previous version:

This version removes the AIDEA technical dividend sections and Interior Gas Plan sections and updates operating expenditures, fund source, and changes in revenue amounts based on AIDEA direct financing created under this CS.

Prepared By:	Ted Leonard, Executive Director	Phone:	(907)771-3000
Division	Alaska Industrial Development and Export Authority	Date:	03/26/2013 05:30 PM
Approved By:	JoEllen Hanrahan, Director	Date:	03/26/13
	Administrative Services Division		

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. CSHB 74(L&C)

Analysis

The CS for House Bill 74 (L&C) allows the Alaska Industrial Development and Export Authority (AIDEA) the ability to provide project financing for all or a portion of the cost of a development project which the authority does not intend to own or operate. At present, AIDEA is permitted to provide financing for a project that it intends to have an ownership stake in, but cannot make a direct loan on a project or guarantee a loan for a project. This bill would permit the authority to engage in project financing by loaning money to a project or guaranteeing a loan for a project rather than owning an interest in the project.

Funding for FY 2014 includes a one-time cost of 50.0 for consultants to assist in the preparation of new regulations necessary to implement a direct financing program and 150.0 to hire consultants and counsel to assist in underwriting loans and guarantees under this program. It is projected that this 150.0 in underwriting expenditures will be on-going and will be offset by financing and guarantee fees paid by project sponsors.

The revenues projected to be earned from direct loan and guarantee finance packages are approximately \$1.4 million. The direct loan and guarantee program will generate earnings on financing of development projects. The amount that AIDEA can charge for each direct financing is limited, but the overall anticipated returns are projected to be substantial due to the large dollar amounts involved with the type of projects that will be financed through the Direct Finance Program.

The Change in Revenues reflects General Fund revenues to the state generated from the increased AIDEA dividends. The AIDEA dividend is calculated from "base year" which is two years prior to current year, for example the FY 2016 dividend calculation will be based on FY 2014 net revenues. It is estimated that dividends earned to the state will start increasing in FY 2016 based on projected yearly increase in net income generated from the new financing tool.

Direct Financing		FY14	FY15	FY16	FY17	FY18	FY19
Cost to AIDEA							
	AIDEA Receipts	200	150	150	150	150	150
	Preparation of regulations	50	-	-	-	-	-
	Underwriting (Includes 200.0 operating request)	150	150	150	150	150	150
	SETS Fund	-	-	-	-	-	-
GF Cost		-	-	-	-	-	-
Revenue to AIDEA		1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
GF Revenue (Dividends to State - Impact for FY 16 from FY 14 revenues)				600	625	625	625

AIDEA

AIDEA Information Sheet: HB 74

Why providing AIDEA the ability to use project financing without ownership is useful?

- It more closely matches AIDEA's financing tools with the nature of the projects being financed, and is more consistent with public policy supporting economic development finance programs.
- It reduces complexity, cost and time involved in structuring financings
- It provides AIDEA (and the state) more protection from possible risk and liabilities associated with projects being financed
- It can improve overall economics of financings by more closely aligning ownership with potential tax benefits.

Examples of projects for which this new financing tool might be used:

- Industrial development as opposed to commercial real estate
- Oil and gas
- Minerals and mining
- Infrastructure development (ports, roads, etc.)

AIDEA's ownership in large "enabling infrastructure" projects including DMTS and the ports of Ketchikan and Skagway have achieved significant economic development results for Alaskan regions, while providing modest financial returns to AIDEA. The ownership model, with AIDEA maintaining an active, ongoing ownership role, will continue to be an

appropriate approach to infrastructure projects supporting private economic activities – in situations where AIDEA's long-term ownership meets state public policy objectives.

For infrastructure projects sponsored by other entities, where AIDEA may be playing a more facilitating financing role – and there are public policy or business reasons for the sponsoring entity to maintain ownership – project financing (without AIDEA ownership) would be more appropriate.

Similarly, for non-infrastructure projects, the "develop and own" model is not ideal. These are typically industrial resource development projects that involve direct financing and operations of private businesses (as opposed to infrastructure), and engender risk profiles not common to commercial real estate. There is usually no public purpose rationale for AIDEA to hold an ownership position in these industrial facilities. In fact there are good public policy and business arguments for AIDEA not having an ownership position, including risk mitigation, cost of complex ownership structures, potential competition with other private investments and tax issues.

Benefits include AIDEA participating in financing for industrial development projects as a project lender with greater flexibility and with a more effective firewall against environmental and liability risks and lower transaction costs. This will also result in faster more timely transactions.

