ALASKA LEGISLATURE 2202

HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002

Alaska Housing Finance Corporation

	Programs/Projects	(Released 1/31/95) FY97 CAPITAL BUDGET REQUEST					@ June 7, 1996 & May 14, 1997 (SB 107) FY97 CAPITAL BUDGET SB 136 & CS 1005 -June 6, 1996				
		Federal	Other	Corp	Corp Match	Total	Federal	Other	Corp	Total	Diff
1	Riverbend Construction	$6.9		$3,284.3		$3,291.2	$6.9		$3,284.3	$3,291.2	$0.0
2	Golden Towers Renovation			$6,093.5		$6,093.5			$6,093.5	$6,093.5	$0.0
3	Low Income Weatherization	$1,800.0		$8,500.0		$10,300.0	$500.0		$6,500.0	$7,000.0	($3,300.0)
4	Supplemental Housing Development Fund	$50,000.0*		$10,235.0	* $10,000.0	$10,235.0			$7,000.0	$7,000.0	($3,235.0)
5	DEC housing Sanitation Program			$7,030.0		$7,030.0			$15,116.0	$15,116.0	$8,086.0
6	Environmental Cleanup/Abatement			$1,000.0		$1,000.0			$500.0	$500.0	($500.0)
7	Senior and Statewide Deferred Maintenance	$1,000.0		$3,026.0		$4,026.0	$1,000.0		$1,000.0	$2,000.0	($2,026.0)
8	Senior Citizens Housing Development Program			$3,567.0		$3,567.0			$1,750.0	$1,750.0	($1,817.0)
9	Homeless Assistance Program			$1,200.0		$1,200.0			$250.0	$250.0	($950.0)
10	HUD Comprehensive Grant Program	$3,521.6				$3,521.6	$3,521.6			$3,521.6	$0.0
11	HUD Federal HOME Grant	$3,000.0		$750.0	* $750.0	$3,750.0	$3,000.0		$750.0	$3,750.0	$0.0
12	Federal Competitive Grants	$3,000.0		$1,000.0		$4,000.0	$3,000.0		$1,000.0	$4,000.0	$0.0
13	Federal Competitive Grants - Public Housing	$2,500.0		$500.0		$3,000.0	$2,500.0		$500.0	$3,000.0	$0.0
14	Energy Conservation Retrofit			$500.0		$500.0			$450.0	$450.0	($50.0)
15	DHSS Beneficiary & Spec. Needs Hsg Program	Mental Health	$250.0	$1,500.0		$1,750.0	Mental Health	$0.0	$1,500.0	$1,500.0	($250.0)
16	Oil Overcharge Settlement (PVE)	$3,000.0	Oregon			$3,000.0	$600.0	Oregon		$600.0	($2,400.0)
17	Other Competitive Grants			$500.0		$500.0			$0.0	$0.0	($500.0)
18	AHFC Computer Mainframe - Renovation			$330.0		$330.0			$0.0	$0.0	($330.0)
19	AHFC Telephone System Replacement			$380.0		$380.0			$300.0	$300.0	($80.0)
20	Pre-Development Grant			$500.0		$500.0			$0.0	$0.0	($500.0)
21	Statewide Housing Needs Assessment Study			$100.0		$100.0			$0.0	$0.0	($100.0)
22	Statewide Research & Testing			$100.0		$100.0			$0.0	$0.0	($100.0)
23	Alaska Coalition on Housing & Homelessness			$150.0		$150.0			$0.0	$0.0	($150.0)
24	Statewide Housing Forum			$60.0		$60.0			$0.0	$0.0	($60.0)
25	Pioneer Homes Renovation, Repair & Modification	Mental Health	$271.9	$2,589.3		$2,861.2	Mental Health	$0.0	$2,589.3	$2,589.3	($271.9)
26	Bethel Sea Wall								$1,615.0	$1,615.0	$1,615.0
27	Valdez - Harborview Study								$250.0	$250.0	$250.0
	Total Corp Match (Included in Corp Funding)				* $10,750.0						
	Total FY97 Capital Budget	**$17,828.5**	**$521.9**	**$52,895.1**		**$71,245.5**	**$14,128.5**	**$0.0**	**$50,448.1**	**$64,576.6**	**($6,668.9)**
	Direct Transfers of AHFC Funds										
	Direct Transfer (including Dividend) to State			$50,000.0		$50,000.0			$50,000.0	$50,000.0	$0.0
	UAA Student Hsg Debt Service (Start FY99)					$0.0				$0.0	$0.0
	Total FY97 Capital Budget and Transfers	**$17,828.5**	**$521.9**	**$102,895.1**		**$121,245.5**	**$14,128.5**	**$0.0**	**$100,448.1**	**$114,576.6**	**($6,668.9)**
	FY96 Legislative Budget & Audit										
	FY97 Supplemental Appropriations										
	Designated Grants								$600.0		
	Carryforward to FY98 Appropriations								$1,951.9		
	FY97 Legislative Budget & Audit										
	Grand Total FY97 Legislation	**$17,828.5**	**$521.9**	**$102,895.1**		**$121,245.5**	**$14,128.5**	**$0.0**	**$103,000.0**	**$114,576.6**	**($6,668.9)**
	FY97 Legislative Cap on Corporate Funds								**$103,000.0**		
	Remaining Funds Under the Legislative Cap								**$0.0**		

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Tobacco Settlement Payment Securitization

March, 2001

State of Alaska

3-29-01

Overview of the Tobacco Settlement

- The Master Settlement Agreement ("MSA")
  - Benefits of the MSA
  - MSA Payments and Adjustments
  - Total MSA Payments to the State of Alaska
- Options for spending Settlement Money
- How Securitization works
  - Benefits
  - Risks and Costs
  - Uses of Bond Proceeds
  - Summary of NTSC 2000 transaction and 2001 proposal
- General Obligation vs. Tobacco Revenue Bonds

The Master Settlement Agreement ("MSA")

- The MSA was signed on November 23, 1998 and included 46 states, five U.S. territories, the District of Columbia, and the four largest cigarette manufacturers.
  - The MSA requires the Participating Manufacturers ("PM") to make unadjusted payments exceeding $6.2 billion over the next 40 years, with additional payments in perpetuity.
  - Florida, Minnesota, Mississippi and Texas reached their own settlement agreements with the cigarette manufacturers.
  - Payments are for recovery of all claims and costs of the states.
- Most cigarette manufacturers are now parties to the MSA.
  - The Original Participating Manufacturers ("OPM"), Philip Morris, R.J. Reynolds, Brown & Williamson and Lorillard comprise approximately 96% of the domestic cigarette market.
  - 24 other manufacturers (Subsequent Participating Manufacturers "SPM") have also signed the agreement.
  - In total, the PMs comprise approximately 99.7% of the domestic cigarette market, indicating that the MSA is acceptable to the tobacco industry.

