

LEG. FINANCE - BILLS 1985 - 1986 2337

CSHB 103 cont. - HB 105 2327

State of Alaska
Department of Natural Resources
Supplemental Findings
Competitive Royalty Oil Sale
(Pruchoe Bay and Kuparuk River Units)
November 28, 1984

Supplemental Findings
Competitive Royalty Oil Sale
(Pruchoe Bay and Kugaruk River Units)

AS 38.05.183(a) states that oil and gas taken in-kind as the state's royalty share of production may not be sold or otherwise disposed of for export from the state until the Commissioner of Natural Resources determines that the royalty in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs for oil and gas. I find that the 90,000 bpd scheduled for competitive sale on December 11, 1984 is surplus to present and projected intrastate domestic and industrial needs for oil.

AS 38.05.183 also requires the Commissioner to submit an annual report to the state legislature "showing the immediate and long-term domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met." The Department of Natural Resources, Division of Oil & Gas (the Department) complies with that requirement by preparing a document, published each January, entitled Historical and Projected Oil and Gas Consumption (also called the Supply/Demand study). The January 1984 Supply/Demand study concluded, as it had in previous years, that in-state supplies of both oil and gas far exceeded the immediate and long-term domestic and industrial needs of the state for oil and gas.

Due to the absence of any new information concerning the immediate and long-term domestic and industrial needs of the state for oil and gas, the Department again concluded, both in the Preliminary Findings and Determination to Negotiate Backup Royalty Oil Contract(s) and Conduct a Competitive Royalty Oil Sale (July 12, 1984) and the Final Findings and Determination to Conduct a Competitive Royalty Oil Sale for In-kind Oil from the Pruchoe Bay and Kugaruk River Units (October 10, 1984), that the 90,000 bpd of state royalty oil to be sold competitively on December 11, 1984 is surplus to in-state needs. Consequently, upon the publication of the Preliminary Findings and execution of contracts with backup purchasers, the state gave a six-month notice to the North Slope producers of its intent to take 90,000 bpd of royalty oil in-kind (as provided by procedures in the Pruchoe Bay and Kugaruk River Unit Agreements).

The Department's conclusion was and is based in part on the interpretation of AS 38.05.183 stated in each Supply/Demand study since 1982. In that year, the study first gave specific definitions to certain phrases in that statute. Since 1982, the first chapter of every Supply/Demand study has contained a list of possible definitions for some of the imprecise clauses of AS 38.05.183, such as "how these needs are to be met". The Supply/Demand study definition of that phrase specifies the Department's long-standing position that the state's present and projected intrastate domestic and industrial needs for oil and gas may be met from a variety of sources, including state royalty oil. See 1984 Supply/Demand study page 1.7.

The intent of the statute should not be regarded as complete state self-sufficiency in refined products from state royalty oil. Rather, the Department believes the legislature was aiming at ensuring adequate overall oil and gas supplies for the state. The 1984 Supply/Demand study states that, "Under reasonable assumptions about recoverable reserves and Alaskan consumption, the current inventory of both oil and gas is more than sufficient to meet the presently identifiable needs of Alaskans for the next 15 years." Presently, the Department of Revenue's most recent crude oil price forecasts remain conservative due to the continued surplus in world supplies. While unfavorable from a revenue standpoint, that surplus will likely translate into dampened crude oil prices for Alaska consumers and industrial users. Only if the cost of imported products were significantly above the cost of products which could be refined in Alaska (e.g. when oil is not available to local refiners at the market price), or if Alaska users were suffering from an absolute shortfall in petroleum products, would the Department not consider the royalty oil to be sold at the competitive sale as "surplus" to present and projected in-state needs. Neither of these was found to be the case.

The Department's view of the purpose of AS 38.05.183 stems first from the atmosphere of absolute shortage, particularly in motor fuels, which prevailed at the time the statute was written. The statute was adopted in 1974, when the worldwide oil crisis and the imposition of federal oil contract controls raised the spectre of product shortages in Alaska despite North Slope crude oil production. The Department's view stems second from the apparent paradox of continued imports into regions such as Southeast Alaska, where the landed cost of such imports from Puget Sound undercuts the cost of delivered refined products to Southeast from Railbelt refiners. Under the most constrained interpretation of the statute, the Department would be obliged to promote in-state refining with royalty oil for the sake of absolute self-sufficiency, even when this resulted in higher prices for Alaskans. Clearly, this was not the intent of the statute. Intrastate needs for oil and gas are presently being met from a variety of sources, including state royalty oil. As charged, the 1984 Supply/Demand study identifies those sources and discusses how in-state needs are to be met, given the total supply of hydrocarbons within the state. In terms of total present and projected demand vs. total present and projected supply, intrastate refined product needs can be met with ease by the unprecedented production of crude oil from the North Slope, which is available to any purchaser willing to meet the market clearing price for that oil. For these reasons, the Department determined in the 1984 Supply/Demand study that the state enjoys a surplus of hydrocarbons relative to present and foreseeable demand.

Even if AS 38.05.183(d) were interpreted to require all intrastate needs to be satisfied by royalty oil before export could occur, I would find that the competitive sale amounts are surplus to present and projected intrastate domestic and on industrial needs for two reasons. First, persons who have a demand for oil as a result of current in-state processing or supply activities are granted priority rights to purchase royalty oil at the competitive sale. Second, during the term of the competitive sale contracts, royalty oil will remain in-value and will be available for disposition in-state.

The Department has provided for satisfaction of demand for royalty oil on the part of in-state refiners and in-state suppliers by giving them priority rights to purchase oil at the competitive sale. A priority will be offered to bidders which have sold an average of at least 5,000 bpd of refined petroleum products to distributors or consumers within the State of Alaska during the twelve-month period beginning June 1, 1983 and ending May 31, 1984, and which possess the ability to process crude oil into refined petroleum products at a processing facility owned by the bidder. Priority status will enable the in-state supplier to meet the highest winning bid in each of the three categories of royalty oil to be competitively sold. That right extends to the number of lots remaining in each category after the first round award of lot(s) to the highest winning bidder(s) in each category and priority bidders who have been posted as apparent high bidders. Consequently, in the first round of awards, priority bidders enjoy the possibility of receiving oil at the lowest price posted in each category. In addition, in-state suppliers are reasonably assured of receiving the desired volume of oil in the second round of awards, provided they are willing to meet the competitively established price. 11 AAC 03.250(5) states that:

"present or projected intrastate domestic and industrial needs" means in-state domestic and industrial demand at a competitive market price for the royalty oil, gas, or gas liquids. "Competitive market price" includes, but is not limited to, a price established by competitive bid.

Thus, in-state refiners and suppliers will have the first right to royalty crude at a competitive market price so that their supply is assured.

At the present time the state leaves approximately 104,735 bpd of royalty oil in-value with the North Slope lessees. The lessees export this oil from Alaska and tender the reported netback sale proceeds to the state. During the first six months of the term of the competitive sale contracts, April 1985 to September 1985, approximately 26,013 bpd of royalty oil will remain in-value. During the following six months of the term, October 1985 to March 1986, approximately 41,013 bpd of royalty oil will remain in-value. These amounts will remain available for disposition in-state if the Department finds the disposition(s) to be in the State's best interest. (If a contract currently being negotiated with Golcen Valley Electric Association is approved, future amounts available for disposition would be reduced by 5,000 bpd.)

Several parties have recently expressed an interest in purchasing royalty oil from the State. Our conclusion that the competitive sale amounts are surplus to present and projected needs was drawn with the knowledge that all in-state refiners do not have 100% of their projected capacity supplied by state royalty oil. For example, as mentioned in the Preliminary Finding, the Department has conducted negotiations for the sale of royalty oil to MAPCO Inc. to fuel a proposed refinery expansion. The successful outcome of those negotiations is not, however, regarded by the Department as prerequisite to the possible export of the state's royalty oil in the planned competitive sale. First, MAPCO representatives indicated to the Department that the proposed refinery expansion may not be built, throwing the question of MAPCO's projected needs into doubt. Second, if MAPCO had a projected demand for royalty oil at a competitive price, it could have availed itself of its


opportunity to purchase oil at the competitive sale, as a priority bidder. Since it is a current in-state refiner, MAPCO would have been entitled to all the priority rights discussed above. Third, by virtue of its proximity to the Trans Alaska Pipeline (TAPS), MAPCO has unique opportunities to supply its refinery with North Slope oil. MAPCO currently receives 35,000 bpd of royalty oil directly from the State. MAPCO also receives 5,000 bpd of royalty oil through its agreement with another state royalty oil purchaser - the Golden Valley Electric Association. In addition, about 60% of the oil run through the MAPCO refinery is, with a minor quality penalty, reinjected into TAPS to re-emerge as whole oil at Valdez. That oil, which is the property of MAPCO, may be exchanged for more oil from the North Slope and again withdrawn from TAPS at Fairbanks. One of the several advantages that MAPCO enjoys with its state royalty oil contract, relative to other in-state refiners, is this absence of any state control over the return oil. MAPCO could also purchase oil directly from the North Slope lessees to satisfy any demand not met through the purchase and exchange of royalty oil. Finally, MAPCO's location on TAPS allows it to enter into "in-transit stop" arrangements in which MAPCO "borrows" oil from other TAPS shippers. The borrowed oil is processed in MAPCO's refinery with the full amount returned to the original shipper at Valdez through a combination of return oil and quality bank payments. This in-transit stop arrangement remains feasible so long as MAPCO's current contract which does not expire until 2003, remains in effect. The Department believes that any failure by MAPCO to secure oil through these possible sources of supply indicates that MAPCO's demand may exist only so long as it believes the State is willing to supply it with oil at a price below competitive prices. As explained above, 11 AAC 03.250(5) provides that projected needs means in-state demand at a competitive price.

Since the Department made its most recent finding of ample in-state hydrocarbon supplies, published in the Final Finding of October 10, 1984, several Alaskan parties in addition to MAPCO have expressed interest in purchasing royalty oil. Chevron has requested further volumes of royalty oil to meet a possible increase in "throughput" at its 18,000 bpd Nikiski Refinery. Chevron owns and exports 12,000 bpd of North Slope production in addition to the 18,000 bpd of royalty oil which it processes at Nikiski. New parties also propose to create additional new refineries in Alaska. Because these proposals were not known to the Department at the time of the most recent determination of an in-state hydrocarbon surplus, the state has decided to reduce the one-year term of those lots offered in the Kuparuk River oil category (category A) to six months. This will enable the state to have an additional 15,000 bpd of royalty oil available in the fall of 1985 for those who offer to purchase state royalty oil at terms which lead the Department to find that the disposition(s) would be in the state's best interest.

As stated, the impressive quantities of oil available within the state, which are the highest in the nation on a per-capita basis, diminish the likelihood of an actual "need" by these groups in the sense of supply availability. However, given the very recent nature of the new proposals received, the Department will further review their merits, as well as supply alternatives in addition to royalty oil. It has been the Division's experience that the term "need" is perceived differently by prospective in-state royalty oil

purchasers. Rather than the physical unavailability of oil due to world shortages or the unwillingness of North Slope producers to sell ANS crude at the market clearing price, prospective in-state royalty oil purchasers often view their feedstock needs in terms of the royalty oil price and terms they require for economic viability. While the Department recognizes that there are a host of oil-related economic activities which can be made viable should the state choose to undercut the market clearing price of Alaska North Slope oil for specific parties, this is not seen as the definition of "need" in AS 38.05.183, nor is it clearly in the State's best interest to do so.

Given the short-term nature of the proposed competitive sale, the consideration extended to in-state refiners and suppliers through the priority bidding system, the lack of demonstrated current need on the part of other potential in-state purchasers, and the amounts of oil remaining in-value available for disposition, I find pursuant to AS 38.05.183 that the royalty oil to be disposed of at the competitive sale is surplus to present and projected intrastate domestic and industrial needs.