Alaska Industrial Development and Export Authority



Analysis of Changes CS HB74 (L&C)

The CS for HB 74 (L&C) contains all the operable language concerning statutory authority for AIDEA to offer project financing that was in the original version of the bill without change. That is, the operative parts of the project financing portions of the original HB 74 are included in CS HB 74. There are a few differences between the bills, but these differences are ones of syntax, grammar, punctuation, and single word changes as set forth below.

1. CS for HB 74 inserts the word “and” at line 22, p. to AS 44.88.010(a)(9) so that line 22 reads “debt, to own and operate facilities, and to make and insure loans to finance and to...” The addition of the conjunctive “and” does not change the meaning of the statute and is grammatically correct whereas the syntax of the original is probably incorrect because it is a classic run on phrase.

2. In Section 3, AS 44.88.080(25) at line 20, p. 2 the Committee substitute changes the word “Airport” to “airports”. The January 16th original version of HB 74 used the singular so that the phrase read “to lend amounts from the international airport revenue fund to finance the development or improvement of utilities serving the airports.” (emphasis supplied).

This portion of AIDEA’s statutes references the Public Finance statute AS 37.15.430 entitled the “**International airports revenue fund**” (emphasis supplied). As a result, this part of HB 74 that references this fund should use “airports” and not “airport”. Original HB 74 used the term “airport” because that is the term used in the codified statutes of the authority. However, the use of the singular in AIDEA’s statutes is incorrect and the CS for HB 74 (L&C) contains a correction that conforms with the statutory reference to the correct name for the fund in AS 37.15.430.

3. Another change in Section 3 occurs in AS 44.88.080(9) at page 4, lines 30 and 31. The changes involve three grammatical changes: (1) the deletion of a comma in line 30 after the word “them”; (2) the insertion of a comma after the word “with”; and (3) deletion of the word “or” after the phrase “federal agency” in line 30.

None of these changes affect the meaning of the statute. They are also grammatically correct changes. For example, the operative intent of provision 9 is that AIDEA can accept gifts, grants, or enter into contracts with a variety of governmental entities which are then listed. The original comma after the word “them” is misplaced because the parenthetical pause needed is before the list of agencies that starts with the preposition “with” and not the noun “them”.

Similarly, the deletion of the first use of the disjunctive “or” is correct because this part of the statute is a list of governmental agencies so that the first “or” is not needed. Finally, insertion of the indefinite pronoun “a” before the phrase “private organization” at page 4 line 31 is correct because it is already used before the word “municipality” in the same line; the use of the indefinite is correct in this context because this is a reference to any municipality or private organization.

4. Also in Section 3 in AS 88.44.080(31), the word “impacted” is changed to “affected” at line 6, p. 7 so that the pertinent phrase reads “the interests of local governments affected by the authority’s activities to share in the benefits of these activities...” Not sure why the change in predicates is being made. Both verbs “impact” and “affect” can have, and in this context, do have essentially the same meaning from a legal perspective. From a perspective of syntax, the use of the predicate “affected” is grammatically preferable because one is affected by actions whereas impacted is a term often used in an environmental context.



CS HB 74 (L&C)

“An Act relating to development project financing by the Alaska Industrial Development and Export Authority.”

Sectional Analysis

Section	Analysis
1	AS44.88.010 (a) is amended to allow AIDEA with the authority to utilize development project financing.
2	AS 44.88.070 is amended to reference AIDEA’s ability to provide development project financing for enterprises and other facilities described in AS 44.88.172 and to delete the term “Alaska” as it appears in 44.88.070 and replace it each time with the phrase “of the state”.
3	AS 44.88.080 is amended in subsections (20) and (22) by replacing the word “Alaska” with the phrase “of the state”; to replace the word “Airport” in subsection (25) with the word “airports”; to replace in subsection (31) the word “impacted” with the word “affected”; and to add new subsection (32) to reference AIDEA’s ability to provide development project financing for all or a portion of the cost of a development project as provided for in AS 44.88.172.
4	AS 44.88.172(a) is amended to reference AIDEA’s ability to provide development project financing for projects the authority does not intend to own or operate.
5	AS 44.88.172 is amended by adding a new subsection (d) granting AIDEA authority to adopt regulations for development project financing.
6	AS 44.88.900 is amended by adding a new definition for “development project financing.”



March 28, 2013

Representative Alan Austerman
Co-Chair of House Finance Committee

Representative Bill Stoltze
Co-Chair of House Finance Committee

Re: SWAMC Support for HB74 – AIDEA: LNG Project; Dividends; Financing

Representatives Austerman and Stoltze,

The Southwest Alaska Municipal Conference (SWAMC) would like to provide support for HB 74, "An Act relating to development project financing by the Alaska Industrial Development and Export Authority (AIDEA); relating to the dividends from AIDEA; authorizing AIDEA to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system."

