

HB

246

<TARGET><BILL>HB 246</BILL><SUBJECT>HB
246</SUBJECT><COMM>HFIN29</COMM></TARGET>

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: June 3, 2016

FURTHER REFERRALS:

Date of Committee Action: 6/15/16

The FINANCE Committee considered:

HB 246

HOUSE BILL NO. 246

"An Act creating the oil and gas infrastructure development program and the oil and gas infrastructure development fund in the Alaska Industrial Development and Export Authority; relating to the interest rates of the Alaska Industrial Development and Export Authority; relating to the sustainable energy transmission and supply development and Arctic infrastructure development programs of the Alaska Industrial Development and Export Authority; relating to dividends from the Alaska Industrial Development and Export Authority; and adding definitions for 'oil and gas development infrastructure' and 'proven reserves.'"

HB 246-AIDEA: FUNDS; LOANS; PROGRAMS; DIVIDEND

Recommends it be replaced with [] HCS or [] CS for HB 246 (FIN)
 For Senate Bills with new title: [] Technical Title [] New Title: HCR _____ [] Same Title [] New Title

- [] attach amendments
- [] add new referral to _____ Committee
- [] Letter of Intent _____ Committee

- List of Abbrev for Depts.:
- ADM
 - AJS
 - CED
 - COR
 - EED
 - DEC
 - DFG
 - GOV
 - DHS
 - LWF
 - LAW
 - LEG
 - MVA
 - DNR
 - DPS
 - REV
 - DOT
 - UA

NEW FISCAL NOTES				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	LED			✓

PREVIOUS FISCAL NOTES				
FN#	List by Dept(s):	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	SANDLER	✓			
	Pruthi			X	
	Wilson		+		
	Edgmon	✓			
	Munoz	✓			
Chair:	THOMPSON	✓			
Chair:	THOMPSON		X		

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 246
Fiscal Note Number: _____
() Publish Date: _____

Identifier: CSHB246(RES)-DCCED-AIDEA-06-03-16
Title: AIDEA: FUNDS; LOANS; PROGRAMS; DIVIDEND
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) Finance

Department: Fund Transfers
Appropriation: Loan Funds
Allocation: Oil and Gas Infrastructure Development RLF
OMB Component Number:

Expenditures/Revenues

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

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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? **12/31/16**

Why this fiscal note differs from previous version:

Updated to reflect that the fund will not be capitalized by the passage of this bill.

Prepared By:	John Springsteen, Director	Phone:	(907)771-3000
Division:	Alaska Industrial Development Export Authority	Date:	03/06/2016 12:00 AM
Approved By:	Catherine Reardon, Director	Date:	03/06/16
Agency:	Division of Administrative Services, DCCED		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. CSHB246(RES)

Analysis

This bill establishes the Oil and Gas Infrastructure Development program and a fund associated with that program. The program and fund will provide the Alaska Industrial Development and Export Authority (AIDEA) with new tools to support the development of the oil and gas sector of the economy. Specifically, the new fund provides the authority to finance oil and gas infrastructure development through project financing, issuing bonds, bond guarantees, and other beneficial financial mechanisms. The new fund will allow AIDEA to make needed investments in the oil and gas sector, particularly to small and medium-sized companies, and provide capital needed for continued infrastructure development while earning a return for the agency. Implementing the program will involve minor modification of regulations, which will be carried out in-house as was done with the Arctic Infrastructure Development Fund.

CS FOR HOUSE BILL NO. 246(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - FOURTH SPECIAL SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act creating the oil and gas infrastructure development program and the oil and
2 gas infrastructure development fund in the Alaska Industrial Development and Export
3 Authority; relating to the interest rates of the Alaska Industrial Development and
4 Export Authority; relating to the sustainable energy transmission and supply
5 development and Arctic infrastructure development programs of the Alaska Industrial
6 Development and Export Authority; relating to dividends from the Alaska Industrial
7 Development and Export Authority; and adding definitions for 'oil and gas development
8 infrastructure' and 'proven reserves.'"

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

10 * Section 1. AS 44.88.088(a) is amended to read:

11 (a) The authority shall adopt a policy for payment of a dividend from the
12 revolving fund, the Alaska Industrial Development and Export Authority sustainable

1 energy transmission and supply development fund (AS 44.88.660), [AND] the Arctic
2 infrastructure development fund (AS 44.88.810), and the oil and gas infrastructure
3 development fund (AS 44.88.860) to the state each fiscal year. The dividends for a
4 fiscal year shall be made available by the authority before the end of that fiscal year.
5 The authority shall notify the commissioner of revenue when the dividends for a fiscal
6 year are available for appropriation. The amount of the dividend payable from the

7 (1) revolving fund for a fiscal year may not be less than 25 percent nor
8 more than 50 percent of the net income of the revolving fund for the base fiscal year;
9 however, in no event, may the dividend payable from the revolving fund for a fiscal
10 year exceed the total unrestricted net income of the revolving fund for the base year;

11 (2) Alaska Industrial Development and Export Authority sustainable
12 energy transmission and supply development fund (AS 44.88.660) for a fiscal year
13 may not be less than 25 percent nor more than 50 percent of the net income of the
14 Alaska Industrial Development and Export Authority sustainable energy transmission
15 and supply development fund for the base fiscal year; however, the dividend payable
16 from the Alaska Industrial Development and Export Authority sustainable energy
17 transmission and supply development fund for a fiscal year may not exceed the total
18 unrestricted net income of the Alaska Industrial Development and Export Authority
19 sustainable energy transmission and supply development fund for the base year;

20 (3) Arctic infrastructure development fund (AS 44.88.810) for a fiscal
21 year may not be less than 25 percent nor more than 50 percent of the net income of the
22 Arctic infrastructure development fund for the base fiscal year; however, the dividend
23 payable from the Arctic infrastructure development fund for a fiscal year may not
24 exceed the total unrestricted net income of the Arctic infrastructure development fund
25 for the base year;

26 (4) oil and gas infrastructure development fund (AS 44.88.860) for
27 a fiscal year may not be less than 25 percent nor more than 50 percent of the net
28 income of the oil and gas infrastructure development fund for the base fiscal
29 year; however, the dividend payable from the oil and gas infrastructure
30 development fund for a fiscal year may not exceed the total unrestricted net
31 income of the oil and gas infrastructure development fund for the base year.

1 * Sec. 2. AS 44.88.088(b)(2) is amended to read:

2 (2) "net income" means the change in net position, or the equivalent
3 term under generally accepted accounting principles, of the revolving fund, the change
4 in net position of the Alaska Industrial Development and Export Authority sustainable
5 energy transmission and supply development fund (AS 44.88.660), [OR] the change in
6 net position of the Arctic infrastructure development fund (AS 44.88.810), or the
7 change in net position of the oil and gas infrastructure development fund
8 (AS 44.88.860) as set out in the audited financial statements of the authority for the
9 base fiscal year, excluding amounts attributable to intergovernmental transfers, capital
10 contributions, grants, or impairment losses on development projects financed under
11 AS 44.88.172;

12 * Sec. 3. AS 44.88.088(b)(3) is amended to read:

13 (3) "unrestricted net income" means the unrestricted change in net
14 position, or the equivalent term under generally accepted accounting principles, of the
15 revolving fund, the Alaska Industrial Development and Export Authority sustainable
16 energy transmission and supply development fund (AS 44.88.660), [OR] the Arctic
17 infrastructure development fund (AS 44.88.810), or the oil and gas infrastructure
18 development fund (AS 44.88.860) as set out in the audited financial statements of the
19 authority for the base fiscal year, excluding amounts attributable to intergovernmental
20 transfers, capital contributions, grants, or impairment losses on development projects
21 financed under AS 44.88.172.