Kay Brown, Director
Division of Oil & Gas
Department of Natural Resources

11-28-84

Date



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB163

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to royalty oil. The bill would (1) clarify and streamline procedural requirements for royalty oil and gas sales by expressly providing that the best-interest finding set out in AS 38.05.035(e) does not apply to those sales; and (2) enable the Department of Natural Resources to establish a regular program of short-term competitive royalty oil sales.

It is unclear whether AS 38.05.035(e) applies to royalty oil and gas sales. Royalty oil and gas sales have detailed finding and notice requirements set out in AS 38.05.182, 38.05.183, and AS 38.06, and are expressly committed to commissioner actions. AS 38.05.035(e), on the other hand, is essentially duplicative of those other processes and concerns actions taken by the director of the division of lands. Although we believe that the provisions of AS 38.05.035(e) are not presently applicable to oil and gas sales, such confusion does cast a cloud over royalty oil sales (particularly those that are entered into because of an emergency situation). The amendment in sec. 1 of the bill resolves the issue.

The second change, in sec. 2 of the bill, would allow competitive royalty oil sales for terms of less than one year to be conducted without legislative approval of those sales. To await legislative approval under a competitive bid situation for contracts of one year or less would defeat the entire purpose of that type of short-term competitive sales. Under the present statutory scheme, however, there is a serious question as to whether a party who gained royalty oil under one competitive sale could re-bid in a subsequent royalty oil sale if the combination of the two sales would lead to that particular buyer receiving oil for more than a one year period. Although it has been the

consistent position of this and previous administrations that the requirement of legislative approval is unconstitutional, administrations have always, as a matter of comity, respected the legislature's desire to be consulted in long-term or negotiated royalty oil contracts. Further, the presence of the statute, whether or not constitutional, would cast a cloud on any sale. Thus we believe that a clarification to allow short-term competitive royalty oil sales would be in the best interests of all.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Sheffield".

Bill Sheffield
Governor

COMMITTEE REPORT
SENATE

FURTHER:

FINANCE

3/12/85

Date 4/1/85

Mr. President

The Committee on RESOURCES considered CSHB 103(Fin)
prerequisites for the disposal of royalty oil and gas; efd.

and ~~(a majority of the committee)~~ (the committee) reports it back with
the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

[Handwritten signatures]

MEMBERS HAVING
OTHER RECOMMENDATIONS

[Handwritten signature]
Chairman

[Handwritten signature]
Chairman recommendation

R

COMMITTEE REPORT

4/26

HOUSE

Rules

(11)

FURTHER:

4/19/85

Date: 4-25-85

The Committee on FINANCE has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 105 (Fin.) same title
 new title
- and recommends DO PASS ✓
- AND attaches a "Letter of Intent" New Fiscal Note 4-23-85
 Zero Fiscal Note Attached
- reports it back without recommendation sup # 57
- referred to the _____ Committee

MEMBERS SIGNING DO PASS

Adams [Signature]

Ringstad [Signature]

Duncan [Signature]

Uehling [Signature]

Pourchot [Signature]

MEMBERS HAVING OTHER RECOMMENDATIONS:

Rieger [Signature] No Recommendation

Cotten [Signature]

Szymanski [Signature] - No Rec.

Larson [Signature] - No Rec.

[Signature]

CHAIRMAN

COMMITTEE REPORT

4/19

HOUSE

(5)

FURTHER:

FINANCE

4/10/85

(waived from Finance, to Loans, to be returned to Finance)

Date:

4/18/85

HOUSE SPECIAL COMMITTEE ON STATE LOANS

The Committee on ~~FINANCE~~ has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for CS HB 105 (Loans) same title
 new title
- and recommends it do pass
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING DO PASS

MEMBERS HAVING OTHER RECOMMENDATIONS:

Fuller

John Muller

Cotten

Jim Cost NO Rec

Uehling

Rich Hefz

Sund

[Signature]

[Signature]
CHAIRMAN

COMMITTEE REPORT
HOUSE

3/13

(7)

FURTHER: FINANCE

1/23/85

Date: 12 MARCH 1985

The Committee on TRANSPORTATION has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation ~~Fiscal~~ Fiscal Note Attached
- referred to the _____ Committee 1-11-85 2950.0

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CATO Bette Cato

FURNACE Walt FURNACE

SHULTZ Dick Shultz

WARREN Mike M. No Rec.

Bette Cato
CHAIRMAN

Offered: 4/26/85
Referred: Rules

Gov

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 105 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the authorization of bonds or
7 notes, establishing conditions under which the bonds
8 or notes for the DeLong Mountain transportation
9 project may be issued; and providing for an effective
10 date."

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

12 * Section 1. AS 37.15.410 is amended to read:

13 Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of provid-
14 ing part or all of the money to be used, with or without any grants or
15 other money that [WHICH] may become available, the issuance and sale
16 of revenue bonds of the state in the total principal sum of not to
17 exceed \$86,525,000 [\$62,825,000] is authorized to acquire, equip,
18 construct, and install the additions, improvements, extensions, and
19 facilities authorized in AS 37.15.510. The principal of and interest
20 on these bonds shall be paid out of and secured by the gross revenues
21 derived by the state from the ownership, lease, use, and operation of
22 the airports, and of all the facilities of them and out of any other
23 revenues or money that [WHICH] the state legislature may provide
24 exclusive of any state tax or license.

25 * Sec. 2. The Alaska Industrial Development Authority is authorized to
26 issue bonds or notes in a principal amount not to exceed \$175,000,000 to
27 provide financing for the DeLong Mountain transportation project.

28 * Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may
29 be issued the Alaska Industrial Development Authority shall comply with

1 AS 44.88.173 and shall incorporate into the final finance plan for the
2 DeLong Mountain transportation project the following terms and conditions:

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

4 (A) Cominco, Ltd. will pay for all or a portion of the
5 operation and maintenance of facilities constructed as part of the
6 project based on the use Cominco Alaska makes of the facilities com-
7 pared to the use made by others;

8 (B) if Cominco Alaska ceases to develop the Red Dog Mine
9 after costs or debts have been incurred by the Alaska Industrial
10 Development Authority for the project, Cominco, Ltd. will repay the
11 authority for those costs and debts;

12 (C) toll fees paid by Cominco Alaska for the use of facil-
13 ities constructed as part of the project to the Alaska Industrial
14 Development Authority may be periodically adjusted if the price of
15 zinc rises above a level that yields a return on investment commen-
16 surate with risk;

17 (2) the United States government makes available land in the
18 Cape Krusenstern National Monument that is included in the proposed land
19 exchange with NANA Regional Corporation to the corporation for construction
20 of a transportation system;

21 (3) NANA Regional Corporation is required to agree in writing to
22 make available to the Alaska Industrial Development Authority, at no more
23 than fair market value, land needed for the port and road constructed as
24 part of the project and land needed for future expansion of the road and
25 port;

26 (4) tax exempt financing for the project is used to the maximum
27 extent possible;

28 (5) a toll schedule, that may be periodically adjusted, is
29 established for use of facilities constructed as part of the project that

1 ensures a reasonable return on the state's investment in the project;

2 (6) contracts for the construction, operation, and maintenance
3 of the port and road are subject to AS 36;

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

6 * Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may
7 be issued the Alaska Industrial Development Authority shall

8 (1) report in writing to the legislative budget and audit com-
9 mittee that the conditions under sec. 3 of this Act have been met; and

10 (2) agree with the Department of Revenue in writing to deliver
11 all money generated by the DeLong Mountain transportation project to the
12 Department of Revenue for deposit in the general fund, other than money
13 necessary for payment of the principal and interest on bonds or notes
14 issued under sec. 2 of this Act and except as may otherwise be provided in
15 the bond or note covenants.

16 * Sec. 5. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

Offered: 4/19/85
Referred: Finance

Cook

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

2 CS FOR HOUSE BILL NO. 105 (Loans)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the authorization of bonds or
7 notes, establishing conditions under which the bonds
8 or notes for the DeLong Mountain transportation
9 project may be issued; and providing for an effective
10 date."

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15 other money that [WHICH] may become available, the issuance and sale
16 of revenue bonds of the state in the total principal sum of not to
17 exceed \$86,525,000 [\$62,825,000] is authorized to acquire, equip,
18 construct, and install the additions, improvements, extensions, and
19 facilities authorized in AS 37.15.510. The principal of and interest
20 on these bonds shall be paid out of and secured by the gross revenues
21 derived by the state from the ownership, lease, use, and operation of
22 the airports, and of all the facilities of them and out of any other
23 revenues or money that [WHICH] the state legislature may provide
24 exclusive of any state tax or license.

25 * Sec. 2. The Alaska Industrial Development Authority is authorized to
26 issue bonds or notes in a principal amount not to exceed \$175,000.000 to
27 provide financing for the DeLong Mountain transportation project.

28 * Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may
29 be issued the Alaska Industrial Development Authority shall comply with

COMMITTEE COPY

1 AS 44.88.173 and shall incorporate into the final finance plan for the
2 DeLong Mountain transportation project the following terms and conditions:

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

4 (A) Cominco, Ltd. will pay for all or a portion of the
5 operation and maintenance of facilities constructed as part of the
6 project based on the use Cominco Alaska makes of the facilities com-
7 pared to the use made by others;

8 (B) if Cominco Alaska ceases to develop the Red Dog Mine
9 after costs or debts have been incurred for the project, Cominco, Ltd.
10 will repay the Alaska Industrial Development Authority for those costs
11 and debts;

12 (C) toll fees paid by Cominco Alaska for the use of facil-
13 ities constructed as part of the project to the Alaska Industrial
14 Development Authority may be periodically adjusted if the price of
15 zinc rises above a level that yields a return on investment commen-
16 surate with risk;

17 (2) land in the Cape Krusenstern National Monument is conveyed
18 to NANA Regional Corporation by the United States Department of the In-
19 terior;

20 (3) NANA Regional Corporation is required to agree in writing to
21 make available to the Alaska Industrial Development Authority, at no more
22 than fair market value, land needed for the port and road constructed as
23 part of the project and land needed for future expansion of the road and
24 port;

25 (4) tax exempt financing for the project is used to the maximum
26 extent possible;

27 (5) a toll schedule, that may be periodically adjusted, is
28 established for use of facilities constructed as part of the project that

29 (A) ensures a reasonable return on the state's investment

1 in the project; and

2 (B) guarantees equitable access to the facilities by all
3 users.

4 * Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may
5 be issued the Alaska Industrial Development Authority shall

6 (1) report in writing to the legislative budget and audit
7 committee that the conditions under sec. 3 of this Act have been met; and

8 (2) agree with the Department of Revenue in writing to deliver
9 all money generated by the DeLong Mountain transportation project, other
10 than money necessary for payment of the principal and interest on bonds or
11 notes issued under sec. 2 of this Act, to the Department of Revenue for
12 deposit in the general fund.

13 * Sec. 5. This Act takes effect immediately in accordance with AS 01.-
14 10.070(c).
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Gov
1675h
Introduced: 1/23/85
Referred: Transportation
and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 105

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the international airports reve-
7 nue bonds authorization; and providing for an effec-
8 tive date."

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

10 * Section 1. AS 37.15.410 is amended to read:

11 Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of provid-
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13 other money which may become available, the issuance and sale of
14 revenue bonds of the state in the total principal sum of not to exceed
15 \$86,525,000 [\$62,825,000] is authorized to acquire, equip, construct,
16 and install the additions, improvements, extensions, and facilities
17 authorized in AS 37.15.510. The principal of and interest on these
18 bonds shall be paid out of and secured by the gross revenues derived
19 by the state from the ownership, lease, use, and operation of the
20 airports, and of all the facilities of them and out of any other
21 revenues or money which the state legislature may provide exclusive of
22 any state tax or license.

23 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
24 10.070(c).