Benefits of the MSA

- From the State's perspective:
  - Alaska should receive large cash payments annually in perpetuity;
  - The MSA is an industry-wide settlement with payments based on total domestic cigarette shipments nationwide;
  - The MSA has been financed by higher cigarette prices, making it similar to an excise tax on cigarettes.
- From the PM's perspective:
  - They are released from past, present, and future smoking-related claims of the States;
  - The cost of the settlement is spread out over many years and passed on to consumers through higher prices;
  - They pay in proportion to their market share.

MSA Payments

- MSA payments are based on domestic cigarette shipments.
  - Payments are recalculated each year, based on relative U.S. market share, and are subject to other adjustments.
  - Payments can fluctuate significantly based on cigarette consumption in the U.S.
  - If cigarette brands are sold, payment obligations follow the brands to the new manufacturer.
- Payments are adjusted annually for several factors, including inflation and volume of domestic cigarette shipments.
- Payments are allocated to states based upon percentages specified in the MSA.
  - Alaska's Initial and Annual Payment percentage is .3414187%

MSA Payments

(continued)

- There are three types of payments to the states under the MSA:

  Initial Payments

  - Up front payments made by the OPM through 2003;

  Annual Payments

  - Annual payments made by the OPM and SPM based on market share, in perpetuity;

  Strategic Contribution Payments

  - Payments in 2008-2017 to reimburse states for their contributions to the legal costs associated with the MSA.

MSA Payment Adjustments

- **The MSA Payments are adjusted each year for a number of factors.**
- **The adjustments apply to certain payments. Some adjustments are expected to have little or no impact on Alaska's payments. However, other adjustments could be significant.**

Adjustment	Initial Payments	Annual Payments	Strategic Payments
Inflation Adjustment		X	X
Volume Adjustment	X	X	X
Previously-Settled States Reduction		X	
Non-Participating Manufacturer Adjustment		X	X
Non-Settling States Reduction	X	X	X
Offset for Miscalculated or Disputed Payments	X	X	X
Federal Tobacco Legislation Offset		X	X
Litigating Releasing Parties Offset		X	X
Offset for Claims-Over		X	X

Total MSA Payments to the State of Alaska

(Without any offsets, reductions or adjustments other than the previously settled states reduction)

Payment Type	Scheduled Date of Payment			Amount	Aggregate Amount
Annual Payment	(04/15/01)			13,358,196	13,358,196
Initial Payment	(01/10/02)			7,254,157	7,254,157
Annual Payment	(04/15/02)			17,267,462	17,267,462
Initial Payment	(01/10/03)			7,224,048	7,224,048
Annual Payment	(04/15/03)			17,195,793	17,195,793
Annual Payments	(04/15/04)	through	(04/15/07)	Various	87,206,129
Annual Payments	(04/15/08)	through	(04/15/17)	Various	244,340,648
Strategic Contribution Pmnts.	(04/15/08)	through	(04/15/17)	Various	147,674,050
Annual Payments	(04/15/18)	through	(04/15/25)	Various	246,950,976
Total to be received through 04/15/2025					$ 788,471,459

Summary of amounts to be received through 04/15/2025		
Initial Payments	$	14,478,205
Strategic Contribution Payments	$	147,674,050
Annual Payments	$	626,319,204
	$	788,471,459

Options for spending Settlement Money

- The MSA Payments can be utilized to accomplish many different objectives. Some of the popular strategies being employed by other states are:
  - Spend as you go. This strategy, as its name states, would include MSA Payments reflected in annual budgets as the funds have been or are scheduled to be received;
  - Trust built over time. This approach would work like the Permanent Fund, with the MSA Payments deposited to the Trust and a portion of income from the Trust used in future years for targeted expenditures;
  - Securitization. This approach involves borrowing money with the MSA Payments as collateral and source for repayment of bonds. The proceeds from the issuance of the bonds could be spent or put into a trust fund/endowment.

Tobacco Transactions completed and anticipated

• TSASC (NYC)	$ 709,280	November, 1999
• Various NY Counties	1,391,247	1999 to 2001
• TCPFA (CA)	45,000	December, 1999
• North Dakota	32,095	March, 2000
• Alabama	50,000	September, 2000
• NTSC (AK)	116,050	October, 2000
• Puerto Rico	397,005	October, 2000
• Washington D.C.	521,105	March, 2001
• TSRMA (SC)	934,530	March, 2001
• Guam/US VI	47,000	2nd Quarter, 2001
• Various CA Counties	830,000	**Delayed
• Iowa	600,000	Late, 2001
• Arkansas	60,000	Late, 2001
• Nevada	200,000	Late, 2001

NTSC

$116,050,000

Tobacco Settlement Asset-Backed Bonds, Series 2000

	Serial Bonds	2022 Term Bond	2031 Term Bond
Legal Final Maturity	2013	2022	2031
Projected Final Turbo Redemption	2013	2011	2015
Projected Average Life (Years)	N/A	7.00	13.30
Yield	5.55%-6.00%	6.22%	6.60%

	Series 2000 Actual	Series 2001 Proposed
Gross Bond Proceeds	$ 116,050,000	$ 160,305,000
Debt Service Reserve Fund	(11,324,015)	(13,332,920)
Capitalized Interest Account	(7,602,640)	0
Cost of Issuance	(2,845,579)	(2,808,200)
Original Issue Discount	(877,766)	(16,763,880)
Deposit for Operating Expenses	(400,000)	(400,000)
Net Bond Proceeds	$ 93,000,000	$ 127,000,000
Percentage of MSA Sold	40%	40%
First Payment from MSA	FY 2002	FY 2002
Final Payment from MSA (projected)	FY 2015	FY 2023

How Securitization Works

- Securitization, in the case of the tobacco settlement, is the process of issuing bonds that are backed by the MSA Payments.
- The State sells all or a portion of their expected tobacco payment funding stream to a special-purpose entity (in this case, the Northern Tobacco Securitization Corporation, NTSC), whose sole purpose is to issue bonds backed by those payments. NTSC, not the State or AHFC, would be the sole entity legally responsible for paying the debt service on the bonds.