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

23 (a) The interest rate on a loan made with [PURCHASED FROM] the
24 proceeds of tax-exempt bonds secured by the Alaska Industrial Development and
25 Export Authority sustainable energy transmission and supply development fund
26 (AS 44.88.660) under AS 44.88.650 - 44.88.690, [OR BY] the Arctic infrastructure
27 development fund (AS 44.88.810) under AS 44.88.800 - 44.88.840, or the oil and gas
28 infrastructure development fund (AS 44.88.860) under AS 44.88.850 - 44.88.890
29 or a loan participation purchased from the proceeds of tax-exempt bonds or expected
30 by the authority to be purchased from the proceeds of tax-exempt bonds under
31 AS 44.88.155 shall be determined under the regulations adopted by the authority

1 under AS 44.88.085 [AS 44.88.085(g)(2)(C)] and shall be not less than the cost of
 2 funds to the authority. In this subsection, "cost of funds" means the true interest cost
 3 expressed as a rate on tax-exempt bonds of the authority plus an additional percentage
 4 as determined by the authority to represent the allocable expenses of operation, costs
 5 of issuance, and loan servicing costs.

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

7 (b) The interest rate on a loan made with [PURCHASED FROM] the
 8 proceeds of taxable bonds secured by the (1) Alaska Industrial Development and
 9 Export Authority sustainable energy transmission and supply development fund
 10 (AS 44.88.660) under AS 44.88.650 - 44.88.690; (2) [OR BY THE] Arctic
 11 infrastructure development fund (AS 44.88.810) under AS 44.88.800 - 44.88.840; or
 12 (3) oil and gas infrastructure development fund (AS 44.88.860) under
 13 AS 44.88.850 - 44.88.890 or a loan participation purchased from the proceeds of
 14 taxable bonds under AS 44.88.155 or expected by the authority to be purchased from
 15 the proceeds of taxable bonds under AS 44.88.155 shall be determined under the
 16 regulations adopted by the authority under AS 44.88.085 [AS 44.88.085(g)(2)(C)] and
 17 shall be not less than the cost of funds to the authority. In this subsection, "cost of
 18 funds" means the true interest cost expressed as a rate on taxable bonds of the
 19 authority, plus an additional percentage as determined by the authority to represent
 20 the allocable expenses of operation, costs of issuance, and loan servicing costs.

21 * **Sec. 6.** AS 44.88.159(d) is amended to read:

22 (d) The provisions of this section apply only to a loan participation purchased
 23 under AS 44.88.155 - 44.88.159 or to a loan made under AS 44.88.650 - 44.88.690,
 24 [OR] 44.88.800 - 44.88.840, or 44.88.850 - 44.88.890.

25 * **Sec. 7.** AS 44.88.159(e) is amended to read:

26 (e) The interest rate on a loan made under AS 44.88.650 - 44.88.690, [OR]
 27 44.88.800 - 44.88.840, or 44.88.850 - 44.88.890 or a loan participation purchased
 28 directly from the assets of the authority shall be determined under the regulations
 29 adopted by the authority under AS 44.88.085 [AS 44.88.085(g)(2)(C)] and shall be not
 30 less than the total of a percentage as determined by the authority to represent the
 31 allocable expenses of operation and costs of loan origination and servicing, plus the

1 cost of funds. In this subsection,

2 (1) "comparable financial security" means a type or category of
3 financial security the authority identifies in the regulations adopted by the authority
4 under AS 44.88.085 [AS 44.88.085(g)(2)(C)] that has a term and financial conditions
5 comparable to the term and financial conditions of a loan participation or a loan made
6 under AS 44.88.650 - 44.88.690, [OR] 44.88.800 - 44.88.840, or 44.88.850 -
7 44.88.890 and for which a regularly published, nationally recognized market index is
8 available;

9 (2) "cost of funds" means the earnings, expressed as an annual interest
10 rate, the authority would receive on a comparable financial security, and, for a loan
11 participation or a loan made under AS 44.88.650 - 44.88.690, [OR] 44.88.800 -
12 44.88.840, or 44.88.850 - 44.88.890 with a fixed interest rate, the cost of funds must
13 equal or exceed the minimum interest rate;

14 (3) "minimum interest rate" means the five-year return on investment
15 funds of the authority, expressed as an annual interest rate, achieved by all internal and
16 external investment managers of the authority combined.

17 * **Sec. 8.** AS 44.88.159(f) is amended to read:

18 (f) In determining an interest rate under the regulations adopted by the
19 authority under AS 44.88.085 [AS 44.88.085(g)(2)(C)], the authority may determine
20 to disregard the minimum interest rate required under (a), (b), or (e) of this section for
21 a loan participation purchased by the authority or a loan made under AS 44.88.650 -
22 44.88.690, [OR] 44.88.800 - 44.88.840, or 44.88.850 - 44.88.890 to resolve lending
23 limits or reserve restrictions imposed on the financial institution and may instead
24 determine to retain the interest rate existing at the time the authority makes the loan or
25 purchases the authority's loan participation.

26 * **Sec. 9.** AS 44.88.159 is amended by adding a new subsection to read:

27 (h) In regulations adopted under AS 44.88.085, the authority may establish
28 differing interest rates or methods for setting interest rates for each of its programs,
29 depending on the creditworthiness of the borrower, the risks of and security provided
30 for the financing provided under each program, comparable market rates, and other
31 factors the authority determines relevant in setting the interest rates for each program.

1 * **Sec. 10.** AS 44.88.690(a) is amended to read:

2 (a) Unless the authority has obtained legislative approval by law, the authority
3 may not use the Alaska Industrial Development and Export Authority sustainable
4 energy transmission and supply development fund established in AS 44.88.660 to

5 (1) make a loan for more than the lesser of

6 (A) 50 percent [ONE-THIRD] of the capital cost of qualified
7 energy development; or

8 (B) \$100,000,000;

9 (2) make a loan guarantee if the amount of the guarantee exceeds
10 \$25,000,000 [\$20,000,000]; or

11 (3) purchase or acquire gas reserves or a gas lease or become a
12 working interest owner of a natural gas lease.

13 * **Sec. 11.** AS 44.88.840(a) is amended to read:

14 (a) Unless the authority has obtained legislative approval by law, the authority
15 may not use the Arctic infrastructure development fund established in AS 44.88.810 to
16 make

17 (1) a loan for more than the lesser of

18 (A) 50 percent [ONE-THIRD] of the capital cost of an Arctic
19 infrastructure development; or

20 (B) \$100,000,000; or

21 (2) a loan guarantee if the amount of the guarantee exceeds
22 \$25,000,000 [\$20,000,000].

23 * **Sec. 12.** AS 44.88 is amended by adding new sections to read:

24 **Article 10A. Oil and Gas Infrastructure Development.**

25 **Sec. 44.88.850. Oil and gas infrastructure development program.** The oil
26 and gas infrastructure development program is created in the authority to promote and
27 provide financing for oil and gas infrastructure development.

28 **Sec. 44.88.860. Oil and gas infrastructure development fund.** The oil and
29 gas infrastructure development fund is established in the authority. The fund consists
30 of appropriations made to the fund by the legislature and unrestricted loan repayments,
31 interest, or other income earned on loans, investments, or assets of the fund. The fund

1 is not an account in the revolving fund established in AS 44.88.060, and the authority
2 shall account for the fund separately from the revolving fund. The authority may
3 create additional accounts in the fund. Subject to agreements made with the holders of
4 the authority's bonds or with other persons, the authority may transfer amounts in an
5 account in the fund to another account in the fund. Amounts deposited in the fund may
6 be pledged to the payment of bonds of the authority or expended for the purposes of
7 AS 44.88.850 - 44.88.890. The authority has the powers and responsibilities
8 established in AS 37.10.071 with respect to the investment of amounts held in the
9 fund.

10 **Sec. 44.88.870. Use of fund balance.** Subject to the requirements of
11 AS 44.88.850 - 44.88.890, the authority may use money in the oil and gas
12 infrastructure development fund (AS 44.88.860) for oil and gas infrastructure
13 development under AS 48.88.880 and to pay dividends under AS 44.88.088.