25
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28 COMMITTEE COPY

29 HB 105

BILL SHEFFIELD
GOVERNOR

al



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

AB105

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to raise from \$62,825,000 to \$86,525,000 the amount of international airports revenue bonds that may be issued by the state bond committee. This additional \$23,700,000 is intended to be used for the Anchorage International Airport Terminal Renovation, Phase II.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF ALASKA - 1985 LEGISLATIVE SESSION
FISCAL NOTE

oe
4287

Revision Date: _____

REQUEST
Bill/Resolution No.: HB 105
Title: _____
Sponsor: _____
Requestor: _____
Date of Request: _____

FISCAL DETAIL
Agency Affected: Debt Service
Program Category Affected: _____
General Government
BRU, Program or Subprogram(s) Affected:
IARF Debt Service and Fees

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
TOTAL OPERATING		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0

CAPITAL						
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REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
TOTAL		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary
Assumes issuance of bonds of \$23,700,00 at 11% with level debt service for 30 years. The project appropriation is continued in the General Appropriation Bill and is titled "Anchorage International Airport Main Terminal Renovation Phase II". Debt Service is capitalized through the bond sales the first two years, and thereafter, paid from the International Airport Revenue Fund.

Prepared By: Ron B. Lind, Director Phone: 465-3911
Division: Financial and Administrative Services Date: _____

Approved by Commissioner: Wm S. Sparks Date: 1/11/85
Agency: DOT & PF

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

*Q.W.
Supp 57*

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Page 1 of 2

Revision Date _____

REQUEST

Bill/Resolution No: CS HB 105 (FINA)
 Title: Bond Authorizations and DeLong Mountains Project
 Sponsor: House Loans
 Requestor: House Finance Committee
 Date of Request: April 22, 1985

FISCAL BILL

Agency Affected: State Bond Committee
 Program Category Affected: Debt Service
 BRU, Program of Subprogram(s) Affected: International Airports Revenue Bonds

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	3,550	2,850	2,850	2,850	2,850
TOTAL OPERATING	-	3,550	2,850	2,850	2,850	2,850
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	3,550	2,850	2,850	2,850	2,850
TOTAL	-	3,550	2,850	2,850	2,850	2,850

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: April 22, 1985

Approved by Commissioner: *Mary G. Stucke*
 Agency: Department of Revenue

Date: 4/23/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Assumes issuance of bonds of \$23,700,000 at 11% level debt service for 30 years plus \$700,000 in issuance costs for FY 86.

The appropriation for FY 86 and FY 87 is from the International Airports Construction Fund. Thereafter, appropriations would be from the International Airports Revenue Fund.

ALASKA STATE LEGISLATURE

14th Legislature FIRST Session

HOUSE BILL NO. 105

By THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Interntl. Airports Rev. Bonds

Introduced in the House 1/23, 1985

HISTORY IN THE HOUSE

19 85 Read first time and referred to Committee on

Jan. 23 TRANSPORTATION AND FINANCE
Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by Speaker
Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19 Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by President
Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19 Received from Senate

Concurred in Senate amendment thus adopting:
VOTE

Failed to concur in Senate amendment; asked Senate to recede
VOTE

Senate receded from amendment
VOTE

Senate failed to recede from amendment
VOTE

CC appointed by House

CC appointed by Senate

CC adopted by House
VOTE

CC adopted by Senate
VOTE

To enrolling
Reported correctly enrolled
Sent to Governor

..... by Governor

Filed with Lt. Governor

Chapter No.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: 2nd SCS HB 105 (Fin)
 Title: Authorization of Airport Revenue Bonds
 Sponsor: _____
 Requestor: HOUSE FINANCE
 Date of Request: 5-9-85

FISCAL DETAIL

Agency Affected: Debt Service
 Program Category Affected: General Government
 BRU, Program or Subprogram(s) Affected: _____
 IARF Debt Service and Fees _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS		4,400.0	4,400.0	4,400.0	4,400.0	4,400.0
TOTAL OPERATING		4,400.0	4,400.0	4,400.0	4,400.0	4,400.0

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER - IARF		4,400.0	4,400.0	4,400.0	4,400.0	4,400.0
TOTAL		4,400.0	4,400.0	4,400.0	4,400.0	4,400.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary) Cost represent debt service only. Assumes issuance of bonds of \$38,000,00 at 11% with level debt service for 30 years. The project appropriation is contained in the General Appropriation Bill and is titled "Anchorage International Airport Parking Garage and Terminal Access". Debt Service is capitalized through the bond sales for the first two years, and thereafter, paid from the International Airport Revenue Fund.
(Continued on the attached page)

Prepared By: Ron B. Lind, Director Phone: 465-3911
 Division: Financial and Administrative Services Date: 5/9/85
 Approved by Commissioner: *Dick Berg* Date: 5/9/85
 Agency: DOT & AP

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

7/1/84

The amount shown for debt service represents the payments required to amortize the debt in 30 years assuming 11% interest and equal yearly payments.

The proceeds of the bonds will be used to provide for the costs of issuance, required bond redemption reserves, and payment of debt service for two years and construction of required facilities. The amount remaining for construction will be approximately \$25 million.

No estimate of the eventual operational costs of the expanded facility are available.

Cook
5/9/85✓

Original sponsor: Rules/Governor

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IN THE HOUSE

BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 105 (2d Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds for airports; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed \$100,825,000 [\$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

MEMORANDUM

State of Alaska
Department of Transportation & Public Facilities

TO: Jay Hogan, Associate Director
Office of Management and Budget
Office of the Governor

DATE: May 4, 1985

FILE NO: 465-3900

TELEPHONE NO: 1985

1985

FROM: R. J. Knapp
Commissioner

SUBJECT: AIA Changes
BUDGET REVIEW

We are requesting certain changes in projects for the Anchorage International Airport in the Governor's budget. These changes will also require a change in Section 1 of AS 05 which authorizes additional International Airport Revenue Bonds.

The changes are as follows:

1. Change the project title, "Anchorage International Airport Main Terminal Renovation Phase II." To "Anchorage International Airport Parking Garage and Terminal Access."
2. Increase the project appropriation to \$44,000,000 of which \$6 million is from the International Airport Revenue Fund, and - \$38,000,000 is from the International Airport Construction Fund.
3. *AMENDMENT* Increase the bond authorization in Section 1 of ASHB 105 (Finance) from \$86,525,000 to \$100,825,000.
4. Delete the separate project titled Parking Garage Design.

These changes will allow us to accelerate the parking structure design and construction with the terminal modification in access to the baggage claim area. This will reduce the congestion to the public during construction as well as accelerate the parking facility.

This project will allow design and construction of a parking garage at the Anchorage International Airport; passage-ways necessary to connect the garage to the terminal; provide convenient, efficient interface with the parking garage make modification to electrical mechanical and structural portions of the terminal to enhance the ultimate usefulness of the terminal and the garage, pay all costs related to issuance of the bonds, establishment of the required reserves; and the cost of debt service during construction (estimated to take 2 years).

Existing parking supply is inadequate for projected parking demand. This expansion and remodeling will provide sufficient parking to accommodate anticipated needs.

All maintenance operation and debt service costs for this facility will be paid from the International Airport Revenue Fund. The parking structure will produce revenue and in the very near term, the receipts from the increased parking spaces provided should cover the costs.

COMMITTEE REPORT

HOUSE

(11)

FURTHER:

4/19/85

Date:

4-25-85

The Committee on FINANCE has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 105 (Fin) same title new title
- and recommends DO PASS
- AND attaches a "Letter of Intent" New Fiscal Note 4-23-85
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

Albert C. ...

...

...

...

Pat ...

MEMBERS HAVING
OTHER RECOMMENDATIONS:

...

...

...

Albert C. ...

CHAIRMAN

COMMITTEE REPORT
HOUSE

(11)

4/19/85

FURTHER:

Date:

4-25-85

The Committee on FINANCE has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

do pass do not pass

do pass with attached amendments(s)

replace with CS for HB 105 (Fin) same title new title

and recommends DO PASS

AND attaches a "Letter of Intent" New Fiscal Note 4-23-85

reports it back without recommendation Zero Fiscal Note Attached

referred to the _____ Committee

MEMBERS SIGNING

DO PASS

Alberto C. Adams
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

MEMBERS HAVING

OTHER RECOMMENDATIONS:

There is no Recommendation
[Signature]
Mike Spagnoli - No Rec.
Ronald C. Johnson No Rec.
[Signature]
[Signature]

Alberto C. Adams

CHAIRMAN

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 105 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the authorization of bonds or
7 notes, establishing conditions under which the bonds
8 or notes for the DeLong Mountain transportation
9 project may be issued; and providing for an effective
10 date."

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

12 * Section 1. AS 37.15.410 is amended to read:

13 Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of provid-
14 ing part or all of the money to be used, with or without any grants or
15 other money that [WHICH] may become available, the issuance and sale
16 of revenue bonds of the state in the total principal sum of not to
17 exceed \$86,525,000 [\$62,825,000] is authorized to acquire, equip,
18 construct, and install the additions, improvements, extensions, and
19 facilities authorized in AS 37.15.510. The principal of and interest
20 on these bonds shall be paid out of and secured by the gross revenues
21 derived by the state from the ownership, lease, use, and operation of
22 the airports, and of all the facilities of them and out of any other
23 revenues or money that [WHICH] the state legislature may provide
24 exclusive of any state tax or license.

25 * Sec. 2. The Alaska Industrial Development Authority is authorized to
26 issue bonds or notes in a principal amount not to exceed \$175,000,000 to
27 provide financing for the DeLong Mountain transportation project.

28 * Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may
29 be issued the Alaska Industrial Development Authority shall comply with

1 AS 44.38.173 and shall incorporate into the final finance plan for the
2 DeLong Mountain transportation project the following terms and conditions:

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

4 (A) Cominco, Ltd. will pay for all or a portion of the
5 operation and maintenance of facilities constructed as part of the
6 project based on the use Cominco Alaska makes of the facilities com-
7 pared to the use made by others;

8 (B) if Cominco Alaska ceases to develop the Red Dog Mine
9 after costs or debts have been incurred by the Alaska Industrial
10 Development Authority for the project, Cominco, Ltd. will repay the
11 authority for those costs and debts;

12 (C) toll fees paid by Cominco Alaska for the use of facil-
13 ities constructed as part of the project to the Alaska Industrial
14 Development Authority may be periodically adjusted if the price of
15 zinc rises above a level that yields a return on investment commensurate
16 with risk;

17 (2) the United States government makes available land in the
18 Cape Krusenstern National Monument that is included in the proposed land
19 exchange with NANA Regional Corporation to the corporation for construction
20 of a transportation system;

21 (3) NANA Regional Corporation is required to agree in writing to
22 make available to the Alaska Industrial Development Authority, at no more
23 than fair market value, land needed for the port and road constructed as
24 part of the project and land needed for future expansion of the road and
25 port;

26 (4) tax exempt financing for the project is used to the maximum
27 extent possible;

28 (5) a toll schedule, that may be periodically adjusted, is
29 established for use of facilities constructed as part of the project that

1 ensures a reasonable return on the state's investment in the project;

2 (6) contracts for the construction, operation, and maintenance
3 of the port and road are subject to AS 36;

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

6 * Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may
7 be issued the Alaska Industrial Development Authority shall

8 (1) report in writing to the legislative budget and audit com-
9 mittee that the conditions under sec. 3 of this Act have been met; and

10 (2) agree with the Department of Revenue in writing to deliver
11 all money generated by the DeLong Mountain transportation project to the
12 Department of Revenue for deposit in the general fund, other than money
13 necessary for payment of the principal and interest on bonds or notes
14 issued under sec. 2 of this Act and except as may otherwise be provided in
15 the bond or note covenants.