How Securitization Works

- The State and AHFC are legally separate from NTSC and, therefore, would not put their own credit ratings at risk through the tobacco bond issuance. This mechanism affords the State and AHFC protection from problems resulting from reduced, stalled, or halted payment streams from the MSA.
- Securitization provides a sizeable, up-front payment, rather than smaller payments spread over a number of years.
  - For immediate, pressing needs or special projects, securitization provides access to cash now. This approach is no different than borrowing money based on your future earnings to purchase a house, and paying it back over the next 30 years.

Benefits of Securitization

- Securitization transfers the risks associated with the MSA Payments to the buyers of the bonds, including:
  - Reductions in cigarette sales;
  - Bankruptcy of any or all of the PMs;
  - Invalidation of the MSA.
  - A possible increase in the federal cigarette tax;
  - Individual lawsuits against the industry and states; and
  - The impact of the additional volume reductions attributable to national smoking prevention and public education campaigns and significant additional restrictions related to the tobacco industry's marketing, advertising, and lobbying.

Uses of Bond Proceeds

- On what and how the money is spent determines the tax status of the bonds. Tax-exempt bonds generally have lower interest costs than taxable bonds, reducing the cost of the financing to the State.
- If Bond Proceeds are spent on qualifying capital projects or other qualifying expenditures, interest paid on them will be exempt from federal income taxes.
- If Bond Proceeds are spent on operating items, or the earnings of a trust/endowment fund created with Bond Proceeds are invested in taxable securities yielding above the cost of the bonds, the interest paid to holders of the bonds will be taxable.

General Obligation vs. Tobacco Revenue Bonds

Even though General Obligation Bonds have lower interest costs than Revenue Bonds, there are compelling reasons to use Revenue Bonds:

- There is a limited amount of G.O. bond capacity available to the State.
- By not selling the revenue stream to bondholders, the state is, in effect, holding an investment in the Tobacco Industry, exposing the State to unnecessary industry concentration, credit concerns and illiquidity.
- Revenue bonds are generally issued with debt service payable only from the revenue source identified. This makes them attractive to issuers where revenue streams are uncertain.

NEW ISSUE **BOOK-ENTRY ONLY**

In the opinion of Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, Bond Counsel, and Kutak Rock LLP, Special Tax Counsel, under existing laws regulations, rulings and judicial decisions, interest on the Series 2000 Bonds (defined below) (i) is excluded from gross income for Federal income tax purposes and (ii) is not treated as a specific preference item to be included in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, on individuals and corporations; but such interest is included in calculating the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax on such corporations. In the opinion of Bond Counsel, under existing laws, interest on the Series 2000 Bonds is free from taxation by the State of Alaska except for transfer, inheritance and estate taxes. See "TAX MATTERS."

$116,050,000
Northern Tobacco Securitization Corporation
Tobacco Settlement Asset-Backed Bonds, Series 2000

Northern Tobacco Securitization Corporation ("**NTSC**") is a nonprofit corporation organized as a subsidiary of the Alaska Housing Finance Corporation ("**AHFC**"). As a subsidiary of AHFC, NTSC is a government instrumentality of, but separate and apart from, the State of Alaska (the "**State**").

The Tobacco Settlement Asset-Backed Bonds, Series 2000 (the "**Series 2000 Bonds**") are to be issued pursuant to an Indenture and a Series 2000 Supplemental Indenture, each dated as of October 1, 2000 (collectively, the "**Indenture**"), and each between NTSC and U.S. Bank Trust National Association, Seattle, Washington, as indenture trustee (the "**Trustee**"). The Indenture does not permit NTSC to issue any additional series of bonds secured by a pledge of the Pledged Receipts, other than those which may be issued for refunding purposes. See "THE SERIES 2000 BONDS—Additional Refunding Bonds."

The Series 2000 Bonds are being issued to finance NTSC's purchase of the "**Pledged Receipts**" consisting of 40% of all amounts required to be paid to the State beginning January 10, 2002 under the Master Settlement Agreement (the "**MSA**") entered into by participating cigarette manufacturers (the "**PMs**"), 46 states and six other U.S. jurisdictions in November 1998 in settlement of certain smoking-related litigation. Pledged Receipts derive from certain initial payments, annual payments and strategic contribution fund payments (such payments as more fully defined herein, the "**TSRs**") to be made by the PMs under the MSA. Under applicable Alaska statutes, the claim of NTSC to that portion of the TSRs being sold to NTSC is on a parity with the claim of the State to ownership of the remaining 60% of all amounts required to be paid to the State beginning January 10, 2002 under the MSA.

Payment of the Series 2000 Bonds is dependent on receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the financial capability of the PMs. See "RISK FACTORS" for a discussion of certain factors that should be considered in connection with an investment in the Series 2000 Bonds.

The Series 2000 Bonds will be secured by and payable solely from (i) the Pledged Receipts and investment earnings on accounts pledged with respect to the Series 2000 Bonds under the Indenture (as more fully defined herein, the "**Collections**"), (ii) amounts held in a certain reserve account established for the Series 2000 Bonds under the Indenture (the "**Series 2000 Reserve Account**") and (iii) amounts held in the other funds and accounts established for the Series 2000 Bonds under the Indenture.

Interest on the Series 2000 Bonds will be payable on each June 1 and December 1, commencing June 1, 2001.