14 **Sec. 44.88.880. Oil and gas infrastructure development; powers and duties**
15 **of the authority.** (a) Subject to the limitations of AS 44.88.890, for oil and gas
16 infrastructure development, the authority may

17 (1) use the oil and gas infrastructure development fund (AS 44.88.860)
18 to finance oil and gas infrastructure development, guarantee loans or bonds for oil and
19 gas infrastructure development, and establish reserves;

20 (2) acquire a lien or security interest on real or personal property with
21 respect to an oil and gas infrastructure development and, if necessary to protect the
22 authority's financial interest, acquire or foreclose on the real or personal property;

23 (3) defer principal payments or capitalize interest on financing
24 provided for oil and gas infrastructure development;

25 (4) contract for services with a professional advisor, including an
26 attorney, bond counsel, engineer, or other technical expert necessary to fulfill the
27 purposes of the program; and

28 (5) subject to AS 44.88.090, borrow money and issue bonds.

29 (b) The authority shall adopt regulations to implement AS 44.88.850 -
30 44.88.890, including

31 (1) a process for originating financing for an oil and gas infrastructure

1 development;

2 (2) a process for confirming the existence of proven reserves sufficient
3 to authorize financing;

4 (3) requirements and fees for financing oil and gas infrastructure
5 development; and

6 (4) fiscal controls and accounting procedures for the oil and gas
7 infrastructure development fund (AS 44.88.860).

8 **Sec. 44.88.890. Limitations on financing.** (a) Unless the authority has
9 obtained legislative approval by law, the authority may not use the oil and gas
10 infrastructure development fund established in AS 44.88.860 to

11 (1) provide financing that constitutes more than the lesser of

12 (A) 50 percent of the capital cost of an oil and gas
13 infrastructure development; or

14 (B) \$100,000,000; or

15 (2) guarantee a loan for an oil and gas infrastructure development if the
16 amount of the guarantee exceeds \$25,000,000.

17 (b) The authority may not provide financing for an oil and gas infrastructure
18 development unless all participants in the oil and gas field covenant with the authority
19 that

20 (1) the authority will not be responsible for costs incurred in
21 connection with dismantlement, removal, or remediation of the oil and gas
22 infrastructure development; and

23 (2) after the date of the authority's financing commitment, the
24 participants will not take, apply for, or accept a tax credit under AS 43.55.023 for
25 expenditures on the oil and gas infrastructure development financed under
26 AS 44.88.880.

27 (c) Financing under AS 44.88.880 is limited to the projected life of the oil and
28 gas infrastructure development, which may not be more than 30 years.

29 (d) The authority may not provide financing under AS 44.88.880 if the loan-
30 to-value ratio at the time of financing exceeds 75 percent; the value of proven reserves
31 that are included in the value must be calculated using the lesser of

1 (1) the average price of oil or gas actually paid during the 12-month
2 period immediately preceding the time of financing, reduced by 10 percent; or

3 (2) the price of oil or gas forecast by the Department of Revenue for
4 the 12-month period immediately following the time of financing, reduced by 10
5 percent.

6 * **Sec. 13.** AS 44.88.900 is amended by adding new paragraphs to read:

7 (20) "oil and gas infrastructure development" means the acquisition,
8 construction, or installation of and engineering for the construction or installation of a
9 road, pad, camp, processing facility, gathering system, or other on-site improvement
10 or equipment for an oil or gas field located in the state that has been explored and for
11 which proven reserves have been established;

12 (21) "proven reserves" means those quantities of petroleum, whether
13 developed or undeveloped, that, by analysis of geological and engineering data, can be
14 estimated with reasonable certainty to be commercially recoverable from a given date
15 forward, from known reservoirs, and under current economic conditions, operating
16 methods, and government regulations.

Adopted
6/15/16

29-GH2613\W.6
Wallace/Shutts
6/14/16

AMENDMENT

Conceptual 1 to
Amendment 2

OFFERED IN THE HOUSE

BY REPRESENTATIVE SADDLER

TO: CSHB 246(RES)

1 Page 6, line 5, following "than":

2 Insert "(A)"

3 "THE LESSER OF"

4 Page 6, line 6, following "development;":

5 Insert "or

6 "(B) \$100,000,000;"

7

8 Page 6, line 15, following "than":

9 Insert "(A)"

10 "THE LESSER OF"

11 Page 6, following line 16:

12 Insert a new subparagraph to read:

13 "(B) \$100,000,000; or"

PAGE 8, LINE 7, FOLLOWING "THAN"

INSERT "THE LESSER OF"

Adopted
6/15/16

29-GH2613\W.6
Wallace/Shutts
6/14/16

AMENDMENT #2

OFFERED IN THE HOUSE
TO: CSHB 246(RES)

BY REPRESENTATIVE SADDLER

- 1 Page 6, line 5, following "than":
- 2 Insert "(A)"
- 3
- 4 Page 6, line 6, following "development;":
- 5 Insert "or
- 6 (B) \$100,000,000;"
- 7
- 8 Page 6, line 15, following "than":
- 9 Insert "(A)"
- 10
- 11 Page 6, following line 16:
- 12 Insert a new subparagraph to read:
- 13 "(B) \$100,000,000; or"

Adopted

29-GH2613\W.3
Nauman/Shutts
6/13/16

AMENDMENT

#1 6/15

OFFERED IN THE HOUSE
TO: CSHB 246(RES)

BY REPRESENTATIVE THOMPSON

- 1 Page 8, lines 20 - 21:
- 2 Delete "for expenditures on the oil and gas field under AS 43.20.043, AS 43.55.023,
- 3 or 43.55.025"
- 4 Insert "under AS 43.55.023 for expenditures on the oil and gas infrastructure
- 5 development financed under AS 44.88.880"

Filed
2/17

29-GH2613\W.2
Shutts
6/6/16

AMENDMENT #3

by Representative
Wilson
Gattis

OFFERED IN THE HOUSE
TO: CSHB 246(RES)

1 Page 8, line 16:

2 Delete "(1)"

3

4 Page 8, lines 18 - 21:

5 Delete "; and

6 (2) after the date of the authority's financing commitment, the
7 participants will not take, apply for, or accept a tax credit for expenditures on the oil
8 and gas field under AS 43.20.043, AS 43.55.023, or 43.55.025"

2016 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 6/15/16

Amendment: 3

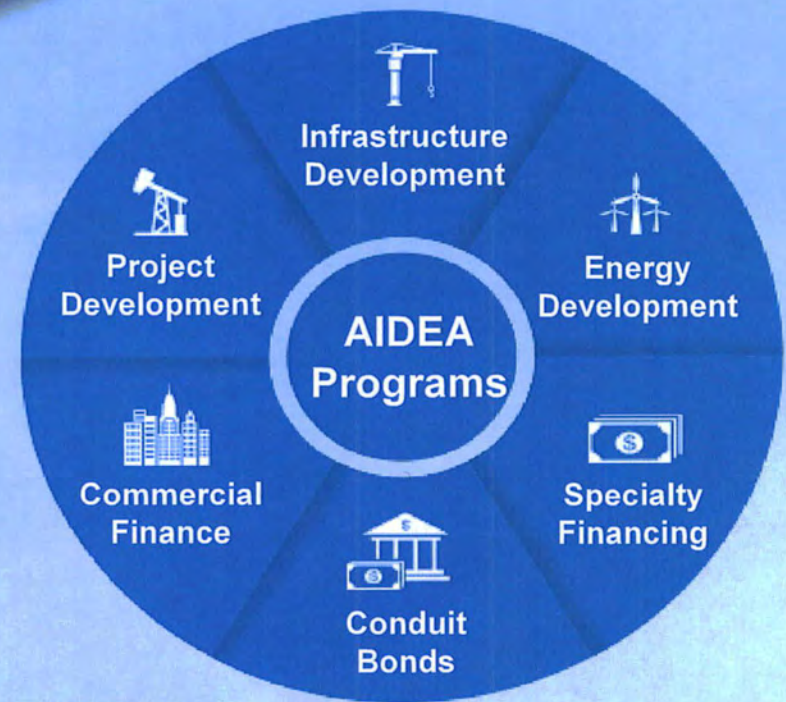
MEMBER

Favor

Oppose

REP. PRUITT		✓
REP. SADDLER	✓	
REP. WILSON	✓	
REP. EDGMON		✓
REP. GARA		✓
REP. GATTIS		
REP. GUTTENBERG		✓
REP. KAWASAKI		✓
REP. MUNOZ		
REP. NEUMAN		✓
REP. THOMPSON		✓