16 * Sec. 5. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST

Bill/Resolution No: CS HB 105 (FUND)
 Title: Bond Authorizations and DeLong Mountains Project
 Sponsor: House Loans
 Requestor: House Finance Committee
 Date of Request: April 22, 1985

FISCAL DETAIL

Agency Affected: State Bond Committee
 Program Category Affected: Debt Service
 BRU, Program of Subprogram(s) Affected: International Airports Revenue Bonds

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	3,550	2,850	2,850	2,850	2,850
TOTAL OPERATING	-	3,550	2,850	2,850	2,850	2,850
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	3,550	2,850	2,850	2,850	2,850
TOTAL	-	3,550	2,850	2,850	2,850	2,850

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker ^{MB}
 Division: Treasury
 Approved by Commissioner: Henry G. Stedake
 Agency: Department of Revenue

Phone: 465-2350
 Date: April 22, 1985
 Date: 4/23/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CS HB 105 (Fin~~er~~)
Fiscal Note Analysis

Assumes issuance of bonds of \$23,700,000 at 11% level debt service for 30 years plus \$700,000 in issuance costs for FY 86.

The appropriation for FY 86 and FY 87 is from the International Airports Construction Fund. Thereafter, appropriations would be from the International Airports Revenue Fund.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

April 8, 1985

The Honorable Arliss Sturgulewski
Chairman
Senate Committee on Resources
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

Re: \$142 Million AIDA Transfer

In response to your letter of April 1, 1985, I am providing you with the following requested information.

1. Will the transfer of the \$142 million in loans to AIDA affect the personnel requirements of your loan servicing division? In other words, would you anticipate a reduction in staffing?

There are several factors that are pertinent, assuming the appropriation to AIDA does take place and is effective July 1, 1985.

- (a) AIDA will not service the transferred loans.
- (b) The Division of Accounting and Collections would continue to service the loans after July 1 under contract with AIDA until such time as AIDA and/or the division decide that transfer of servicing to a private bank is appropriate.
- (c) The earliest such a servicing transfer could occur is mid-year FY '86 due to the complexity of the transfer, keeping in mind the transfer may not occur at all if AIDA and the division feel it is not appropriate.
- (d) If the FY '86 budget cuts are as severe as the first draft cut appears, the division may request that AIDA transfer the servicing. If this were to occur, the division would reduce staff after the servicing transfer so that the combined reduction in staff (due to budget cuts and the transfer) would be about 35% - proportionate to the number of loans transferred. Such staff reductions would not free up excess general funds because the

transferred loans would be those that currently generate 100% of our "other funds" (service fees) in the divisions' operating budgets (Division of Accounting and Collections and the Division of Investments). Therefore, while the appropriation of these loans could result in a reduction in staff, it would not be in "General Fund" funded staff, and the staff reduction would come only after the transfer of servicing, not on the effective date of the appropriation.

2. If these loans were transferred to AIDA, do you anticipate that the loan repayment or servicing policies would change?

No, both organizations expect repayment on a timely basis.

3. What would be the effect on the borrowers if these loans were transferred to another agency?

While servicing remains under the Division of Accounting and Collections, the effects would be minimal: prior to the effective date of the appropriation, new loan numbers may be required to allow for accurate accounting to the new investor; this would entail a letter and a new supply of payment cards being sent to the borrower. The effort required of division staff to close out one investor and begin servicing a new investor will be substantial; borrowers may notice a slight decline in the quality and timeliness of service as the division copes with the changes.

If the servicing itself were transferred to a private bank at some point, the following changes would occur:

- (a) Borrowers would receive another new loan number, another set of payment cards, and a series of letters explaining each step of the servicing transfer;
- (b) Service quality and timeliness may vary.

All impacts to borrowers could be summed up as short-term inconveniences which would occur for six months or so during the transition to a new servicer.

4. How would the loss of future income from these loans (both principal and interest) affect the ability of your loan divisions to provide for the public demand for loans in the various categories? Would you anticipate increased funding requests to the Legislature to meet the public need?

April 8, 1985

There would be virtually no effect on the loan fund balances.

The cash flow from these loans is remitted to the General Fund (through Division of Treasury) on a monthly basis, net of service fees, late fees, NSF fees and application/assumption fees which are retained by the fund. In the case of veterans and commercial fish, these fees then are appropriated by the Legislature to fund operating efforts in the Division of Accounting and Collections and the Division of Investments.

We would not anticipate increased funding requests in the loans budget to meet public loan demand.

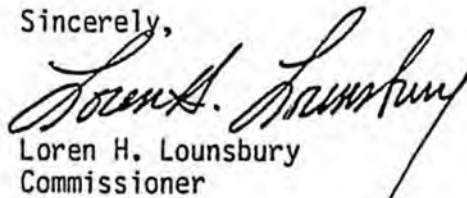
5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the \$142 million as of July 1, 1985?

No, the loss of income to the loan funds will be negligible (See #4).

The operating budgets of the Division of Accounting and Collections and the Division of Investments could be impacted mid-year due to loss of service fees if the servicing is transferred prior to year-end FY '86.

Please let me know if you have further questions.

Sincerely,



Loren H. Lounsbury
Commissioner

LHL/mst1748m
040385c

cc: Mary Nordale, Commissioner, Department of Revenue
Bert Wagnon, Executive Director, AIDA

COMMITTEE REPORT
HOUSE

(11)

FURTHER:

4/19/85

Date: 4-25-85

The Committee on FINANCE has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HB 105 (Fin) same title
 new title
- and recommends DO PASS
- AND attaches a "Letter of Intent" New Fiscal Note 4-23-85
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

Albert C. Edwards
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Steve Thayer No Recommendation
[Signature]
Mike [Signature] - No Rec.
[Signature] - No Rec.
[Signature]
[Signature]
[Signature]

Albert C. Edwards
CHAIRMAN

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 105 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the authorization of bonds or
7 notes, establishing conditions under which the bonds
8 or notes for the DeLong Mountain transportation
9 project may be issued; and providing for an effective
10 date."

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

12 * Section 1. AS 37.15.410 is amended to read:

13 Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of provid-
14 ing part or all of the money to be used, with or without any grants or
15 other money that [WHICH] may become available, the issuance and sale
16 of revenue bonds of the state in the total principal sum of not to
17 exceed \$86,525,000 [\$62,825,000] is authorized to acquire, equip,
18 construct, and install the additions, improvements, extensions, and
19 facilities authorized in AS 37.15.510. The principal of and interest
20 on these bonds shall be paid out of and secured by the gross revenues
21 derived by the state from the ownership, lease, use, and operation of
22 the airports, and of all the facilities of them and out of any other
23 revenues or money that [WHICH] the state legislature may provide
24 exclusive of any state tax or license.

25 * Sec. 2. The Alaska Industrial Development Authority is authorized to
26 issue bonds or notes in a principal amount not to exceed \$175,000,000 to
27 provide financing for the DeLong Mountain transportation project.

28 * Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may
29 be issued the Alaska Industrial Development Authority shall comply with

1 AS 44.88.173 and shall incorporate into the final finance plan for the
2 DeLong Mountain transportation project the following terms and conditions:

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

4 (A) Cominco, Ltd. will pay for all or a portion of the
5 operation and maintenance of facilities constructed as part of the
6 project based on the use Cominco Alaska makes of the facilities com-
7 pared to the use made by others;

8 (B) if Cominco Alaska ceases to develop the Red Dog Mine
9 after costs or debts have been incurred by the Alaska Industrial
10 Development Authority for the project, Cominco, Ltd. will repay the
11 authority for those costs and debts;

12 (C) toll fees paid by Cominco Alaska for the use of facil-
13 ities constructed as part of the project to the Alaska Industrial
14 Development Authority may be periodically adjusted if the price of
15 zinc rises above a level that yields a return on investment commen-
16 surate with risk;

17 (2) the United States government makes available land in the
18 Cape Krusenstern National Monument that is included in the proposed land
19 exchange with NANA Regional Corporation to the corporation for construction
20 of a transportation system;

21 (3) NANA Regional Corporation is required to agree in writing to
22 make available to the Alaska Industrial Development Authority, at no more
23 than fair market value, land needed for the port and road constructed as
24 part of the project and land needed for future expansion of the road and
25 port;

26 (4) tax exempt financing for the project is used to the maximum
27 extent possible;

28 (5) a toll schedule, that may be periodically adjusted, is
29 established for use of facilities constructed as part of the project that

1 ensures a reasonable return on the state's investment in the project;

2 (6) contracts for the construction, operation, and maintenance
3 of the port and road are subject to AS 36;

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

6 * Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may
7 be issued the Alaska Industrial Development Authority shall

8 (1) report in writing to the legislative budget and audit com-
9 mittee that the conditions under sec. 3 of this Act have been met; and

10 (2) agree with the Department of Revenue in writing to deliver
11 all money generated by the DeLong Mountain transportation project to the
12 Department of Revenue for deposit in the general fund, other than money
13 necessary for payment of the principal and interest on bonds or notes
14 issued under sec. 2 of this Act and except as may otherwise be provided in
15 the bond or note covenants.

16 * Sec. 5. This Act takes effect immediately in accordance with AS 01.-
17 10.070(c).

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: CS HB 105 (FIN)
 Title: Bond Authorizations and DeLong Mountains Project
 Sponsor: House Loans
 Requestor: House Finance Committee
 Date of Request: April 22, 1985

FISCAL DETAIL

Agency Affected: State Bond Committee
 Program Category Affected: Debt Service
 BRU, Program of Subprogram(s) Affected: International Airports Revenue Bonds

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	3,550	2,850	2,850	2,850	2,850
TOTAL OPERATING	-	3,550	2,850	2,850	2,850	2,850
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	3,550	2,850	2,850	2,850	2,850
TOTAL	-	3,550	2,850	2,850	2,850	2,850

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: April 22, 1985

Approved by Commissioner: *Henry G. Stundak*
 Agency: Department of Revenue

Date: 4/23/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CS HB 105 (Finance)
Fiscal Note Analysis

Assumes issuance of bonds of \$23,700,000 at 11% level debt service for 30 years plus \$700,000 in issuance costs for FY 86.

The appropriation for FY 86 and FY 87 is from the International Airports Construction Fund. Thereafter, appropriations would be from the International Airports Revenue Fund.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: HB 369
 Title: Appropriations to AIDA Economic Development Fund
 Sponsor: Pignalberi
 Requestor: House Transportation
 Date of Request: April 15, 1985

FISCAL DETAIL

Agency Affected: General Fund
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
CASH FLOW	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: April 15, 1985

Approved by Commissioner: *[Signature]*
 Agency: Department of Revenue

Date: 4/16/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

HB 369
Fiscal Note Analysis

The cash flow figures shown in the fiscal note reflect the reduction in general funds available for appropriation arising from HB 369. These figures are based on the scheduled loan payments shown in the attached Table I after netting out service fees as calculated in Table II. Table II also provides a breakdown of the reduction into interest and principal.

Due to loan prepayments, actual receipts may be greater than scheduled in early years and less than scheduled in later years. This is the main reason why the FY 86 budget actually contains \$31.3 million estimated loan cash flow, made up of \$13.3 million interest and \$18 million principal. The difference between the budget estimate and scheduled cash flow for FY 86, which is \$13.5 million, will be a downward adjustment to the next revenue estimates in June.