The Series 2000 Bonds shall consist of Serial Bonds and Term Bonds. The Series 2000 Bonds maturing on June 1, 2008 through June 1, 2013, inclusive, shall be "**Serial Bonds**" and shall each be referred to herein as a "**Serial Maturity**" and, collectively, as the "**Serial Maturities**". All other Series 2000 Bonds shall be "**Term Bonds**" and shall be subject to mandatory redemption according to the schedule of amortization payments (the "**Sinking Fund Payments**"). Interest payments, and Serial Maturities and Sinking Fund Payments (together, "**Principal Installments**"), will be paid from Collections and, if necessary, the Series 2000 Reserve Account. In addition, 100% of all Surplus Collections (as defined herein), if any, shall be applied to the special mandatory par redemption ("**Turbo Redemptions**") of the Term Bonds. Surplus Collections, if any, will be applied to the Turbo Redemption of the Term Bonds in ascending order of maturity and such Turbo Redemptions will be credited against Sinking Fund Payments for any particular Term Bond in ascending order of Sinking Fund Payment Dates.

Due to NTSC's covenant to apply all Surplus Collections to Turbo Redemptions, it is expected that receipt of principal on the Term Bonds will be substantially earlier than the schedule of Sinking Fund Payments.

Certain of the Series 2000 Bonds are subject to redemption and prepayment, as described herein.

See Inside Front Cover for Dated Date, Maturity Schedule, Interest Rates and Prices or Yields

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The Series 2000 Bonds shall not be a debt of AHFC or the State nor shall AHFC or the State be liable thereon. NTSC shall not have the power to pledge the credit, the revenues or the taxing power of the State or the credit or revenues of AHFC, and neither the credit, nor the revenues nor the taxing power of the State or the credit or revenues of AHFC shall be, or shall be deemed to be, pledged to the payment of any of the Series 2000 Bonds. NTSC has no taxing power.

Bear, Stearns & Co. Inc. **Morgan Stanley Dean Witter**
Lehman Brothers **Salomon Smith Barney**

The Series 2000 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, Anchorage, Alaska, Bond Counsel, and to the confirmation of certain tax matters by Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, and Kutak Rock LLP, Special Tax Counsel, and to certain other conditions. Certain legal matters will be passed on for the State by the Attorney General of the State and for the Underwriters by their counsel, Hawkins, Delafield & Wood, New York, New York. It is expected that delivery of the Bonds will be made to DTC in New York, New York, on or about October 26, 2000.

October 13, 2000

Alaska Marine Highway System

The *MV E. L. Bartlett* Entering Drydock, Fall 2000, Seward Ship's Drydock

Seward, Alaska

FY 2002
Capital Improvement Project
Funding Request

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

ALASKA MARINE HIGHWAY SYSTEM/ GENERAL MANAGER

TONY KNOWLES, GOVERNOR

3132 CHANNEL DRIVE
JUNEAU, ALASKA 99801-7898
PHONE: (907) 465-3959
TTY/TDD: (907) 465-3652
FAX: (907) 465-2474

January 23, 2001

Dear Alaska State Legislator,

Enclosed is AMHS's annual request for state Capital Improvement Project funds. These funds keep our ships and shore facilities in operation.

The lion's share of our CIP funds is used to overhaul all of our nine ships annually. Overhaul work is done to meet mandatory inspection, repair, and maintenance requirements established by maritime governing bodies. The ship is taken out of service and brought to a shipyard. Major work is done on the hull, propulsion system, steering system, engines, generators, ballast tanks and void spaces, pumps and piping, sewage systems, navigation and communications equipment, lifesaving and firefighting equipment, and anchoring system.

So too, our ferry terminals, docking facilities, and staging areas require constant upkeep to offset the ravages of saltwater, time, and hard use. Every year some of our CIP funds are earmarked for maintenance of these shore facilities.

Just as the ships must meet requirements geared toward safety the crew who operate our ships must meet stringent safety standards. AMHS is working to comply with a series of international maritime regulations called Standards for Training, Certification, and Watchkeeping for Seafarers (STCW). Part of our CIP funding will be used to continue our STCW training. We have a compliance deadline of February 1, 2002. There will be no exceptions, delays, or compromises. If we are not successful in fulfilling this unfunded mandate by February 1, 2002, we will be forced to cease operating all of our vessels.

As always, our annual CIP funding is inadequate to maintain our fleet or shore facilities over the long term. Proper management calls for maintenance work we simply cannot afford to do. You will find several projects mentioned in the enclosed report for which we need funding beyond the amount we have requested.

U.S. flag passenger ships must meet the highest standards in the world for safety and seaworthiness. AMHS is proud its ships meet these standards. Legislative support in the form of CIP funding is essential for our continued ability to meet the standards that permit us to operate.

Sincerely,

Captain George A. Capacci
General Manager

Contents

The Alaska Marine Highway System requests the following FY 2002 Capital Improvement Project funds:

Annual vessel overhaul and shore facilities maintenance program	$4,180,000
Standards for Training, Certification, and Watchkeeping for Seafarers	620,000
	$4,800,000

Annual Vessel Overhaul and Shore Facilities Maintenance Programs

Funding requested: $4,180,000

Introduction

Each of the nine vessels in the AMHS fleet undergoes an annual overhaul. Overhaul is inspection, repair, and maintenance that cannot be performed while the vessel is operating. An overhaul period of approximately six weeks is set aside and the ship is brought to a shipyard for this work.

Overhaul work is performed in the off season when we are able to take ferries out of service for extended periods. AMHS operates the ferries with an aggressive schedule during the peak season. The minimal time spent in port while vessels are in service is insufficient to perform any major maintenance.

Two agencies guide most of the work we do: The American Bureau of Shipping (ABS) and the United States Coast Guard (USCG).

Work required by both ABS and the USCG is focused on goals of safety and seaworthiness. None of this work is discretionary.

American Bureau of Shipping

ABS is a nongovernmental classification society. It determines whether a vessel is seaworthy for its classification. Based on a rigorous inspection schedule for various items of vessel equipment and systems, ABS determines that each of our vessels is either in class or out of class. If the vessel is in class, it is insurable. The world's major insurers of marine vessels rely on ABS determinations to judge whether a vessel is an acceptable insurance risk.

Inspection is central to the ABS function. ABS inspects to determine what must be repaired or replaced. Drydocking, when the vessel is brought completely out of the water so that the hull can be inspected and repaired, is one of the single most expensive overhaul items. It can cost $20,000 to drydock a ship and $1,000 for each day it remains in drydock. ABS credits two drydockings every five years. Other major ABS requirements are annual hull inspections not in drydock and load line inspections of some of our vessels.