YEA 2 NAY 7



AIDEA Oil and Gas Infrastructure Development Fund HB 246

House Finance Committee

June 3, 2016

Investing in Alaskans

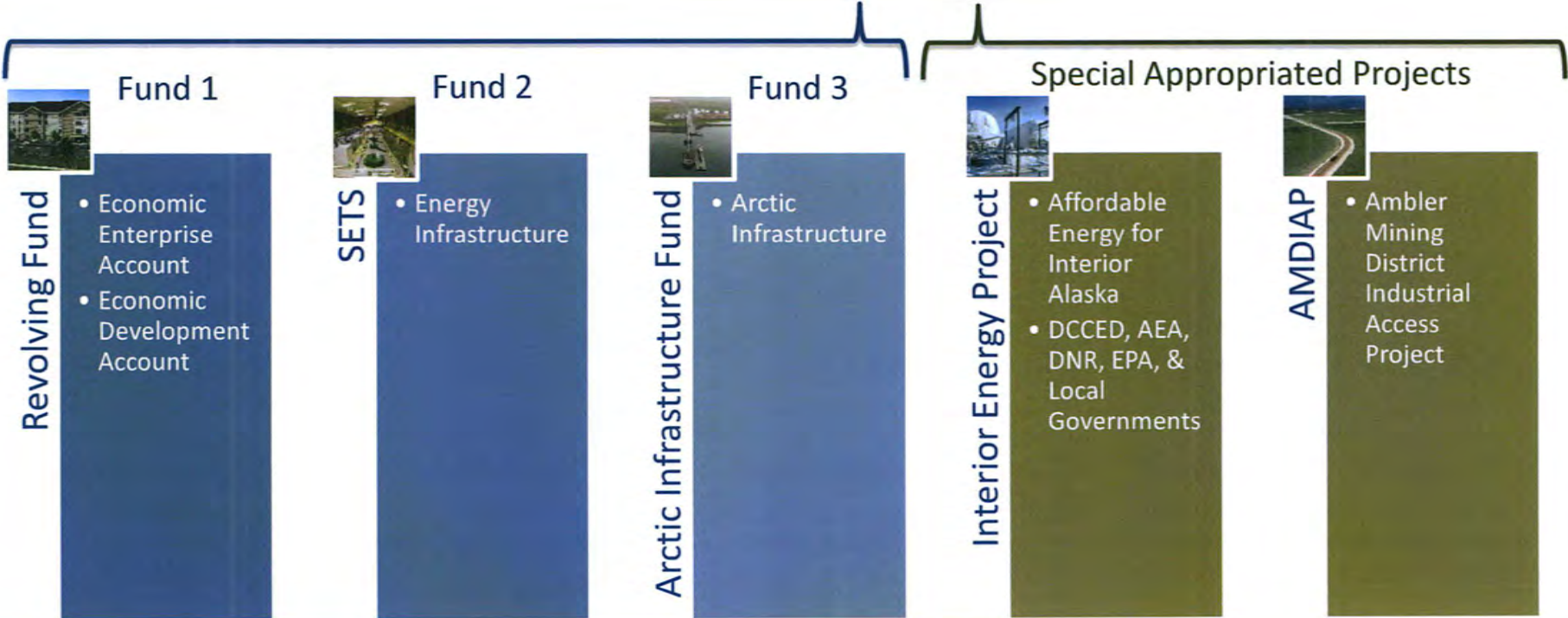
Current AIDEA Financing Tools



AIDEA Board

- Commissioner - Dept. of Revenue
- Commissioner - DCCED
- 5 successful Alaska business people

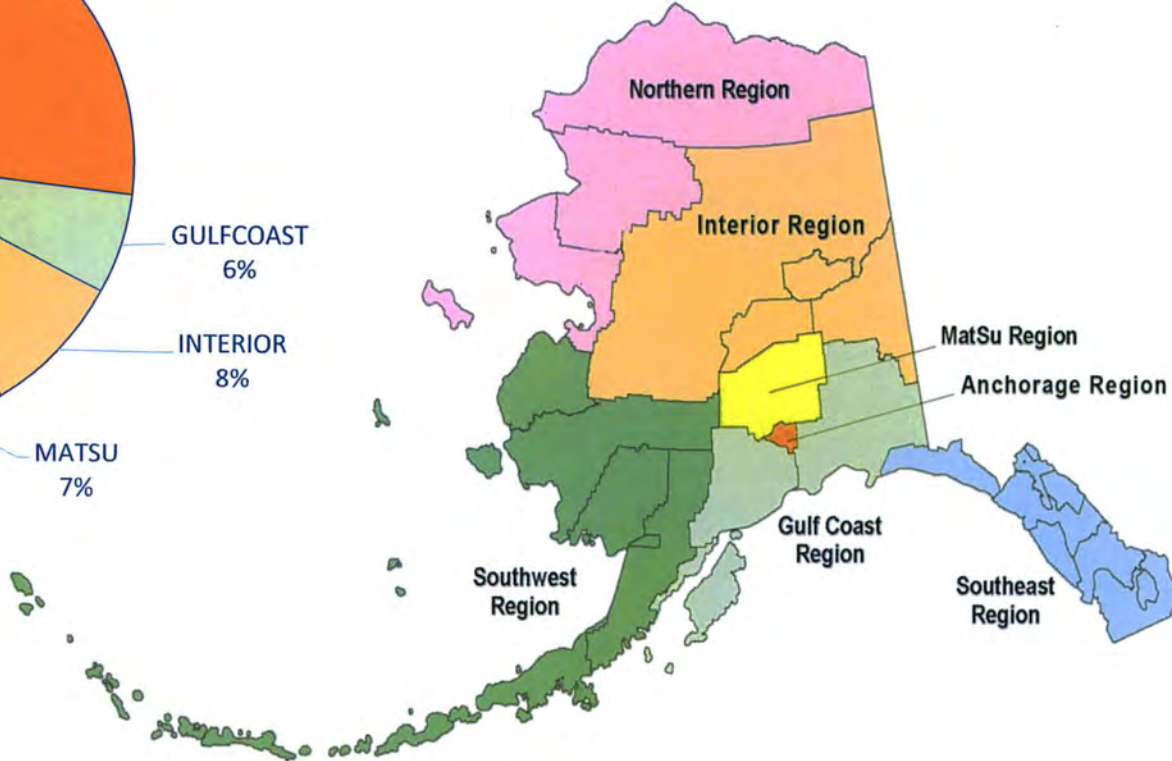
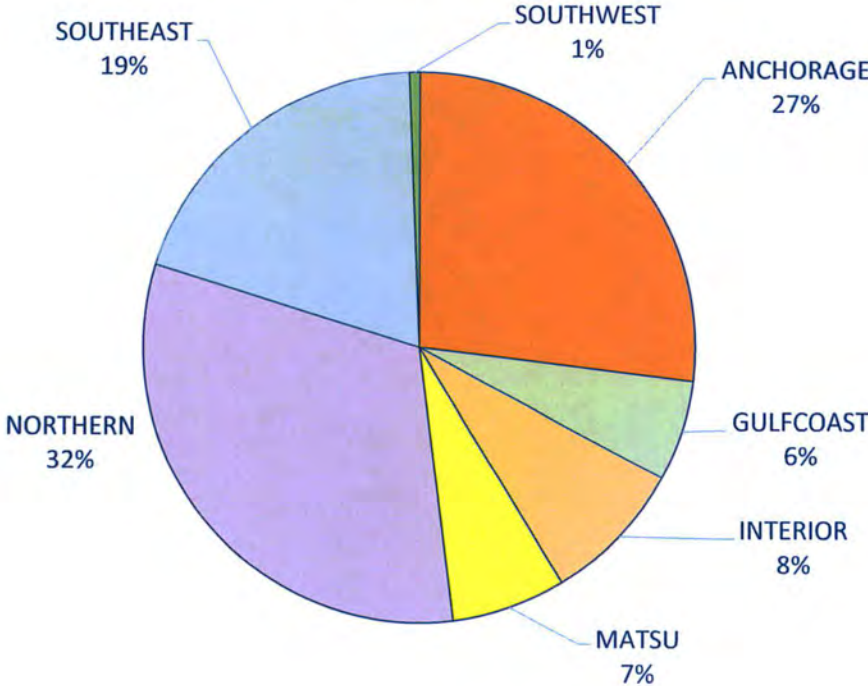
AIDEA Staff