This letter of support speaks specifically to the lending portion of the bill. AIDEA is currently required to take an ownership position when financing a project, such as the Ketchikan Shipyard and Skagway Ore Terminal. HB 74 will allow AIDEA to directly finance projects and become a lender instead of an equity partner. This does not mean that AIDEA will compete with the state's lending institutions because of the scope and size of these projects, and the bill so far has received support from financial institutions.

There are several reasons why providing AIDEA the ability to use project financing without ownership is useful, including:

- It more closely matches AIDEA's financing tools with the nature of the projects being financed, and is more consistent with public policy supporting economic development finance programs
- It reduces complexity, cost and time involved in structuring financings
- It provides AIDEA (and the state) more protection from possible risk and liabilities associated with projects being financed
- It can improve overall economics of financings by more closely aligning ownership with potential tax benefits.

As a regional economic development agency, SWAMC is always looking for innovative, effective and sensible tools to create more investment and economic activity in Alaska. Giving AIDEA greater flexibility with financing options should create a more effective firewall against environmental and liability risks and lower transaction costs, while also resulting in faster and timelier transactions. We support this bill.

Thank you for your consideration.

Sincerely,

Andy Varner
Executive Director



March 25, 2013

The Honorable Kurt Olson
Chair, House Labor & Commerce Committee
State Capitol, Room 124
Juneau, Alaska
99801

Dear Representative Olson:

RE: CS HB74 (L&C)

On behalf of Heatherdale Resources, a mining company working on the Niblack Project in Southeast Alaska, I am writing in support of the House Labor and Commerce Committee's Substitute for HB 74. This Committee Substitute is a bill that grants the Alaska Industrial Development and Export Authority (AIDEA) statutory authority to provide development project financing for infrastructure projects such as those that could support and expand the mining industry in Alaska.

Heatherdale is working diligently to advance the Niblack Project on Prince of Wales Island, a project which could bring significant jobs and economic development opportunities to Southern Southeast Alaska. We have explored various options for location of mill and associated tailings facilities, and are currently evaluating the suitability of the Gravina Island Industrial Site in Ketchikan for these facilities. Once we reach a development decision, Heatherdale believes that the project financing tools made available in CS HB 74 (L&C) could be of substantial benefit to the project and to the local economy. If ADIEA were to structure a finance package for a project like this, it would serve to diversify the regional economy and create much-needed new jobs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick Smith', with a long horizontal flourish extending to the right.

Patrick Smith
President CEO

Cc: House Labor & Commerce Committee



Alaska Bankers Association

P.O. Box 241489 • Anchorage, Alaska 99524-1489 • T: 907-261-3525 • F: 907-562-1758

March 29, 2013

The Honorable Bill Stoltze, Co-Chair
The Honorable Alan Austerman, Co-Chair
House Finance Committee
State Capitol
Juneau, AK 99801

RE: Support for HB74 - AIDEA Financing for Development Projects

Dear Representatives Stoltze and Austerman:

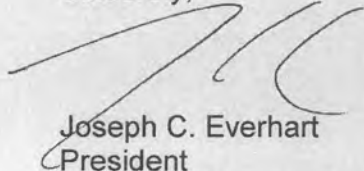
The Alaska Bankers Association (ABA) represents eight member banks, including Alaska Pacific Bank, Denali State Bank, First Bank, First National Bank Alaska, KeyBank, Mt. McKinley Bank, Northrim Bank and Wells Fargo Bank.

The ABA supports enabling the Alaska Industrial Development and Export Authority (AIDEA) to participate in direct development project financing as provided for in HB74. Alaska banks have worked successfully with AIDEA on many commercial business developments where the banks are the initial lender interface with a prospective commercial borrower, and believe that providing AIDEA with this new financing tool would encourage and compliment private sector funding of qualified economic development projects.

There are inherent risks with any development project but such risks can be mitigated by working in conjunction with Alaska's banking sector and allowing certain credit enhancements to attract investors and lenders, alike. For example, the proposed credit enhancements under the Sustainable Energy Transmission and Supply (SETS) Program are expected to leverage AIDEA's capital at a five-to-one ratio, providing up to five times the capital appropriated by the Alaska Legislature in 2012.

Alaska's banks are community-focused and strong; ABA members have ample capital, excess liquidity and all want to lend. HB74 would help enable Alaska banks to participate in the financing of some of Alaska's most pressing economic development challenges. The ABA urges your support for and passage of HB74 in this 2013 legislative session.

Sincerely,



Joseph C. Everhart
President
Alaska Bankers Association