These inspections are thorough. For example, all vessel equipment must be inspected every five years. Much of the equipment (including the main propulsion engines) must be completely dismantled for the inspections. Dismantling a main propulsion engine solely to permit ABS inspections requires the work of several skilled engineers for several weeks.

Repair standards are equally thorough. If a repair is made to the hull, ABS requires that the repair materials meet ABS requirements for thickness; that they are manufactured to ABS specifications and tested by ABS at the steel rolling mill; and that ABS certifies the welding

procedure, welding rods, and the qualifications of the persons doing the welding. The final work must also meet ABS approval.

AMHS pays all costs of ABS inspections.

United States Coast Guard

The USCG enforces even more stringent standards of safety and seaworthiness than ABS. Standards are set by a variety of federal and international laws. Some of the sources of these laws are the Code of Federal Regulations, the International Maritime Organization, Safety of Life at Sea (international standards that apply to our five SOLAS-classed vessels that make port calls at Prince Rupert), and MARPOL (an international organization that regulates oil pollution and waste disposal).

USCG and ABS requirements overlap. For some items, such as tailshaft approval, ABS has more stringent standards. The USCG, which also requires tailshaft approval, will generally accept ABS's determination. For other items, such as lifesaving and firefighting equipment, the USCG has the more extensive (and, therefore, governing) requirements.

For example, ABS requires that each vessel be drydocked twice every five years. This is the world standard. However, U.S. flag ships are more highly regulated. They have more required inspections than the foreign flag cruise ships that visit Southeast Alaska. The USCG requires that U.S. flag passenger vessels be drydocked every 12 months (for our five SOLAS-class vessels that call in Prince Rupert), every 18 months (for our other vessels except the Bartlett), or twice every five years for the Bartlett (because it has no overnight accommodations). Our challenge is to coordinate the ABS and USCG drydockings to minimize the total number needed.

At the end of the overhaul period, the vessel and its assigned crew undergo a USCG inspection normally lasting several days. Passing this inspection results in a certificate of inspection (COI), which permits the vessel to operate for the next year. The vessel cannot be placed back in service without a current COI.

AMHS pays all costs of USCG inspections.

Other work

In addition to work done to satisfy ABS and the USCG, we perform work recommended by equipment manufacturers to comply with our warranties and as a sound equipment management practice. While we have no choice in work required by ABS and USCG, and consequently we cannot control these costs, we have some discretion about the work that is merely prudent. For example, neither ABS nor USCG requires that the hull be painted, and we could sail with badly damaged paint. However, paint protects the vessel from deterioration. In the long term, the value of asset protection greatly outweighs the cost of the work.

A variety of other work is done to satisfy a variety of other requirements. The Federal Communications Commission annually inspects and recertifies our communications equipment and safety communications equipment. We add safety items such as non-skid surfacing in

passenger areas. We make modifications to meet the Americans with Disabilities Act and state OSHA requirements.

Objectives of the annual overhaul program

- Perform required safety-related maintenance according to ABS and USCG rules and policies
- Perform hull maintenance to prevent steel wastage or deterioration
- Perform major machinery maintenance according to manufacturers' recommendations
- Provide economically sound fleet management through timely and prudent maintenance, which extends the life of the vessel and its components
- Provide a healthy physical environment for the crew and passengers
- If any additional funding is available, make improvements to the vessel to take advantage of new technologies and to increase efficiency

Typical overhaul work accomplished

The specific work done on a vessel during a given overhaul period depends on the requirements that apply to that vessel and available funds. Following are typical overhaul work items.

Drydocking

- Inspection/repairs of all sea valves and sea chests
- Repairs/painting of hull coating system
- Inspections/repairs to propulsion system (propellers, shafting, seals, bearings)
- Inspections/repairs to steering systems/ rudders
- Inspections/repairs to bow thrusters
- Inspections/repairs to hull cathodic protection system.
- Inspections/repairs to all ballast tanks and void spaces.
- Sea chest cleaning/painting
- Hull thickness gauging

Engine Department

- Main engine overhaul and maintenance
- Diesel generator overhaul and maintenance
- Sewage system cleaning
- Cleaning of galley exhaust vent ducting
- Elevator maintenance, inspections, and repairs
- Piping repairs
- Major overhauls of pumps and other auxiliary equipment
- Replacement of wasted steel
- Maintenance and cleaning of HVAC systems

Deck Department

- Lifesaving equipment yearly maintenance (USCG required)
  - Liferaft inspection and repacking
  - Lifeboat inspection/ repairs
  - Lifejacket inspections
  - Rescue boat inspections
  - Evacuation chutes inspection and repacking

- Firefighting equipment yearly maintenance (USCG required)
  - Fire hose testing
  - Fire damper testing and repairs
  - Portable fire extinguisher testing and recharging
  - Fixed fire extinguishing system testing
  - Sprinkler system testing and repairs
  - Fire and smoke alarm systems

- Inspection and repairs to weathertight doors to vessel (vessel side and stern doors)
- Inspection and repairs to windows and doors within vessel.
- Electronic equipment maintenance and recalibration (navigation equipment and communication equipment)
- Compass adjustment/ maintenance
- Anchors, chains, lines, and winch maintenance

Passenger Services Department

- Stateroom repairs and maintenance
- Galley equipment repairs/maintenance
- Carpet and upholstery cleaning/maintenance
- Crew quarters repairs and upkeep

Need for increased funds

In the past few years, we have had to focus our CIP overhaul funds increasingly on the required items and defer much of the discretionary work. The cost of required work has increased. Our CIP budget has not.

The addition of the M/V Kennicott to the fleet in 1998 was a major cause of the cost increase for required work. When the Kennicott was added, no funds were added to our CIP budget to provide for its annual overhaul. We now overhaul nine vessels with an annual budget that originally covered eight vessels. Due to her size and her increased complexity, the Kennicott is, and is expected to remain, one of our most expensive vessels to overhaul. The Kennicott's impact on our budget will worsen this year. The Kennicott warranty ended in December 1999; all repairs formerly covered by warranty are now the state's obligation.

Another source of increased costs for required work is maintenance of new systems and equipment (primarily safety related) required to be added to the vessels . While federal funds provide the systems and equipment, state CIP funds must be used to maintain them. Perhaps

the greatest cause of increased overhaul costs is the simplest: as vessels age, the amount and cost of required maintenance increases.