Geographic Project Diversity



AIDEA Projects and Loans

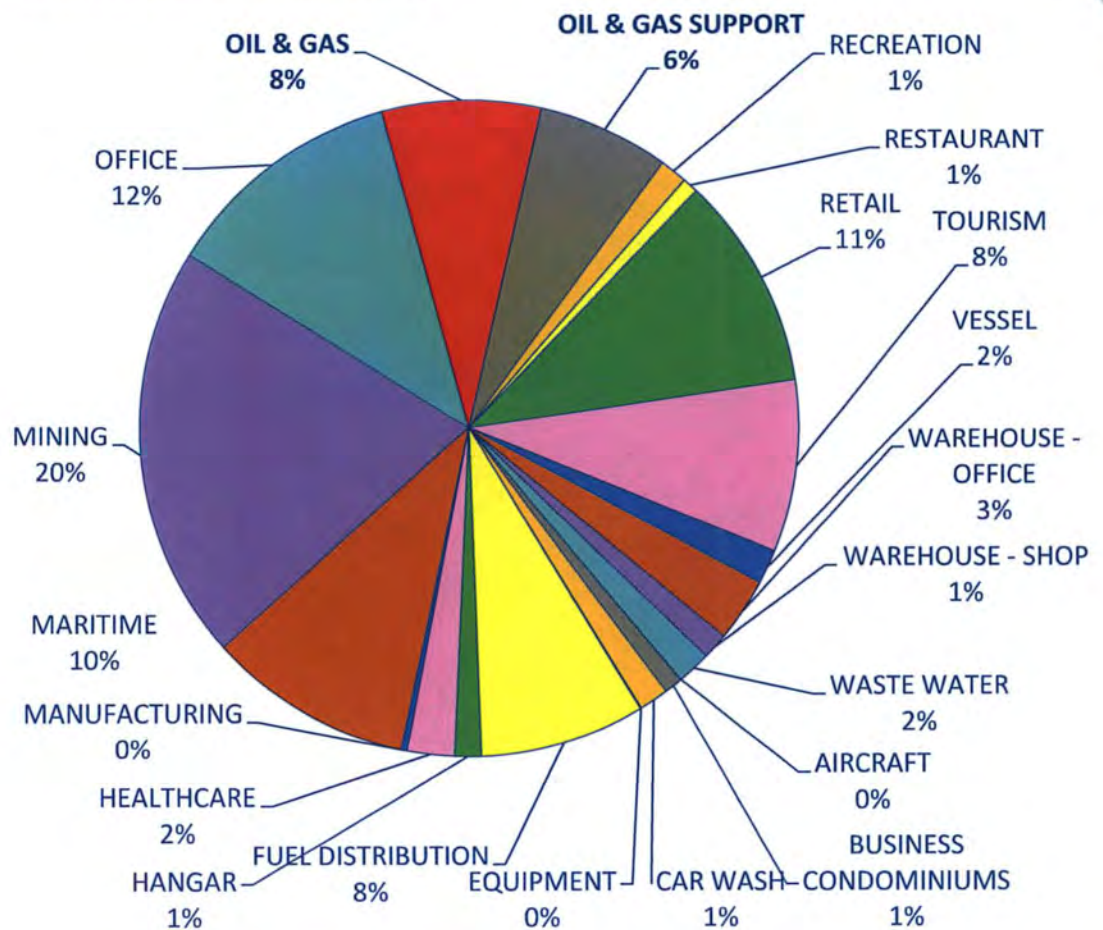


Industry Diversification



Total Existing and Approved Capacity Projects and Loans as of 10/31/15

Oil and Gas (including support) account for 14% (\$110 million) of AIDEA's financing.



AIDEA Financing Tools after HB 246

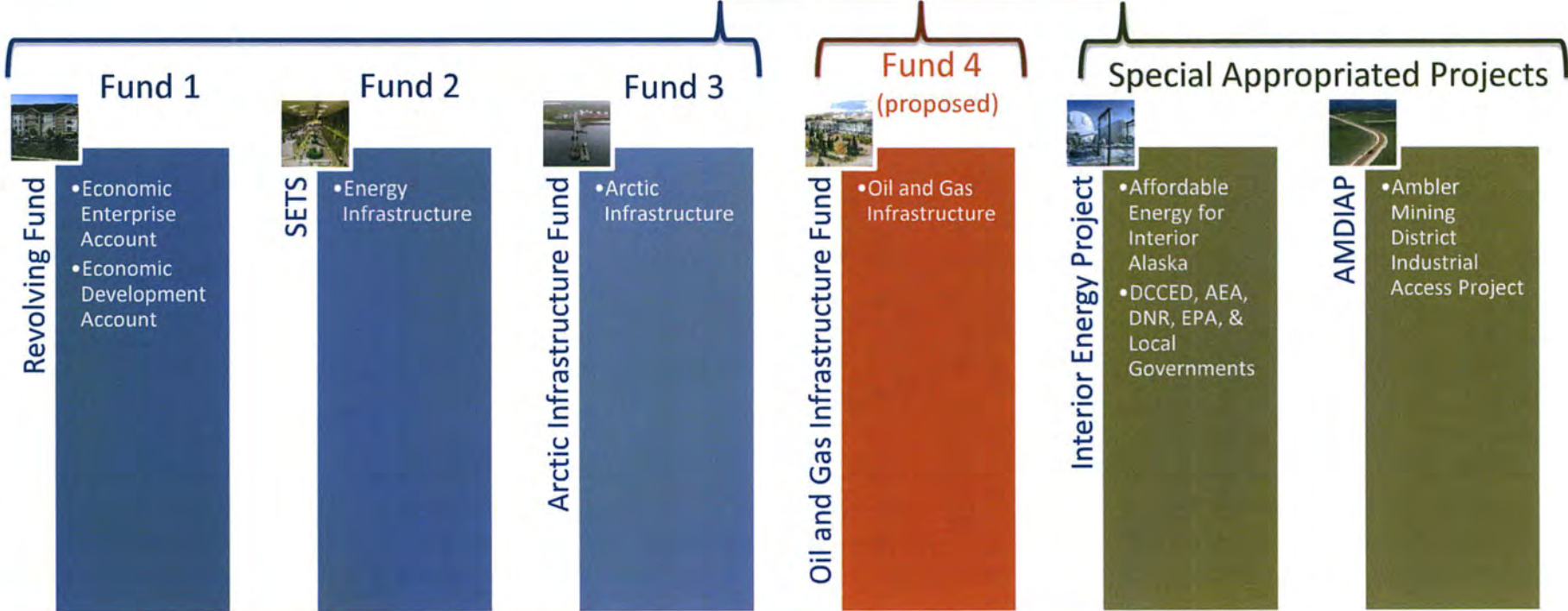


Proposed legislation would create "Fund 4" Oil and Gas Infrastructure Development Fund