Table I

General Fund Loans to be Appropriated to AIDA ,
 Estimated Cash Flow (Principal and Interest) ,
 (\$ 000)

Fiscal Year	Veterans	Small Business	Commercial Fish	Tourism	Child Care	Historical District	Fisheries Enhancement N/A	Total
1986	9,247	2,855	6,105	308	5	22		18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

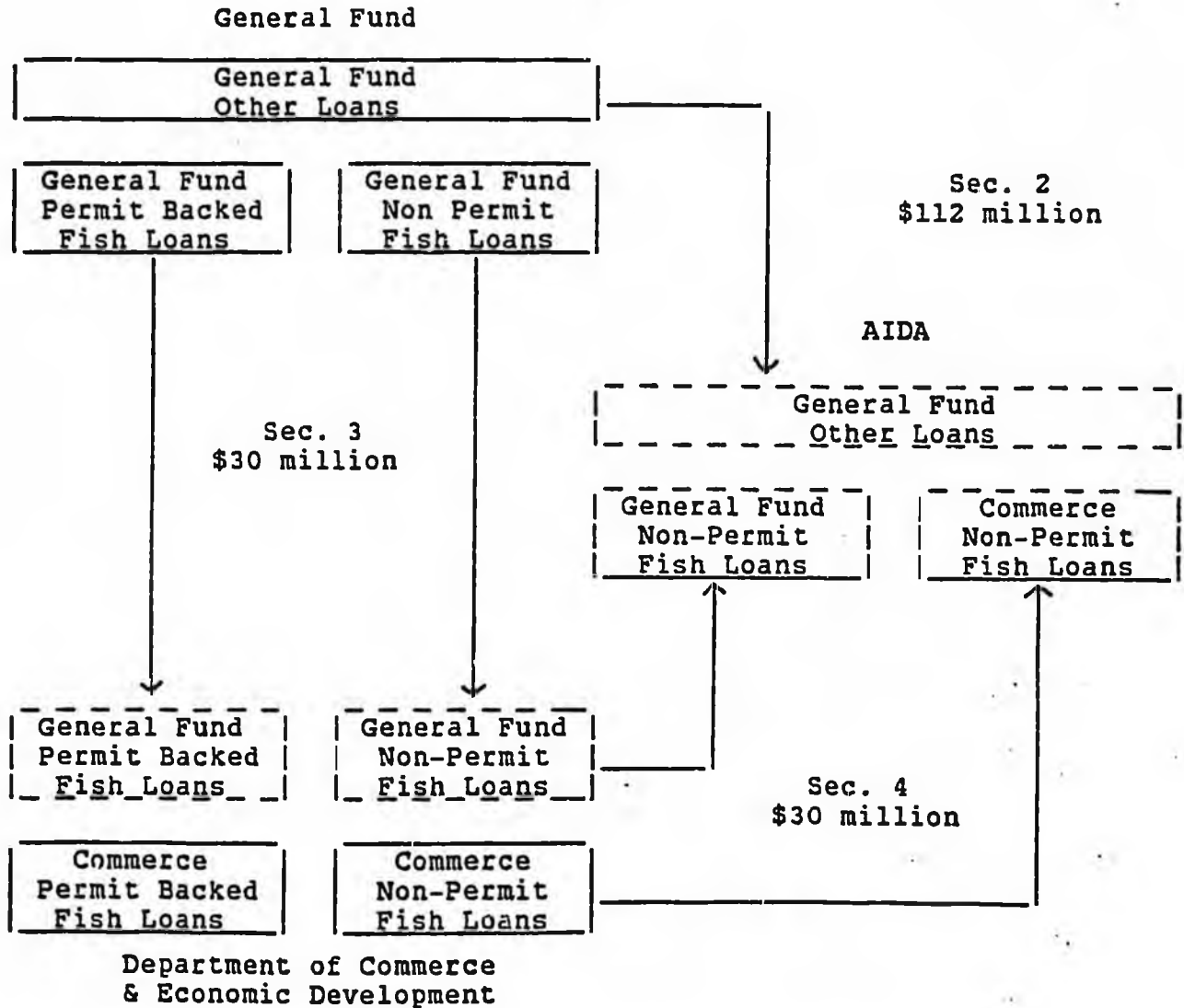
1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

Table II

Scheduled Cash Flow From State Loans
Held by General Fund
(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
Balance at Start of Year	135.9	128.7	120.9	113.3	106.8
<u>Interest @ 7.89%</u>					
Service Fee to Commerce @ .5%	.7	.6	.6	.6	.5
General Fund Revenue @ 7.39%	<u>10.0</u>	<u>9.5</u>	<u>8.9</u>	<u>8.4</u>	<u>7.9</u>
Total	10.7	10.1	9.5	9.0	8.4
Principal Repayment	7.8	7.8	7.6	6.5	6.4
Balance at End of Year	128.1	120.9	113.3	106.8	100.4

DeLong Mountains Transportation Project
 Loan Appropriations
 Administration Proposal



ANCHORAGE INTERNATIONAL AIRPORT

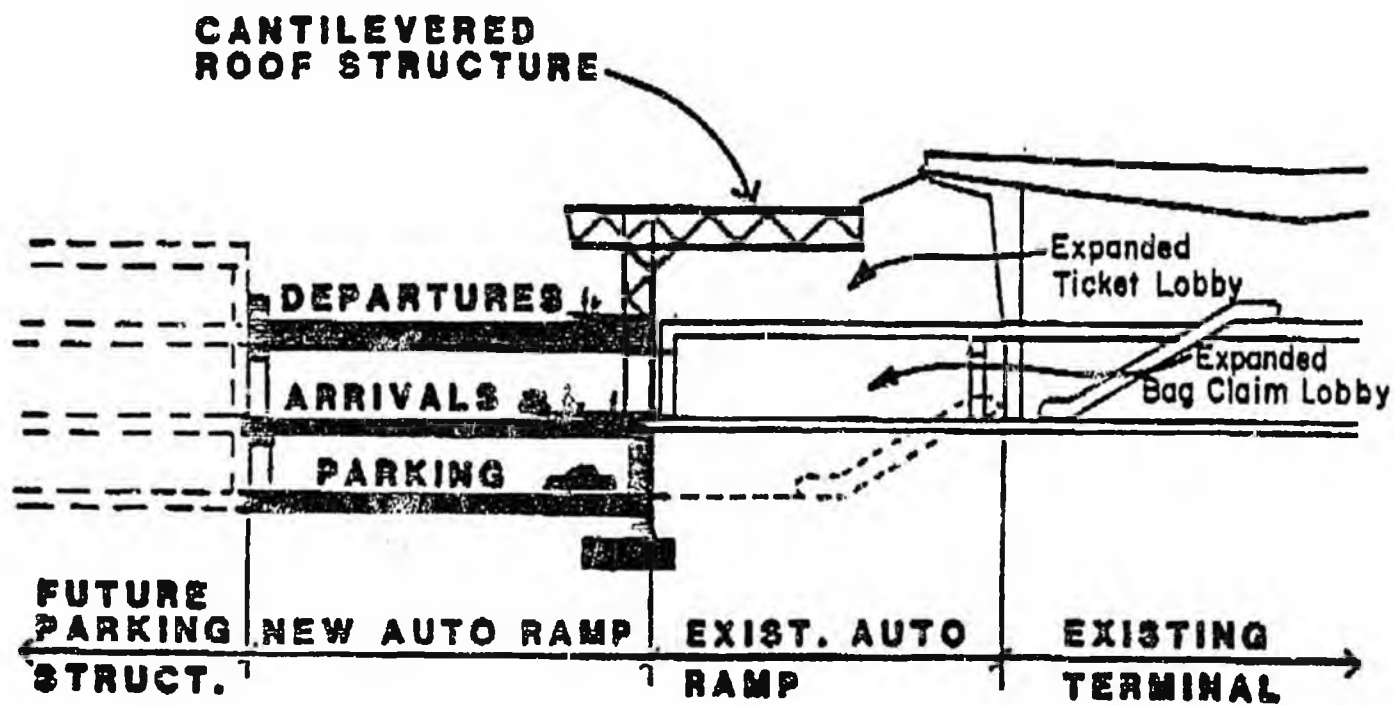
TERMINAL EXPANSION PHASE II

Phase:

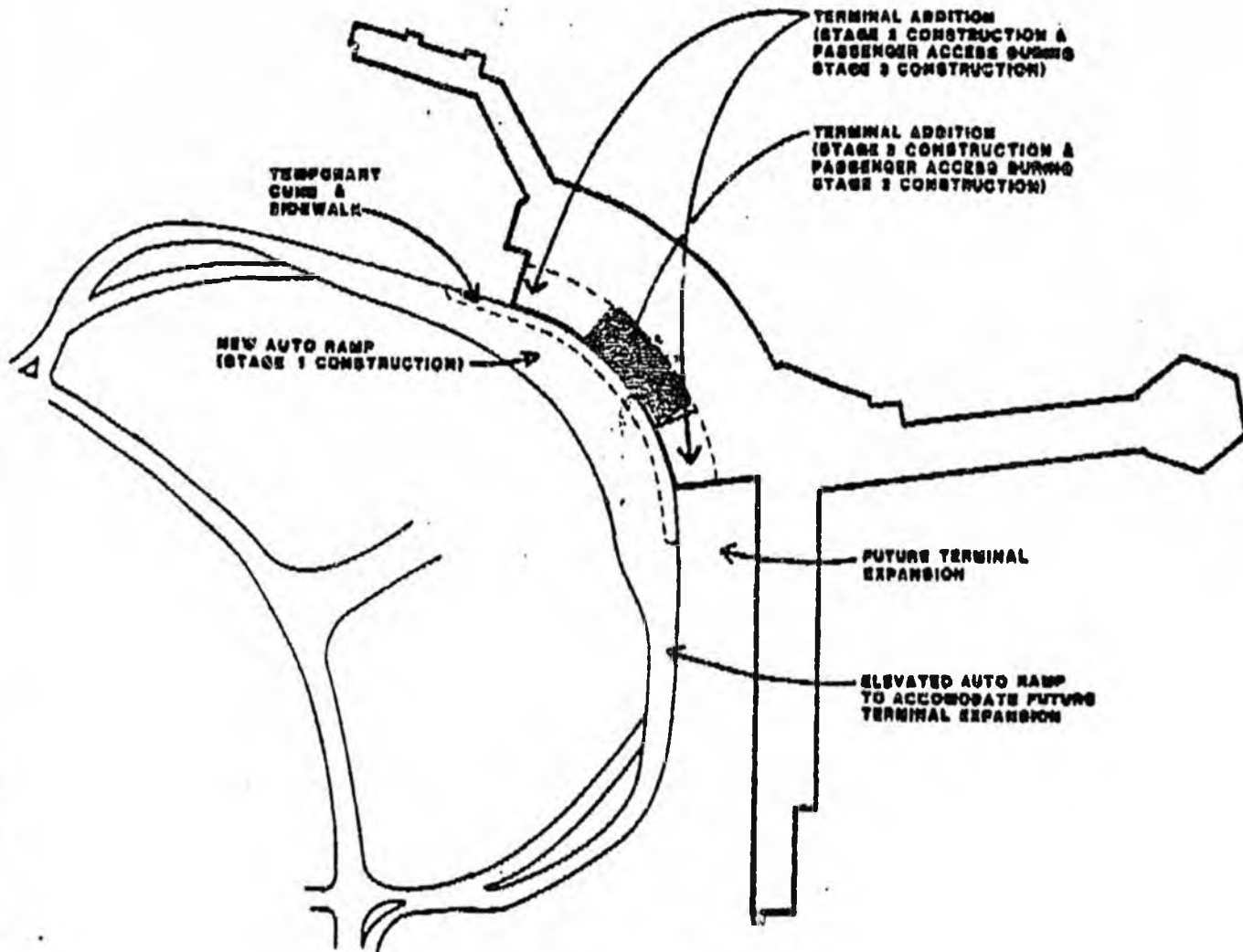
This project will expand the existing terminal building width out over the existing vehicle ramps and replace the vehicle ramps. The ticket lobby and bag claim areas will be expanded into this new space and remodeled.

Project Need:

Existing terminal facilities are undersized and inadequate for the level of aviation activity experienced and AIA. Expansion will allow an increase to the lobby and baggage claim areas sufficient to serve the large number of passengers travelling on wide body aircraft. The arrival and departure ramps will be relocated and expanded to accommodate the growing number of travellers and allow continued, convenient airport operation.



BUILDING SECTION



STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

BILL SHEFFIELD, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

April 19, 1985

The Honorable John Sund
Chairman
Committee on Loans
Alaska State House
Pouch V
Juneau, AK 99811

Dear Representative Sund:

At the request of your staff, I would like to offer the Department of Revenue's comments on the effect debt issuance by Alaska Industrial Development Authority (AIDA) for the DeLong Mountains transportation project would have on State general obligation bond debt capacity.

Issuance of this debt would have no direct effect on the State's debt capacity. The AIDA debt would be secured by project revenues and assets of the economic development fund. The full faith and credit of the State would not be pledged to the project nor would debt service on the bonds be paid by future appropriations from the general fund. As a result, the debt will not be counted as State debt along with general obligation bonds and lease financing by the rating agencies or bondbuyers.