Our deferred maintenance items have begun to accumulate. Year by year, we opt not to perform all prudent preservation. Examples: (1) Ballast tanks need to be recoated as rust develops and the steel wastes. We have been recoating ballast tanks on a reduced schedule that does not adequately protect them from further wasting. (2) We often remove and replace engine parts, main shafts, and propellers that are economical to rebuild, yet for lack of funds we place them in storage without rebuilding them. (3) Car decks used to be routinely painted every year. We no longer paint them at all; car decks rust very slowly.

Year by year, we allow the appearance of the vessels to deteriorate. In spring 2000, we removed floor coverings from an area of the Malaspina and found the steel plating underneath had significant wasting. After repairing the wasted steel, there were no funds to replace the floor covering. On many vessels, passenger areas that are subject to heavy traffic have torn or heavily patched furniture and wall coverings.

State CIP funds for significant improvements to our vessels dropped from the budget sheet many years ago.

Priority work to be done if increased funds are made available

If additional funds are appropriated, AMHS will perform the following priority work:

1. Increase the frequency of ballast tank recoatings sufficiently to halt deterioration.

   Estimated annual cost: $200,000.

2. Repair and rebuild major spare parts such as main shafts and propellers in our storage warehouse so that these critical parts are ready for use when needed.

   Estimated total cost: $200,000.

3. Upgrade all fleet vessels' sewage systems to take advantage of the lessons the manufacturer has learned since the original systems were installed. These upgrades would reduce maintenance and better treat the effluent that we are pumping overboard. In the case of the Taku, we would be able to treat the gray water (water from sinks and showers) rather than pumping it overboard untreated as we are doing now.

   Estimated total cost: $500,000.

4. Upgrade electronic communications between ship and shore to bring the fleet fully up to contemporary standards. Building on the existing system would allow AMHS eventually to streamline the flow of supply requisitions, crew timesheets, reports, etc. from ship to shore, and the flow of updated policies, crew training and qualification records, safety updates, and responses to supply needs from shore to ship.

   Estimated total cost: $250,000.

Shore facilities maintenance

CIP funds also provide for the maintenance of our shore facilities. Our twenty state-owned shore facilities, scattered from Homer to Ketchikan, consist of the terminal buildings, transfer bridges (vehicle ramps), mooring structures, and staging areas. Like our vessels, our shore facilities are subjected to hostile weather and the corrosive effects of salt air and water. Maintenance of these complex facilities is necessary to ensure passenger and vehicle safety, protection of the state's assets, and compliance with the Americans with Disabilities Act.

The demand for shore facilities maintenance dollars has increased in the past few years. We have added a new terminal building in Homer, replaced the Cordova building, and rebuilt the Petersburg building. Each of these improvements adds more complex systems and equipment to be maintained.

We have two shore facilities maintenance issues coming up in the near future:

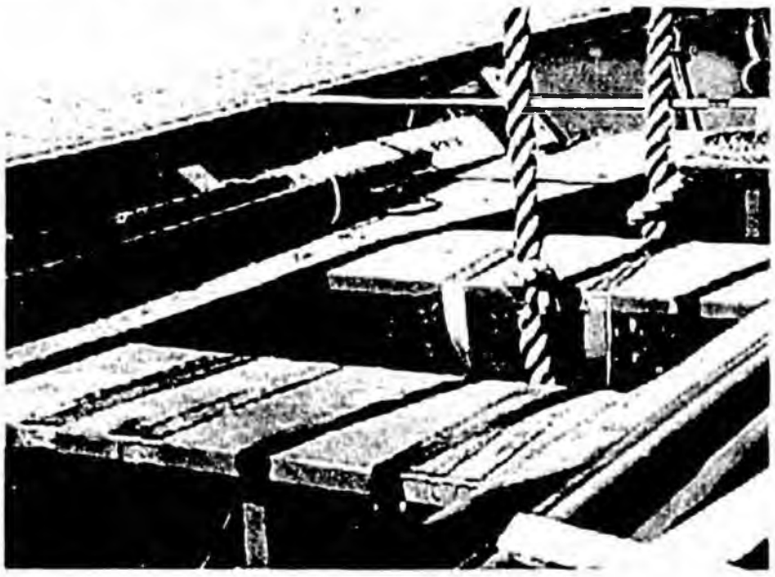
1. The Ketchikan warehouse needs to be upgraded to make more efficient use of space and to create a storage area for spare tailshafts. We are consolidating our Bellingham and Ketchikan warehouses, with a goal of vacating our leased Bellingham warehouse as a cost-saving measure. The warehouses are used primarily for fleet spare parts.

   Estimated total cost: $200,000.

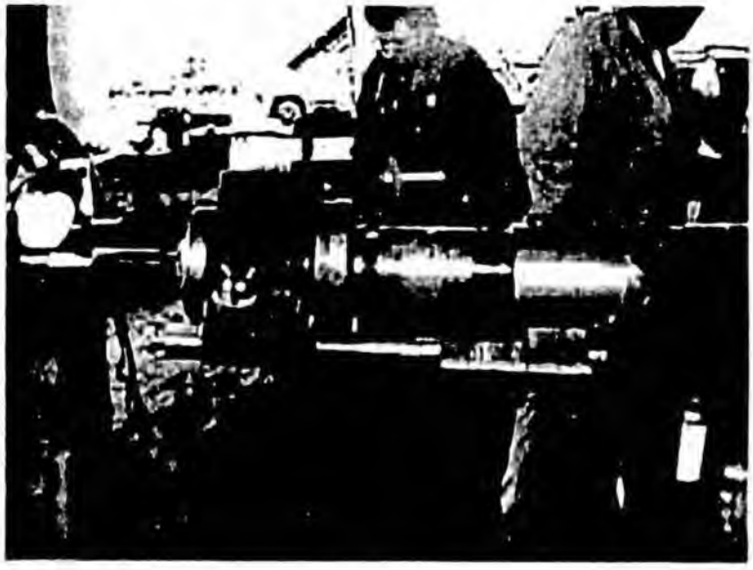
2. The Ketchikan vessel maintenance building, which houses the port engineer and staff, was recently found to require extensive replacement of exterior wall support structure, insulation, and siding. Although the building is currently deemed safe for occupancy, this work cannot be deferred. This would also be an ideal time to add sufficient space for the fleet library of engineering manuals and vessel record drawings, space for the port engineer who is transferring from Bellingham, and space for a small fleet crew training room.