AIDEA Board

- Commissioner - Dept. of Revenue
- Commissioner - DCCED
- 5 successful Alaska business people

AIDEA Staff



Intent of HB 246



Continue infrastructure financing to:

- Support small and medium sized oil and gas developers statewide
- Increase production and bring new fields online
- Attract new investment
- Increase future State oil and gas revenues
- Support investment for energy security

Eligible Oil and Gas Infrastructure Projects



- Oil & Gas Development Infrastructure defined as:
 - Investment: acquisition, construction or installation (including engineering)
 - Projects: road, pad, camp, processing facility, gathering system or other-site improvement or equipment
- Projects must support fields with proven reserves
- Proven Reserves defined as:
 - Analysis of geological and engineering data
 - Commercially recoverable under current economic conditions, operating methods, and government regulations
 - Can be categorized as developed or undeveloped

Financing and Tax Credits



- After opting to use AIDEA financing, projects may no longer use:
 - Exploration & Development tax credit (AS 43.20.043)
 - Production tax credit (AS 43.55.023)
 - Production tax credit for exploration expenditures (AS 43.55.025)
- Projects with past tax credits still eligible for AIDEA financing

Market Based Interest Rates



- AIDEA will base interest rates on:
 - Project risk
 - Borrower creditworthiness
 - Owner and financing partner commitments
 - Benefit to the State
- Interest rates may be higher for oil and gas infrastructure projects due to the inherent industry risk

Other Bill Components



Modifies financing limits of SETS and Arctic Infrastructure development funds

- Proposes that all 3 funds be allowed to loan up to 50 percent of an eligible project or offer a loan guarantee up to \$25,000,000
- Amounts in excess of these limits would require prior legislative approval

Sectional Analysis



- A separate sectional analysis is in each committee member's bill file.

AIDEA Due Diligence



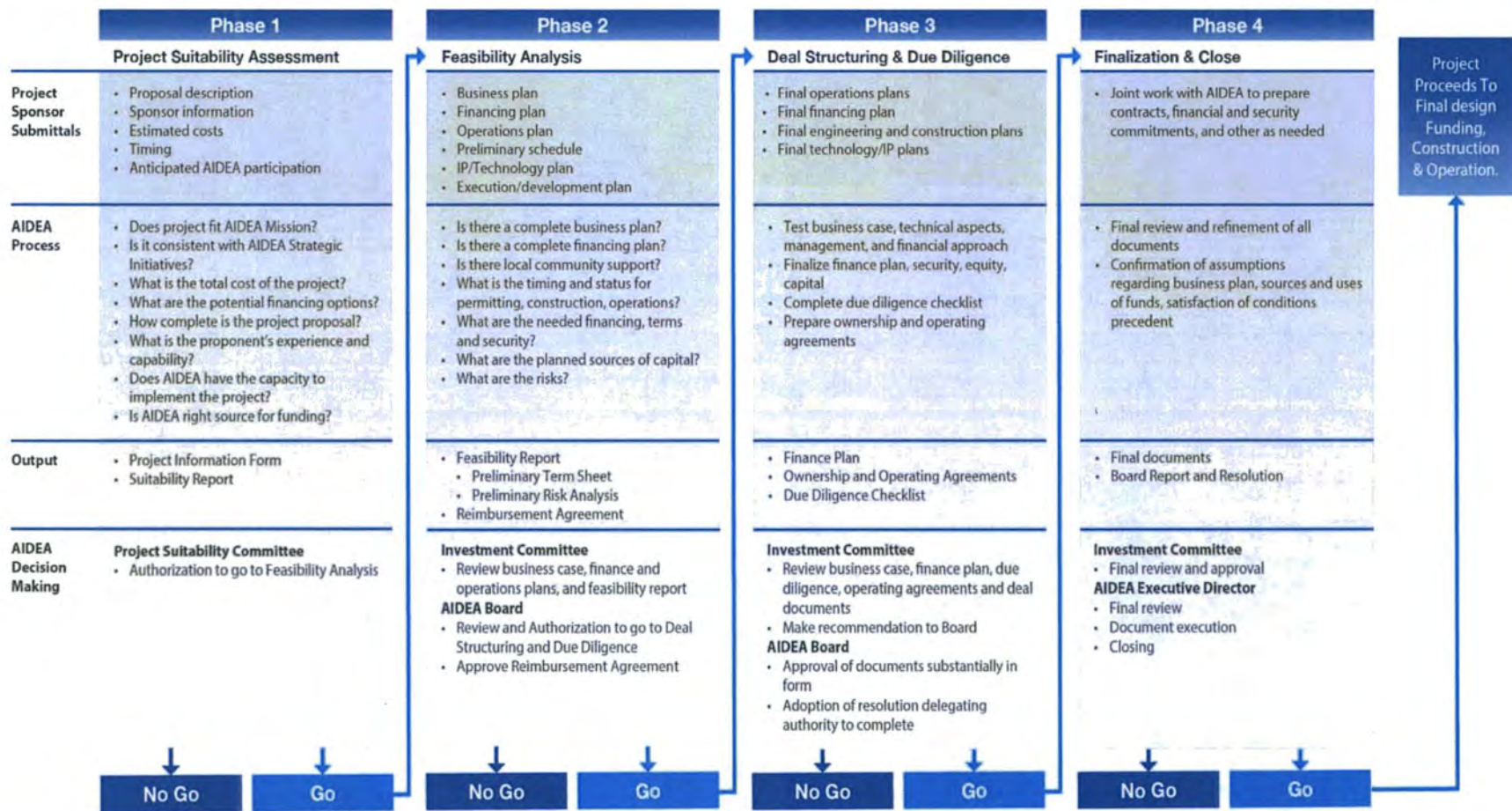
Established analysis and decision making process

- Technical due diligence
 - AIDEA sets procedure for verifying proven reserves
- Financial due diligence
 - Review developer creditworthiness and financing partner commitments
 - Analysis of economics, including oil price stress tests
- Analysis of benefit to State
 - Jobs created and petroleum revenues created
- Managed by AIDEA staff with hired consultants/specialists
- AIDEA Board makes final investment decision

Analysis & Decision-Making



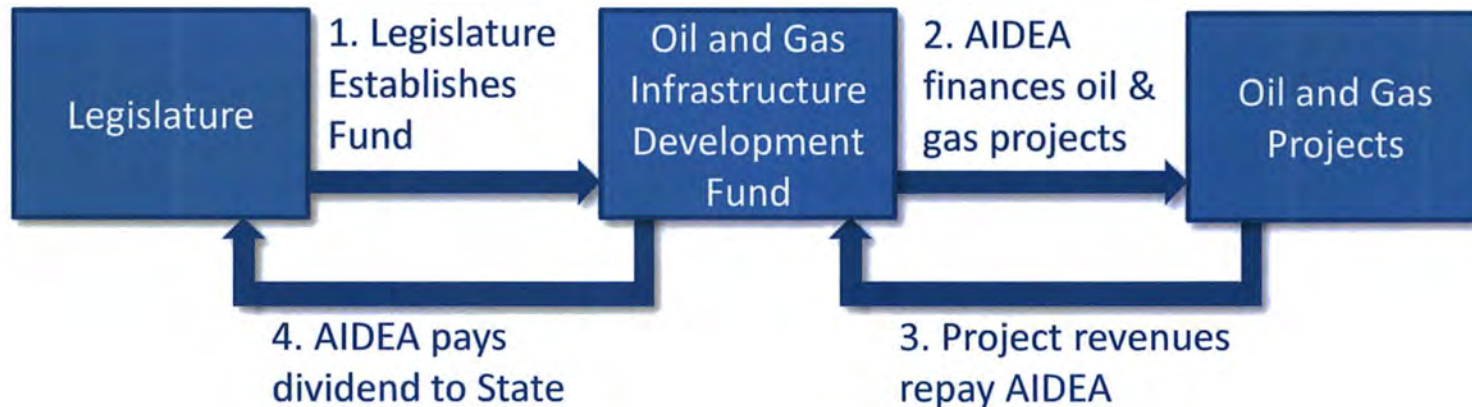
Established analysis and decision making process