Only in the event that the project were partially or substantially completed, yet no mining ever occurred, Cominco failed to honor its pledge to pay back State costs, and the State decided to assume responsibility for the debt even though it had no legal obligation to do so, would the debt become State debt and thereby diminish State debt capacity for other purposes. Such diminution would be mitigated to some extent by available cash flow from the proposed loan appropriations or possibly by some degree of project revenues if intermittent or marginally profitable mining operations were to occur.

Hon. John Sund
April 19, 1985
Page 2

On the other hand, if the project proves successful, additional State revenues from corporate income taxes, mining license taxes, and possibly excess tolls and other sources would add to the State's debt capacity, as well as provide other financial benefits.

Sincerely yours,

A handwritten signature in cursive script that reads "Milt Barker".

Milt Barker
Deputy Commissioner

MB/gb
85-84

cc: Mary A. Nordale



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 □ ANCHORAGE, ALASKA 99501-5177 □ (907) 274-1651

April 9, 1985

The Honorable Arliss Sturgulewski
Chairman, Senate Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

In response to your letter of April 1, 1985, I am providing the following requested information. Please note that our responses are based upon the estimated net cash flows shown in Attachment I. After adjusting for loans that have paid down or will not be transferred for legal reasons, we estimate that approximately \$136 million in loans will be transferred.

It is not possible to provide an unambiguous answer to the first three questions until two things happen. First, we need the results of the Finance Plan project, now being worked on, and second we need to have an agreement reached between AIDA and Cominco with regard to user fees. The best figures that we have at present with respect to revenue generated by the project are those tolls which Cominco has offered to pay. Please be aware that our use of these figures should in no way be taken as evidence that AIDA has agreed to these charges. In any case, utilizing the attached cash flows, and our most current assumptions regarding costs and financing, we estimate that the cash flow of the portfolio would not be directly used after 1995. At that time, the cash flow would be used for coverage for the bonds, and eventually could flow back to the general fund. Any tolls collected above those needed to pay debt service on bonds and provide for coverage on the bonds could also flow back to the general fund.

1. If the \$160 million (\$142 million in loans plus the \$18 million from the general fund) are transferred to the AIDA Economic Development Fund, what is the mechanism for these funds to flow back to the general fund over time?

At this time, the actual repayment mechanism has not yet been determined. It could be set up as a loan from the Department of Commerce and Economic Development to AIDA, with terms ranging from a fixed amount per year, or "any amount above that required for debt service". Regardless of the mechanism, we recommend that a coverage test be utilized, and only income above that required for the coverage requirement be remitted to the State.

2. Considering that the \$160 million will be used to back the sale of AIDA bonds but that toll fees charged to Cominco, LTD. (and perhaps others) as well as interest earned from the fund will be used to retire the bonds, what is the expected balance in the Economic Development Fund at the end of 20 years?

- As noted above, using our most current cost and financing assumptions, we assume all cash flow after 1995 will be available for reinvestment in the Economic Development Fund for purposes of providing coverage for the bonds. Since this also assumes that the only toll fees are from Cominco and that these fees are just enough to pay debt service, the cash flow from the loan portfolio after 1995 and its reinvestment will be the only source of funds to be deposited in the Economic Development Fund. Although these are the best assumptions available today, we believe they are conservative assumptions, especially with regard to other future users. In any case, if we assume the cash flow can be reinvested at a 10% earnings rate, then by 2005 the balance will be \$106,433,000.

These figures are based upon our latest estimates of relevant factors for what presently appears to be the best financing approach. This approach, which was discussed in an earlier memo, aggregates funds from the general fund appropriation, cash flow from the loan portfolio, and proceeds from a tax exempt bond sale. This total collection of funds is then used to pay for construction costs and for interest on the bonds until revenues from the project are sufficient to pay for the bonds.

3. Can you provide us with a projected Economic Development Fund balance by year from July 1, 1985 until the retirement of all of the \$175 million in bonds issued for this project?

Under our latest assumptions, only \$135 million in debt will be issued. This reduced amount is possible because cash flows from the loan portfolio appear to be greater than originally estimated. Once again, using all of the assumptions mentioned above, the projected balance of the Economic Development Fund is given in Attachment II.

4. What effect will the additional management requirements of \$142 million in loans have on AIDA's personnel requirements?

We would not anticipate immediately transferring the loan servicing from Commerce to AIDA, but rather using a phase-in process. At the outset, we would request Commerce to continue servicing the portfolio for us. We expect that our servicing costs would be similar to those experienced by the Department of Commerce and Economic Development.

5. Can you provide us with a breakdown of the expenditures made to date and those anticipated from the \$3 million appropriation in last years budget for this project?

To date we have made the following commitments for expenditure: RSA with DOTPF for various engineering and technical assistance \$50,000; RSA with Department of Law for specialized legal counsel \$50,000; contract with

April 9, 1985

SRI International for Finance Plan \$267,000; contract with R & M Engineering for cost verification and other engineering services \$75,000; and other miscellaneous expenditures \$15,000. Planned uses for the remainder are associated with getting the projects ready for construction bids, for instance, preparation of final detailed design, preparation of bid packages, and so forth.

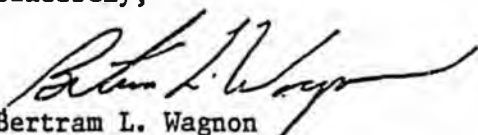
6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the \$18 million from the general fund, the \$142 million principal in loans, the interest on the \$18 million while in the fund, the interest generated from the \$142 million in loans and the interest earned on the earnings of the fund?

It appears in this question that you simply want us to do a straight forward calculation of a future value of a known income stream. If so, then of course the only real unknown is the assumed rate of return on the reinvestments. For these calculations we will assume it is 10%, and again we will use the cash flow shown in Attachment I. The results, by year, are given in Attachment III. Although the numbers on Attachment III get rather large, I think it is important to put these values in perspective, since what is really being shown on that table is the effects of compound interest. A more relevant number is the net present value of the appropriations being proposed. Assuming that \$18 million is appropriated on July 1, 1985, that the loan portfolio can provide the net cash flow shown in Attachment III, and that 10% is the discount rate, then the net present value of these appropriations as of July 1, 1985 is \$117.3 million.

Although no direct question was asked regarding the philosophy behind AIDA's involvement in this project, I believe it to be of paramount importance. We approach this project as an investment, both in needed infrastructure and diversification. We believe that, after some initial state assistance, the project will start generating income for the general fund. Eventually, the project should pay for itself many times over, and quite possibly be a major source of state revenue when other sources have dwindled.

Please let me know if you have further questions.

Sincerely,



Bertram L. Wagnon
Executive Director

BLW:ec

Enclosures

cc: Mary Nordale, Commissioner, Department of Revenue
Loren Lounsbury, Commissioner,
Department of Commerce & Economic Development

Estimated cash flows from Department of Revenue loan portfolio (000)

Year	VETS	Small Bus/Rev	Small (a) Bus/Bank (Estimate, .594)	Comm Fish	Tourism/ Rev.	Tourism/ (b) Bank (Estimate, 1.185)	Child Care	Historic District	Gross (c) Total	Net (d) Total (.95)
86	9247	1791	1064	6105	141	167	5	22	18,542	17,615
87	9034	1746	1037	5786	141	167	4	22	17,937	17,040
88	8784	1639	974	5409	141	167	3	22	17,139	16,282
89	8554	1508	896	4243	141	167	2	18	15,529	14,753
90	8379	1430	849	3870	129	153	1	14	14,825	14,084
91	8343	1339	795	3233	111	132		14	13,967	13,269
92	8042	1221	725	2037	105	124		14	12,268	11,655
93	7409	973	578	837	101	120		14	10,032	9,530
94	6955	569	338	214	97	115		7	8,295	7,880
95	6851	216	128	34	95	113			7,437	7,065
96	6814	37	22		92	109			7,074	6,720
97	6532				85	101			6,718	6,382
98	6174				39	46			6,259	6,042
99	6038								6,038	5,736
2000	5998								5,998	5,698
01	5899								5,899	5,604
02	5096								5,096	4,841
03	4254								4,254	4,041
04	4035								4,035	3,833
05	3925								3,925	3,729
06	3865								3,865	3,672
07	3182								3,182	3,023
08	1709								1,709	1,624
09	521								521	495
10	98								98	93
11	20								20	19

Notes

- (a) Cash flow figures available only for Dept. of Commerce serviced loans, of \$10,473.7 principal balance. Estimate of cash flow of bank serviced loans of \$6,221.3 balance assumed to be proportional to relative principal balances, i.e. $6,221.3 / 10,473.7 = .594$
- (b) Cash flow figures available only for Dept. of Commerce serviced loans, of \$1,097.4 principal balance. Estimate of cash flow of bank serviced loans of \$1,300.0 balance assumed to be proportional to relative principal balances, i.e. $1,300.0 / 1,097.4 = 1.185$
- (c) No cash flow figures are included for Fishery Enhancement loans since they were not available. It is expected that any significant cash flows would be well into the future and hence not available during the critical early years.
- (d) Net figures are adjusted to take into account estimated delinquency and defaults as well as servicing costs, assuming net figures are 95% of gross figures.

ATTACHMENT II

Balance in Economic Development Fund in response to Question 3. Assumes that funds can be reinvested at a 10% rate of return.

<u>Fiscal Year</u>	<u>Cash Flow from Loans (000)</u>	<u>Fund Balance (000)</u>
1995	7,060	7,060
96	6,720	14,486
97	6,382	22,317
98	6,042	30,590
99	5,736	39,385
2000	5,698	49,022
01	5,604	59,528
02	4,841	70,322
03	4,041	81,395
04	3,833	93,367
05	3,729	106,433
06	3,672	120,749
07	3,023	135,846
08	1,624	151,055
9	495	166,656
10	93	183,414
11	19	201,775
12		221,952
13		244,147
14		268,562
15		295,418

ATTACHMENT III

Calculation of a hypothetical fund balance, based upon cash flows of Attachment I, \$18 million on July 1, 1985, and assumed reinvestment rate of 10%.

<u>Fiscal Year</u>	<u>Cash Flow from Loans (000)</u>	<u>Fund Balance (000)</u>
1986	17,615	37,415
87	17,040	58,197
88	16,282	80,298
89	14,753	103,081
90	14,084	127,473
91	13,269	153,489
92	11,655	180,493
93	9,410	207,952
94	7,880	236,628
95	7,065	267,355
96	6,720	300,811
97	6,382	337,274
98	6,042	377,043
99	5,736	420,484
2000	5,698	468,230
01	5,604	520,657
02	4,841	577,564
03	4,041	639,361
04	3,833	707,130
05	3,729	781,572
06	3,672	863,401
07	3,023	952,764
08	1,624	1,049,665
09	495	1,155,126
10	93	1,270,732
11	19	1,397,824
12		1,537,607
13		1,691,367
14		1,860,504
15		2,046,555

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

April 15, 1985

The Honorable Arliss Sturgulewski
Chairman
Resources Committee
Alaska Senate
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski:

This letter is in response to the requests contained in your April 1 letter on state loans that may be used in financing the DeLong Mountain Transportation project. The responses are in as much detail as is available at this time.

1. It has been suggested that \$142 million in state loans held by the Department of Revenue be transferred to AIDA bonds. I would like to know the make up of those loans. What is the amount of each category (such as veterans, commercial fishing, small business, tourism, fisheries enhancement, child care and historical districts), the interest rates by category and the maturity dates? What is the amount of money by category that returns to a revolving loan fund pool and what amount returns to the general fund? If any revolving loan funds are transferred to AIDA, how does that affect the future ability of those revolving funds to meet the public demand for loans?