   Estimated total cost: $250,000.

Left: Solarium of the *M/V E. L. Bartlett*, Fall 2000. Windows have been removed due to severe rust in steel frames. Repair of frames proved cost prohibitive, so window openings were covered over with steel plate.



Right: Lifeboat on *M/V E. L. Bartlett*, Fall 2000. Plywood seating around hull was soft from decay and was replaced.



Left: *M/V E. L. Bartlett*, Fall 2000. Completion of the machining of the upper bearing surface of the rudder stock.

Left: Ballast tank #2 on *M/V Columbia*, Fall 1999. Ballast tanks are filled with seawater to increase vessel stability. This tank is one of approximately twenty on the *Columbia*. Ballast tanks need periodic sandblasting and painting to slow the wasting of steel caused by the corrosive effects of seawater. AMHS is unable to maintain an adequate program of blasting and painting ballast tanks because of a lack of funds.

Right: *M/V Kennicott*, Spring 1999, on floating drydock at Alaska Ship and Drydock, Ketchikan. The cost of putting the *Kennicott* into drydock is about $20,000 plus $1,000 for each day she remains drydocked.

Left: *M/V Matanuska*, Fall 2000. Preparing to remove a propeller blade in order to inspect hub clearances and repair leaking seals.

Standards of Training, Certification, and Watchkeeping for Seafarers (STCW)

Funding requested: $620,000

This proposed project is to implement the safety enhancement program mandated by the Code of Federal Regulations by February 1, 2002, and for the Alaska Marine Highway System (AMHS) to comply fully with the International Maritime Organization (IMO) and US Coast Guard (USCG) mandated STCW regulations. Without this project the AMHS will be forced to cease service on all of its vessels for lack of adequately trained officers and crewmembers.

History

"Standards of Training, Certification, and Watchkeeping for Seafarers" (STCW) is a series of international regulations signed by the U.S. and all other major maritime nations. STCW regulations set qualifications for masters, officers, watchkeeping personnel, and all shipboard personnel involved with the safe operation of the vessel or prevention of pollution. These personnel must demonstrate the highest practicable standards of crew competence in an effort to minimize human error as a major cause of maritime casualties. STCW regulations require AMHS to establish procedures to document that fully qualified and trained personnel are routinely assigned to our roll-on/roll-off passenger ships. A key tenet of the STCW code is that license and certificate applicants will have to demonstrate their proficiency in the skills needed for the particular position, in addition to passing their usual written examination.

An action and implementation plan to comply with the STCW code has been developed outlining detailed lists of special training for AMHS crews and key implementation dates. AMHS, in concert with an experienced marine training consultant, has developed a strategy to provide STCW compliant training for many crewmembers onboard our vessels. Through a combination of computer-based training (CBT) modules and instructor-led companion training, approximately 60 new hires were effectively trained in basic safety training (BST) in spring 1999, and again in spring 2000, and joined the fleet. CBT kiosks have been purchased and installed in Juneau, Ketchikan, Anchorage, and Cordova, and aboard eight ships providing the opportunity for 700 existing employees to meet BST training requirements. Crowd management, passenger safety, cargo and hull integrity, and proficiency in the use of survival craft CBT modules are also being developed and installed to meet the training requirement by February 1, 2002. A vessel-specific training CBT module for contractors and other employees (not crewmembers) riding AMHS vessels has been developed and installed also.

Proposed work

The STCW action plan identifies 17 different training courses that are needed for various segments of AMHS crews. Several are appropriate for CBT training and practical demonstration of skills right onboard the vessels, offering a significant cost savings in travel, per diem, and salary, but due to required proctoring and special certification procedures, many will need to be done ashore. Some courses of instruction still require a traditional instructor-led course in a classroom setting, such as bridge resource management, automatic radar plotting, global

maritime distress, and train the trainer. These will be conducted along with fast rescue boat and the practical portion of BST through contractor support in a phased approach to permit training of existing crews and new hires to new STCW standards by the deadline of February 01, 2002.

AMHS plans to carry out more than half of the required STCW training using CBT on the installed computer kiosks with documentation performed by instructor-led, train the trainer qualified AMHS officers, and combined with the practical portion of this training, additional equipment for firefighting and first aid certification will be required. The remainder of STCW training will be given using traditional instructor-led format. (Case studies on American Airlines reported that CBT, as compared with the traditional instructor-led classroom training, could reduce the training cost by 50%. Also CBT could achieve an equal or higher quality level of learning while its content was typically delivered in 40-60% less time than instructor-led training).

The current implementation costs for the STCW are as follows:

1. Cost of software development and hardware installation for the CBT is $2,513,000 (federal participation).
2. Cost for BST training (CBT and Practical for new hires; Practical training only for current employees) is $765,000 (not federal aid eligible).
3. Cost of instructor-led training tuition is $225,000 (not federal aid eligible).
4. Cost of employee travel and per diem for instructor-led training is $250,000 (not federal aid eligible).
5. Items 1-4 yield a total implementation cost of $3,753,000.

The costs for the CBT program and some of its practical training are eligible for FHWA participation, and are being requested. However, AMHS's request for FHWA assistance with instructor-led classroom training and some of the practical training has been officially denied as non-participation for federal funds and must therefore be funded with state funding. AMHS and the American shipping community have only recently become fully aware of the magnitude of this professional training issue.

This project is to fund half of those non-participating training expenses of $1,240,000, or $620,000, during FY 2002. AMHS is reasonably confident that it can fund the routine level of annual STCW training with a nominal increase to its operating base once this large backlog of current required training is accomplished.