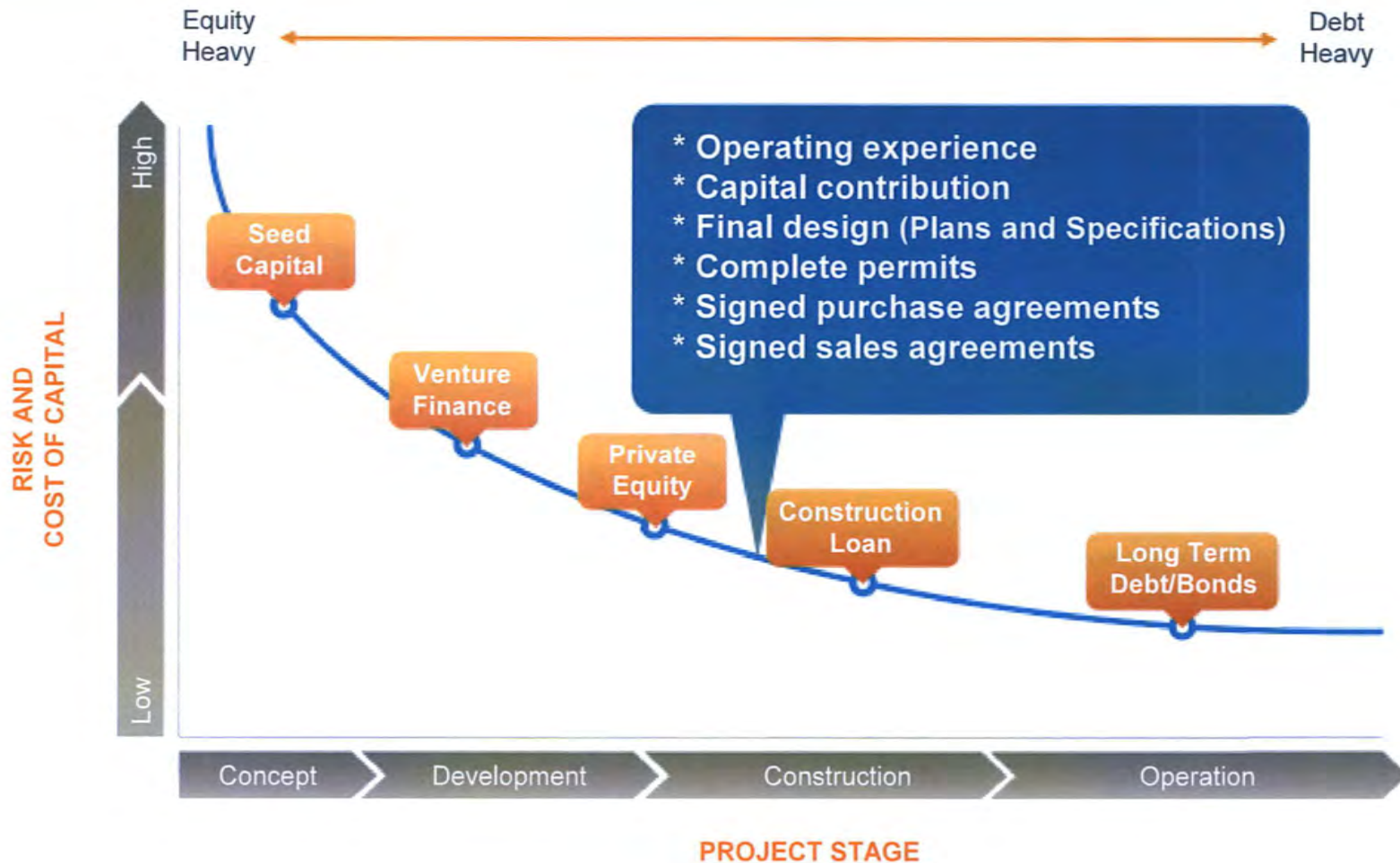
Financing Repayment



- AIDEA financing at market-based rates to reflect individual project risk
- Loans repaid with interest
- AIDEA will earn revenue
 - Some earnings to the State as a dividend
 - Some earnings to fund future projects



AIDEA Entry Point & Criteria



Summary



- Provides AIDEA a specific program to finance oil and gas infrastructure
- Eligible oil and gas infrastructure must have proven reserves and undergo established due diligence review
- Finance terms will be market based

Implementation Cost



- Implementing the program will involve minor modification of regulations, which will be carried out in-house
- Program implement cost will be absorbed
- Program management cost will be absorbed
- Modified fiscal note submitted to acknowledge potential fund capitalization



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#AIDEA



www.aidea.org





House Bill 246 v W

AIDEA Oil and Gas Infrastructure Development Program; Fund; amendments to the SETS and Arctic Infrastructure Development programs; authorizing variable program interest rates and adjusting loan limits

Sectional Analysis

Sections 1 through 3: Sections 1 through 3 amend the language of AS 44.88.088, to include payment of a dividend from the proposed new oil and gas infrastructure development fund.

Sections 4 through 9: Sections 4 through 9 amend subparts of AS 44.88.159, which governs the interest rates AIDEA charges under its loan participation program and its SETS and Arctic infrastructure Development programs. These sections of the bill use many of the same interest rate provisions applicable to any loans provided through the SETS and the Arctic infrastructure program and fund. In essence, the interest rate provisions require a minimum interest rate that ensures AIDEA does not lose money on its loans, and the interest rates AIDEA uses in these programs are more or less in line with the rates commercial lenders offer. Sec. 9 adds a new section (h) to AS 44.88.159, so that the authority may by regulation establish differing interest rates, as well as for methods for setting interest rates, based on the risk of the financing and the security provided.

Section 10: Section 10 amends AS 44.88.690(a) to increase the loan limit from one-third to 50% of the capital cost of a qualified energy development and increases the limit of a loan guarantee to \$25 million under the sustainable energy transmission and supply (SETS) fund.

Section 11: Section 11 amends AS 44.88.840(a) to increase the loan limit to 50% of the capital cost of an Arctic infrastructure development and increases the limit of a loan guarantee to \$25 million under the Arctic infrastructure development fund.

Section 12: Section 12 is the heart of the bill, and it adds a new chapter to AIDEA's statutes to create the oil and gas infrastructure development program and separate fund. The new statutory provisions the bill adds do the following:

AS 44.88.850 creates the oil and gas infrastructure development program within AIDEA.

AS 44.88.860 creates the oil and gas infrastructure development fund within AIDEA separated from Authority's existing Revolving Fund. The new fund will consist of money the legislature appropriates to it and investment returns obtained from financing activity provided by the fund. AIDEA is authorized to pledge the fund to the payment of bonds issued to finance oil and gas infrastructure development.

AS 44.88.870 authorizes AIDEA to use the money in the oil and gas infrastructure development fund to finance oil and gas infrastructure development.

AS 44.88.880 specifies AIDEA's powers and duties with respect to the oil and gas infrastructure development program and fund, and requires AIDEA to adopt regulations to implement the new program. These regulations must contain a process sufficient to confirm the existence of proven reserves sufficient to justify proposed project financing. AIDEA is also authorized to contract for legal, bond counsel, engineering, or other expertise necessary to fulfill the purpose of the program and protect the authority.

AS 44.88.890 establishes limitations on the financing AIDEA can provide through the oil and gas infrastructure development program and fund. Without getting legislative approval, AIDEA cannot make a loan through the oil and gas infrastructure development fund for more than the lesser or one-half of the capital cost of an oil and gas infrastructure project or \$100,000,000. Without prior legislative approval AIDEA may not issue a loan guarantee through the new program for more than \$25 million.