The following amounts of loans are held in the general fund and serviced by the Department of Commerce and Economic Development as of February 28, 1985:

Type	Amount (\$ 000)	Average Interest Rate ^{1/}	Average Maturity
Veterans	82,291.4	6.92%	2003
Small Business	18,573.5	8.49	1993
Commercial Fish	29,809.3	7.81	1991
Tourism	2,575.2	8.07	1996
Child Care	18.0	5.83	1989
Historical District	123.7	6.67	1993
Fisheries Enhancement	6,804.2	7.96	N/A
Total	140,195.3	7.39	

^{1/} Net of .5% service fee on loans serviced by Commerce and an estimated .125% Commerce service fee on loans serviced by banks. The bank services fees are also netted out.

Hon. Arliss Sturgulewski
April 15, 1985
Page 2

These loans would be transferred to AIDA with the exception of an estimated \$19,873,000 of commercial fish loans which are secured by permits. Only the state is authorized to hold permits as collateral.

To make up for this deficiency, AIDA would take up to \$19,873,000 in loans held by the Department of Commerce and Economic Development. Commerce had \$48,402,500 of commercial fish loans as of January 31, 1985 of which an estimated \$16,118,000 were not backed by permits and would be taken by AIDA.

All of the payments on the general fund loans, both principal and interest, return to the general fund. Transfer of these loans to AIDA will reduce the amount of general funds available for appropriation in FY 86 and future years. It will not affect the ability of the revolving loan funds to meet loan demand.

Even with AIDA taking some Commerce loans, the Department's ability to meet loan demand should not be impaired. The estimated \$16,118,000 in Commerce's commercial fish loans taken by AIDA would be replaced with a roughly equivalent amount, the \$19,873,000 in estimated general fund commercial fish loans secured by permits, by transferring these loans from the general fund to Commerce.

2. What is the expected cash flow (principal and interest) by year from July 1, 1985 that would return to the state over the term of the loans if they remained in the Department of Revenue?

See attached table for scheduled cash flow. Actual cash flow may be accelerated due to loan prepayments, resulting in a reduction of total interest from that scheduled.

3. What is the expected financial shortfall in state revenue in FY 86 as a result of transferring these loans to AIDA? Has any adjustment been made to the Administration's budget for FY 86 to reflect this income reduction?

In our effort to minimize the impact on the FY 86 general fund revenues, the administration believes that no net adjustment will be required to the FY 86 budget by the appropriation of the loans to AIDA. The administration proposes to utilize the \$17.8 million cash flow from loans held by the Department of Revenue as a substitute for the appropriation of \$18 million in general funds now contained in the Governor's loan budget for this project. This will offset the reduction in general funds available for appropriation arising from the appropriation of the loans. This reduction would be \$17.8 million for FY 86 based on the scheduled payments shown in the attached table. This would be composed of approximately \$10 million in interest and \$7.8 million in principal repayments.

The administration would propose that the cash needed to support the project could be obtained in part by giving AIDA the authority to use \$12 million already appropriated to that agency. This would be combined with approximately \$3 million of funds available from last year's appropriation for this project.

It should be noted that the amount of cash flow from these loans included in the Executive Budget 1986 as amounts available for appropriation is \$31.3 million, composed of \$13.3 million interest and \$18 million principal repayments. The budget estimate is higher than the scheduled payments for two reasons. One is that prepayments on loans result in greater amounts of principal receipts than scheduled. The other is that this response to your questions has been done in much greater detail than the budget estimates.

A fiscal note for \$17.8 million, reflecting the scheduled reduction in FY 86 revenue, will be submitted for the appropriation of the \$142 million in loans. The difference between the scheduled payments and the budget estimate, \$13.5 million, will be a downward adjustment to the next revenue estimates which will be made in June. This adjustment has not been incorporated in the Administration's FY 86 budget. The Administration does not believe this adjustment materially affects the March revenue forecast.

4. What is the total amount of interest that is expected to be returned to the state from the \$142 million over the life of the loans calculated as of July 1, 1985?

Approximately \$71.6 million in interest would be received by the state from July 1, 1985 through 2011 from the loans. The loan balances are estimated to total \$135.9 million on July 1, 1985. The amount received by the general fund would be somewhat reduced by service fees retained by Commerce.

5. What is the total amount of interest that the state would expect from the \$142 million in loans plus the \$18 million in general fund expenditure if this \$160 million were not transferred to AIDA?

Over the period of years to 2015, assuming compounding and an average rate of interest of 10%, total interest would come to \$1,984.3 million. The present value of this interest would be \$113.7 million at a 10% discount rate.

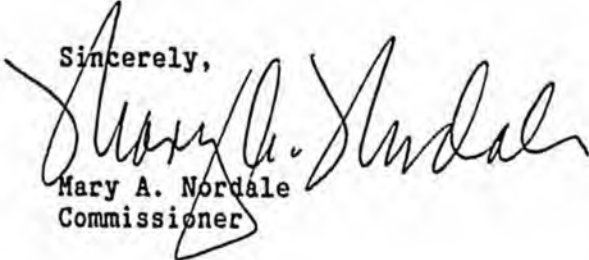
Implicit in the question is an assumption that the cash flow from the loans and the \$18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the \$18 million and only the \$71.6 million on the loans.

Hon. Arliss Sturgulewski
April 15, 1985
Page 4

6. Will the transfer of the \$142 million in loans to AIDA result in increased requests this year or in future years for the various state loan programs since the principal and interest will not flow back to the general fund or a revolving fund as expected?

Transfer of the \$142 million will not generally affect revolving fund cash flow and will not require increased requests for Commerce loan programs in the future. See question #1.

Sincerely,



Mary A. Nordale
Commissioner

MAN/gb
85-57

Enclosure

cc: Hon. Loren Lounsbury, Commissioner DCED
Bert Wagnon, Executive Director, AIDA

General Fund Loans to be Appropriated to AIDA
 Estimated Cash Flow (Principal and Interest)
 (\$ 000)

<u>Fiscal</u> <u>Year</u>	<u>Veterans</u>	<u>Small</u> <u>Business</u>	<u>Commercial</u> <u>Fish</u>	<u>Tourism</u>	<u>Child</u> <u>Care</u>	<u>Historical</u> <u>District</u>	<u>Fisheries</u> <u>Enhancement</u>	<u>Total</u>
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

DEPARTMENT OF REVENUE

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SA
JUNEAU, ALASKA 99811

Summary of Changes to Tax Revenue Forecast

Red Dog Project Analysis - Section V

Prepared By:
Alaska Department of Revenue
March 21, 1985

I. Special Industrial Incentive Investment Tax Credit

The Alaska Legislature passed CCSHB 258 late in the 1984 session instituting a tax credit for new mining and gas processing operations. This legislation was not considered in developing the estimate of taxes to be paid by Cominco. Provisions and limitations of this legislation applicable to Cominco are:

a. The credit is granted to mining operations which begin production after December 31, 1984;

b. Investments in property which are entitled to the federal investment tax credit qualify for the incentive credit;

c. To qualify for the credit, the investment must be made by December 31, 1993;

d. The credit may be applied against the taxpayer's Alaska mining license tax and corporate net income tax liabilities.

e. The credit may not exceed 60 percent of the total tax liability for these two tax types in any given year.

f. Unused credits may be carried forward by federal tax law. However, unused credits may not be carried forward to tax years after December 31, 1999.

g. The credit is in place of the regular investment tax credit granted by AS 43.20.036(b).

h. The amount of investment subject to credit is limited to the first \$250 million placed in service in the state; and is further limited to:

- 1) 100% of the 1st \$50 million investment
- 2) 80% of the 2nd 50 million investment
- 3) 70% of the 3rd 50 million investment
- 4) 60% of the 4th 50 million investment
- 5) 40% of the 5th 50 million investment

i. The amount of credit which may be applied against the tax liability is the amount of credit allowed against federal taxes for the same investment. Currently, the Internal Revenue Code allows a regular credit of 10% of the qualified investment with mandatory reduction in the asset's depreciable basis of one-half of the credit, or an optional 8% rate with no basis adjustment.

j. Exhibit I recalculates the estimated tax liability of Cominco on an annual basis giving the effect of the special incentive credit. This schedule updates the schedule at V-66 of the Red Dog Project Analysis, February 1984 report for the "probable" metal price forecast scenario.

II. Update on Tax Consequence to NANA Development Corporation

a. NANA will be subject to the corporate income tax and the mining license tax on its royalty income from Red Dog.

b. The computation of NANA's mining license tax liability in the February 1984 Red Dog Project Analysis at page V-68 did not consider the depletion deduction. Exhibit II recalculates NANA's total tax exposure given the effect of a 15% depletion deduction from the net proceeds royalties.

c. NANA will not be entitled to a credit under the special incentive investment tax credit provisions of AS 43.20.042.

III. Mining License Tax Regulations

a. Status

The Department of Revenue has drafted proposed mining license tax regulations. Public hearings have been held in Fairbanks, Anchorage and Juneau. Also, a teleconference was held with Nome. The deadline for written comments and testimony concerning the regulations is March 31, 1985.

b. Intent

The current draft of the regulations attempts to interpret the statute and provide rules for its administration. The regulations should have no effect upon the estimate of Cominco or NANA's mining tax liabilities as portrayed in the original report. The draft provides:

1) clarification of who must apply for a mining license and file mining tax returns

2) instructions for obtaining the three and one-half year exemption certificate

3) methods for determining income when mined resources are exported from the state or commingled with non-mining products to form a salable product

4) an explanation of the types of expenses deductible from mining income.

RED DOG MINE

EXHIBIT I

COMINCO'S ESTIMATED ANNUAL TAX PAYMENT
 UPDATED TO REFLECT
 INCENTIVE INVESTMENT TAX CREDIT

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u> <u>2008</u>	<u>20 Year</u> <u>TOTALS</u>
MLT "Probable"	Exempt	Exempt	Exempt	\$2.13	\$5.25	\$ 78.75	\$ 86.13
CIT "Probable"	\$ <u>4.83</u>	\$ <u>4.83</u>	\$ <u>4.83</u>	<u>4.83</u>	<u>4.83</u>	<u>72.45</u>	<u>96.60</u>
Total Tax Liability	4.83	4.83	4.83	6.96	10.08	151.20	182.73
*Incentive Investment Tax Credit (limited to 60% of tax liability)	<u>(2.90)</u>	<u>(2.90)</u>	<u>(2.90)</u>	<u>(4.20)</u>	<u>(1.76)</u>	<u>-0-</u>	<u>(14.66)</u>
Net Income Tax Liability	\$ 1.93	\$ 1.93	\$ 1.93	\$ 2.76	\$ 8.32	\$151.20	\$168.07
MFT "Probable"	<u>.13</u>	<u>.13</u>	<u>.13</u>	<u>.13</u>	<u>.13</u>	<u>2.25</u>	<u>2.90</u>
Total Cominco Estimated Tax Liability	\$ <u>2.06</u>	\$ <u>2.06</u>	\$ <u>2.06</u>	\$ <u>2.89</u>	\$ <u>8.45</u>	\$ <u>153.45</u>	\$ <u>170.97</u>

MLT = Mining License Tax
 CIT = Corporate Income Tax
 MFT = Motor Fuel Tax

*Estimated Investment Qualifying for Credit	\$ <u>186.0</u>	million
Available Credit:		
\$50 million x 100% x 10%	5.0	million
50 million x 80% x 10%	4.0	million
50 million x 70% x 10%	3.5	million
36 million x 60% x 10%	<u>2.16</u>	million
Total Available	\$ <u>14.66</u>	million

Please note: Many of the figures used herein were provided to Revenue and the Red Dog Project Committee by Cominco. They are not the result of any independent audit activity of this Department.