AIDEA may not utilize this new oil and gas financing program unless all participants in the proposed development agree they will not take, apply for, or accept any exploration and development tax credit under AS 43.20.043; production tax credit under AS 43.55.023 or production tax credit for exploration expenditures under AS 43.55.025.

Individual project financing under the proposed Oil and Gas Infrastructure Development Program must not exceed a loan to value ratio of seventy-five percent. Resource reserves that may be offered as part of the collateralization for a project loan must be valued conservatively.

AIDEA must be properly shielded from any potential dismantlement, removal and restoration obligations that may stem from the infrastructure development project before financing from the proposed Oil and Gas Infrastructure Development Program can be provided.

Finally, any financing under the new program must be for the expected life of the project, but not for more than 30 years.

Section 13: This section sets out the definition of the terms "oil and gas infrastructure development" and "proven reserves".

It amends AS 44.88.900 by adding a new Paragraph (20) that defines the term "oil and gas infrastructure development" to mean "the acquisition, construction, or installation of and engineering for the construction or installation of a road, pad, camp, processing facility, gathering system, or other on-site improvement or equipment for an oil or gas field, or an oil and gas field, located in the state that has been explored and for which proven reserves have been established;

In addition it amends AS 44.88.900 by adding a new Paragraph (21) that the defines “proven reserves” to mean “those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations; "proven reserves" can be categorized as developed or undeveloped.”



EXPLANATION OF CHANGES
House Bill 246
AIDEA Oil and Gas Infrastructure Development Program
Version A to Version W

- Sec 1: No change
- Sec 2: No change
- Sec 3: No change
- Sec 4: Drafting style changes only
- Sec 5: No substance change, added a missing underline
- Sec 6: No change
- Sec 7: No change
- Sec 8: No change
- Sec 9: No change
- Sec 10: No change
- Sec 11: No change
- Sec 12: H/Res amendment #1 modified the language of Sec. 44.88.860 to restrict the ability of the AIDEA Board to move funds to the proposed Oil and Gas Infrastructure Development fund from other AIDEA sources.
- H/Res amendment #2 modified the language in Sec. 44.88.880 to clarify that AIDEA is authorized to hire outside legal, bond counsel, engineer, or other technical expertise necessary to fulfill the purpose of the program and protect the interest of the authority.
- H/Res amendment #3 modified the language of Sec. 44.88.890 to include a limit of \$100,000,000 on AIDEA participation in individual oil and gas infrastructure development financing without first receiving legislative approval.
- H/Res amendment #4 added specific language to Sec. 44.88.890 requiring that AIDEA be protected from any potential future dismantlement, removal and restoration obligations associated with the proposed development project before financing from the proposed oil and gas infrastructure development fund is allowed.

H/Res amendment #5 also added language to Sec. 44.88.890 requiring that financing from the proposed oil and gas infrastructure development program must not exceed a loan to value ratio of seventy-five percent. This language will require loans from the program to be over-collateralized to protect the authority against a default. The amendment also requires the calculation of value for resource reserves that may be pledged as part of the loan collateral to be computed conservatively

Sec 13: Drafting style changes only



House Bill 246 v A

AIDEA Oil and Gas Infrastructure Development Program; Fund; amendments to the SETS and Arctic Infrastructure Development programs; authorizing variable program interest rates and adjusting loan limits

Sectional Analysis

Sections 1 through 3: Sections 1 through 3 amend the language of AS 44.88.088, to include payment of a dividend from the proposed new oil and gas infrastructure development fund.

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Section 10: Section 10 amends AS 44.88.690(a) to increase the loan limit from one-third to 50% of the capital cost of a qualified energy development and increases the limit of a loan guarantee to \$25 million under the sustainable energy transmission and supply (SETS) fund.

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AS 44.88.850 creates the oil and gas infrastructure development program within AIDEA.

AS 44.88.860 creates the oil and gas infrastructure development fund within AIDEA separated from Authority's existing Revolving Fund. The new fund will consist of money the legislature appropriates to it, money AIDEA transfers into it, and investment returns obtained from money in the fund. AIDEA is authorized to pledge the fund to the payment of bonds issued to finance oil and gas infrastructure development.

AS 44.88.870 authorizes AIDEA to use the money in the oil and gas infrastructure development fund to finance oil and gas infrastructure development.

AS 44.88.880 specifies AIDEA's powers and duties with respect to the oil and gas infrastructure development program and fund, and requires AIDEA to adopt regulations to implement the new program. These regulations must contain a process sufficient to confirm the existence of proven reserves sufficient to justify proposed project financing.

AS 44.88.890 establishes limitations on the financing AIDEA can provide through the oil and gas infrastructure development program and fund. Without getting legislative approval, AIDEA cannot make a loan through the oil and gas infrastructure development fund for more than one-half of the capital cost of any project, or issue a loan guarantee for more than \$25 million. AIDEA may not utilize this new oil and gas financing program unless all participants in the proposed development agree they will not take, apply for, or accept any exploration and development tax credit under AS 43.20.043; production tax credit under AS 43.55.023 or production tax credit for exploration expenditures under AS 43.55.025. Finally, any financing under the new program must be for the expected life of the project, but not for more than 30 years.

Section 13: This section sets out the definition of the terms "oil and gas infrastructure development" and "proven reserves".

It amends AS 44.88.900 by adding a new Paragraph (20) that defines the term "oil and gas infrastructure development" to mean "the acquisition, construction, or installation of and engineering for the construction or installation of a road, pad, camp, processing facility, gathering system, or other on-site improvement or equipment for an oil or gas field, or an oil and gas field, located in the state that has been explored and for which proven reserves have been established;

In addition it amends AS 44.88.900 by adding a new Paragraph (21) that defines "proven reserves" to mean "those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations; "proven reserves" can be categorized as developed or undeveloped."

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Governor Bill Walker
STATE OF ALASKA

January 15, 2016

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill to establish a new oil and gas infrastructure development program and fund for the Alaska Industrial Development and Export Authority (AIDEA).

The bill proposes to create a new tool for AIDEA to use in assisting the oil and gas industry in the state by proposing an oil and gas infrastructure development program to allow AIDEA to assist in supporting small or medium-sized oil and gas producers that are dependent on outside financing. Such small or medium-sized producers can make a significant contribution to the state's economy but they do not always have access to the capital they need. The bill is meant to assist in overcoming that obstacle. As a means of ensuring that the State does not bear too much of the burden of any particular project, the bill would require that AIDEA make sure the participants in an AIDEA oil and gas infrastructure development program do not take, apply for, or accept a gas exploration and development credit or a production tax credit from the State.

Specifically, the oil and gas infrastructure development program would be established as AS 44.88.850. To facilitate its purpose, an oil and gas infrastructure development fund would be established in AIDEA to finance oil and gas infrastructure development, including guaranteeing loans and bonds. Within the restrictions established in the bill, AIDEA would be able to make loans and provide loan guarantees for oil and gas developments. AIDEA would be given the authority to take a lien or security interest in real or personal property, with respect to an oil and gas infrastructure development, to protect repayment of the authority's financing. Also, the bill proposes to authorize AIDEA to finance an oil and gas infrastructure development that has already been explored and that has established proven reserves. AIDEA would establish processes for financing and confirmation of proven reserves. Speculative developments that are still in the exploration stage would not be eligible under the program.

The bill also would provide AIDEA greater flexibility to administer the sustainable energy transmission and supply and the Arctic infrastructure development programs by allowing the

HOUSE BILL NO. 246

The Honorable Mike Chenaun.

Transmittal AIDEA

January 15, 2016

Page 2

authority to, without legislative approval, make a loan for up to 50 percent of the capital cost of one of those developments or to guarantee a loan for up to \$25,000,000.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Bill Walker". The signature is written in a cursive, flowing style.

Bill Walker

Governor

Enclosure