Prepared by:
 Alaska Department of Revenue
 Audit Division
 March 21, 1985

NANA AVERAGE ANNUAL STATE TAX LIABILITY
 BASED ON ROYALTIES RECEIVED
 UPDATED TO MARCH 21, 1985
 (Millions of 1983 Dollars)

					CIT and MLT Combined After <u>1991</u>	
	<u>Average Annual Royalties</u>	<u>Average Annual CIT Due*</u> (Begins In 1988)	<u>Average Annual Net Proceeds Royalties***</u>	<u>Average Annual MLT Due**</u> (Begins In Mid-1991)	<u>Annual Taxes Due State During 1988-91</u>	<u>Average Annual Taxes Due State After 1991</u>
"Low"	\$15.24	\$1.43	\$29.72	\$2.08	\$1.43	\$3.51
"Probable"	25.11	2.36	41.28	2.89	2.36	5.25
"High"	33.78	3.18	50.05	3.50	3.18	6.68

CIT=Corporate Income Tax
 MLT=Mining License Tax

*Payable on all royalties received over the life of the mine.

**Payable on all net proceeds royalties due (in addition to CIT).

***Net of 15% depletion

Prepared by:
 Alaska Department of Revenue
 Audit Division
 March 21, 1985

Please note: Many of the figures used herein were provided to Revenue and the Red Dog Project Committee by Cominco. They are not the result of any independent audit activity of this Department.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
March 26, 1985
3:00 p.m.

Members Present: Representative John Sund, Chair
Representative Rick Uehling
Representative Sam Cotton
Representative Jim Duncan

Members Absent: Representative Jack Fuller

COMMITTEE CALENDAR

SB 186 "An Act authorizing the governor to lend up to \$3,400,000 from the disaster relief fund for a breakwater failure on St. Paul Island; and providing for an effective date."

Red Dog Mine Hearing

WITNESS REGISTER

Bert Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, AK 99501
274-1651
Position Statement: Testified in favor of appropriations for Red Dog.

John Sims, Office of Mineral Development
DCED
675 7th Ave. Stn. A
Fairbanks, AK
462-7464
Position Statement: Observer

Anselm Staack
Dept. of Administration
Pouch C
Juneau, AK 99811
465-2200
Position Statement: Testified re. SB 186

Terry Elder
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog.

Loren Lounsbury
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2500
Position Statement: Observer

Clark Gruening,
representing City of St. Paul
217 Second St., Suite 204
Juneau, AK 99811
586-8110
Position Statement: Testified in favor of SB 186

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
6562 Cabeway
Anchorage, AK 99502
243-0908
Position Statement: Observer

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Observer

Randy Phillips, Representative
Pouch V
Juneau, AK 99811
465-4949
Position Statement: Questions and Statements

Steve Frank, Representative
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Questions and Statements

Fred Zharoff, Senator
Pouch V
Juneau, AK 99811
465-3844
Position Statement: in favor of SB 186

PREVIOUS ACTION

SB 186: Read the first time 02/22/85 and referred to State Affairs Rpt 4DP. Passed by the Senate on 03/15/85.

Red Dog Mine: Please refer to House Special

Committee on State Loans dated 02/08/85.

ACTION NARRATIVE

TAPE #17, Side 1
Recording
Number 001

Chairman Sund Called the meeting to order at 3:46 p.m. Members present were Representatives Sund, Cotten, and Uehling. Representative Phillips and Representative Frank also attended. Representative Duncan arrived at 4:05 p.m.

Number 015

Senator Zharoff said that the St. Paul Breakwater has received damage from two storms. SB 186 would authorize a loan for \$3.4 million from the Disaster Relief Fund to the Division of Risk Management to repair damage. Zharoff continued to say that the project is covered by insurance and the loan will be repaid from proceeds. A \$2.5 million Federal EDA grant is conditional upon completion of Phase 1 by June 30.

Number 119

Mr. Anselm Stack, Deputy Commissioner for the Department of Administration, with responsibility for the Division of Risk Management. He said that the St. Paul Breakwater falls under an "all risk" policy held by the Division. He added that the deductible under the "all-risk" program coverage amounted to \$600,000, \$300,000 per storm. The deductible would be paid out of the annual cash flow appropriation to the Division. \$3.4 million would eventually be covered by the insurance, which added to the \$600,000 deductible equals \$4 million total to repair the damage.

Number 170

Chairman Sund asked if there were any design defects.

Number 175

Mr. Staack answered that he was not aware of any.

Number 179

Representative Frank asked if all capital projects are covered by all risk insurance.

Number 183

Mr. Staack answered that most projects are covered, but not all.

Number 203

Representative Frank then asked if the builders were responsible to provide risk

insurance.

- Number 206 Mr. Staack answered that, in this case, St. Paul contracted out the Phase 1 construction through a transfer of responsibility agreement. He said that often builders carry insurance.
- Number 226 Representative Frank said he thought it was the builder's responsibility while under construction to provide this insurance.
- Number 230 Mr. Staack answered that, in this case, there will be claims against the builder, but that the Division of Risk Management believes they have the first responsibility to go in and get their claims reimbursed.
- Number 240 Representative Uehling asked what kind of insurance they carry.
- Number 245 Mr. Staack said that there were several and that it is good coverage.
- Number 250 Representative Uehling then continued by asking when they expected payment from the insurance company.
- Number 280 Mr. Stack said that partial payment will be in 120 days, but will not receive full reimbursement until late in the year.
- Number 285 Chairman Sund asked if the 4 million dollars was an estimated cost and who would make up the \$600,000 deductible.
- Number 290 Mr. Staack said that it was an estimated cost and appropriations from loss reserves in the Division of Risk Management would make up the \$600,000 difference.
- Number 314 Representative Frank asked what the state policy was regarding insurance, because he thought the state wasn't at risk until the project was completed.
- Number 319 Mr. Staack said the department has accepted that the project was substantially completed at the time of the damage.
- Number 354 Mr. Clark Gruening, representing the City of St. Paul, made himself available to answer questions.

- Number 356 There was some discussion regarding insurance coverage, and assurances given that the state would be repaid the full \$3.4 million before St. Paul received any money.
- Number 450 Chairman Sund suggested that the committee draft a letter of intent saying that St. Paul agrees to relinquish all claims to the insurance settlement and any other claims they may have, including the amount of the deductible.
- Number 470 Mr. Staack said that if the insurance payment was low, the Division of Risk Management would pay extra and request an appropriation from the legislature.
- Number 515 Representative Cotten made a motion to move SB 186 with a letter of intent and individual recommendations. There were no objections, so the motion passed.
- Number 525 Chairman Sund opened the meeting for Red Dog testimony.
- Number 536 Mr. Terry Elder, Deputy Commissioner of DCED, testified that the Administration supports Red Dog, and urged legislative approval of the \$18 million loan. He added that the Board of AIDA supports the project, and expressed his belief that the project makes sound social and economic sense for Alaska.
- Number 590 Chairman Sund commented that it is appropriate for the state to function as a facilitator in financing projects, but that the state should not be put at risk in this project. He also expressed concern for the opportunity cost to the state.
- Number 610 Mr. Elder addressed the question of risk by saying that Cominco is agreeing to pay toll fees that would repay the state investment, the operation and maintenance, minimum toll payments and other payments necessary to repay the state's investment if the mine is delayed or if production is suspended after operation commences. Also, if the price of zinc goes higher than expected, then the state should recover its investment at an accelerated rate. He added that Nana Regional Corporation has agreed to provide necessary land to accomodate reasonable

expansion for future users.

Number 624 Chairman Sund asked if these guarantees are being made by Cominco Ltd. in Canada or C.P. Railroad.

Number 626 Mr. Bert Wagnon, Executive Director of AIDA, answered that the guarantees are made by Cominco Ltd., which has most of the financial strength. He emphasized that the road and port would be owned and operated by the State of Alaska but that all the operations and maintenance expense would be paid by the users, 100% by Cominco as long as they are the only user. The \$18 million requested would be appropriated to the Economic Development Fund. Additional security will be required to satisfy the bond market. He said that the finance plan, being prepared by Stanford Research institute, will be available in late April or early May of 1985. He said that they also want to appropriate loans through the Department of Revenue and deposit them in the Economic Development Fund. He said that this would keep them from coming back to ask for more money next year. He said that Cominco is willing to pay about \$260 million over a 25 year period in the form of toll fees alone. Interest rate on the loans is still hypothetical.

CHANGE TAPE #17, SIDE TWO

Number 119 Chairman Sund asked how the loan funds would be obtained from where they are now into the Economic Development Fund.

Number 125 Mr. Wagnon said that an appropriation bill for about \$130 million would be needed.

Number 140 Chairman Sund noted that the total being requested is then \$148 million (\$130 million plus \$18 million.)

Number 147 Mr. Elder said that any finance plan by SRI will include some bonding for the project, which would require bonding authorization and assets in the Economic Development Fund. The cash itself would not be used for the project, he said, but rather the bonds. He also said that he and Paul Engleman have estimated that the present value of the direct corporate taxes and the avoided

transfer costs alone is \$210 million, not including user fees or anything else.

- Number 200 Chairman Sund asked for a detailed account of Mr. Elder's statement about the \$210 million. He also asked Mr. Elder to explain what an avoided transfer payment is.
- Number 210 Mr. Elder answered that an avoided transfer payment is like a welfare payment that the state is currently making that it won't have to make after the person is employed.
- Number 220 Representative Cotten asked who calculated that this would amount to \$40 million. Someone answered that the \$40 million is based on estimates of the total transfer payments going into the region.
- Number 222 Representative Phillips asked about the alleged conflict of interest rising from the fact that the SRI representative preparing the finance plan was a former Cominco employee.
- Number 230 Mr. Wagnon explained the process by which SRI was selected, and that it was later discovered that Olaf Wolf had been employed by Cominco and was drawing a pension. Mr. Wagnon said that he then became concerned about the appearance of a conflict of interest and requested that Mr. Wolf be removed from the study. SRI then substituted Eugene Thayers for the study, and since he had good qualifications, the Board of AIDA decided to go ahead with contract with SRI. There was an appeal, which was dismissed by the Commissioner of Administration, so the Commissioner's decision to go with SRI is final.
- Number 265 Representative Duncan asked which is being suggested in the March 19th letter to Chairman Sund.
- Number 273 Mr. Wagnon answered that they are advocating Case 4, which asks for all the money this year. By contrast, Case 3 requires AIDA to come back to the Legislature each year for more money.
- Number 316 Mr. Elder explained that the timing and amount of the bond sale is different in the different cases.

- Number 366 Chairman Sund asked about the statement in the same letter which says that no provision has been made to repay the state contribution.
- Number 372 Mr. Wagon said that the statement results from the assuming a bond interest rate of 10.5% and that \$155 million in bonds would be issued. In this case, the state would not be repaid until the \$155 million in bonds had been liquidated, after 25 years.
- Number 387 Representative Duncan asked if SRI shares the concern that there should not be a large or repeated appropriation.
- Number 395 Mr. Elder answered that since SRI is working for AIDA, they would share AIDA's concern.
- Number 410 Chairman Sund expressed concern that, since AIDA (as represented by the commissioners) and the Governor are in favor of this project, there are varying reports as to what the cost to the state will be, depending on who you talk to. By the time the SRI report is ready, the \$148 million will already have been appropriated.
- Number 420 Mr. Elder said that if you look at the returns, the cost to the state is in fact a profit.
- Number 457 Chairman Sund requested a draft of the appropriation bill. The meeting was adjourned at 5:00 p.m., to be reconvened at 3:30 p.m. on March 27, 1985.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
March 27, 1985
3:30 p.m.

Members Present: Representative John Sund, Chair
Representative Rick Uehling
Representative Jack Fuller
Representative Sam Cotten
Representative Jim Duncan

COMMITTEE CALENDAR

Red Dog Mine Hearing

WITNESS REGISTER

John Sims, Office of Mineral Development
DCED
675 7th Ave. Stn. A
Fairbanks, AK
462-7464
Position Statement: Observer

Terry Elder, Deputy Commissioner
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog Development

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
6562 Cabeway
Anchorage, AK 99502
243-0908
Position Statement: Testified in favor of Red Dog

R.R. Stone
Cominco, Ltd.
385 Moyne Dr.
West Vancouver, B.C.
926-2595
Position Statement: Testified on behalf of Cominco, Ltd.

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Testified re. acquisition of monument land.