Alaska Marine Highway System

Vessel Information Table

Updated November 2000	Columbia***	Matanuska	Malaspina***	Taku	Aurora***	Leconte	Tustumena***	Bartlett***	Kennicott
DATE COMPLETED	1974	1963	1963	1963	1977	1974	1964	1969	1998
LENGTH (feet)	418	408	408	352	235	235	296	193	382
BEAM (feet)	85	74	74	74	57	57	59	53	85
DISPLACEMENT - Long tons	7773	5569	5552	4283	2121	2152	3067	1570	7503
LOADED DRAFT	17'-6 3/4"	16'-11 5/8"	16'-11 3/8"	16' -11"	13'-10 7/8"	13'-10 7/8"	14'-4 1/2"	13'-3"	17'-6"
INT'L TONNAGE: Gross	13,009	9,214	9,121	7,302	3,124	3,124	4,529	2,045	12,035
(cubic capacity) Net	4,932	3,824	3,667	2,496	987	987	1,451	682	3,790
DOMESTIC Tonnage: Gross	3,946	3,029	2,928	2,624	1,280	1,328	4,593	933	9,978
(cubic capacity) Net	2,683	1,235	1,253	1,494	453	566	1,377	384	7,354
HORSEPOWER	12,350	7,400	8,000	8,122	4,300	4,300	5,100	3,468	13,380
SERVICE SPEED (knots)	17.3	16.5	16.5	16.5	14.5	14.5	13.3	12	16.75
FUEL CONSUMPTION (GPH)*	450	240	270	270	180	180	140	170	360
CREW CAPACITY	66	50	50	42	24	24	37	24	56
PASSENGER CAPACITY (U.S.C.G. authorized)	530 (winter) 971 (sum)	498 (winter) 745 (sum***)	516 (winter) 701 (sum)	500	300	300	220	236	748 - SE 500-SW
PASSENGER CAPACITY** AMHS Booking Limits	500 (winter) 625 (sum)	498	500	450	250	250	210	190	748 - SE 500-SW
Staterooms - 4 berth	61	4	54	9	n/a	n/a	8	n/a	48
Staterooms - 3 berth	9	23	0	0	n/a	n/a	0	n/a	0
Staterooms - 2 berth	20	80	28	33	n/a	n/a	17	n/a	56
Staterooms - Handicap (4 b)	0	0	0	0	0	n/a	0	n/a	3
Staterooms - Handicap (2 b)	1	1	1	2	n/a	n/a	1	n/a	2
TOTAL STATEROOMS	91	108	83	44	0	0	26	0	109
TOTAL BERTHS	313	247	274	106	n/a	n/a	68	n/a	320
Vehicle Capacity**** (linear ft.)	2,680	1,760	1,760	1,380	680	680	720	580	1,600
(approx. number of vehicles)	134	88	88	69	34	34	36	29	80
MAX # OF VANS** AMHS Booking Limits	16	10	15	7	8	10	10	7	20

* Gallons per hour fuel consumption figures are averages based on calendar year 1996 weekly engineering reports, and include fuel usage to generate heat and electricity

** These capacity figures represent functional booking limits, not Coast Guard authorized capacity. *** Domestic Only ****Vehicle capacity is measured in 20-foot units of car deck space.

FILE: vessel info2000.xls

Printed 1/23/01

Debt Obligations

Total State debt service obligations for FY02, excluding corporate debt such as that of AHFC and AIDEA, amount to $147,803,900. This is an overall increase of $35,686,100 from FY01. Debt service paid with general funds increased by $28,561,700 to $41,492,300.

In FY01, $4 million was withdrawn from the Alaska Debt Retirement Fund (ADRF) to fund employee labor cost increases. For FY02, the Governor proposes capitalizing the ADRF with a combination of $34,401,400 general funds and $6,000,000 of the AHFC dividend.

School Debt Reimbursement requirements have increased $4,201,600 to a total of $57,020,500. The Governor proposes funding school debt reimbursement with $29,049,100 in School Funds[1] and $27,971,400 from the ADRF.

Lease purchase and lease obligations have increased by $3,121,700 to a total of $19,520,900. Lease purchase obligations include the following (all proposed to be paid from the ADRF): Palmer Airport Fire Facility - $766,800; Spring Creek Correctional Facility - $4,021,600; Palmer Courthouse - $415,800; Kenai Courthouse - $563,000, Anchorage Times Building - $789,700, Soldotna DOT Maintenance Facility - $637,300; Anchorage Health Lab - $2,261,300; Fairbanks Courthouse - $2,894,500; Trustee Fees - $80,000. Additionally, the Governor proposes appropriating $7,090,900 of general funds to the Department of Administration for lease payments to the Municipality of Anchorage and AHFC.[2]

The $103,000,000 AHFC dividend, is used as follows:

- $37.988 million will be retained by the corporation to pay debt service on the bonds issued for $224.4 million in capital projects (Sec. 2(c), Ch. 129, SLA 1998).
- $1 million will pay debt service on the University of Alaska's Anchorage dormitory (Ch. 26, SLA 1996).
- $6.012 million will pay debt service on $73 million of bonds issued for renovation of University facilities, and for construction, maintenance and renovation of ports, harbors, and AHFC facilities (Sec. 10, Ch. 130, SLA 2000 - HB 281).
- $6 million will capitalize the ADRF. Proposed
- $52 million will pay for capital projects proposed in the Governor's capital bill.

Ch. 130, SLA 2000 (HB 281) redirects 40% of the tobacco settlement revenue stream to pay debt service on $93 million in bonds issued for school construction.

Legislative Fiscal Analyst Comment: *The $169 million of capital projects funded with a combination of the newly created Tobacco Revenue Bonds and AHFC Revenue Bonds have a long-term impact on the general fund. The tobacco bonds are secured by 40% of Alaska's revenue stream from the class action tobacco settlement with Phillip Morris. This revenue (approximately $10.5 million for FY02) is diverted from the general fund and earmarked for bond redemption. Similarly, increased AHFC revenue bonding for capital projects has reduced the AHFC dividend available for non-debt purposes. Of the $103 million annual AHFC dividend, only $58 million is transferred to the treasury in FY02. As debt service requirements increase, additional general fund appropriations are required to fund programs and the ADRF.*

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[1] The School Fund consists of all proceeds derived from the payment of taxes, fees, penalties and license fees under the Cigarette Tax Act (AS 43.50.010-180). Its intended purpose is funding new school construction.

[2] The Municipality of Anchorage issued municipal bonds to pay for the construction of the Anchorage jail. The bonds are secured by lease payments from the State of Alaska for use of the jail. In a similar fashion, AHFC purchased the Robert B. Atwood building for approximately $39 million in cash and then issued revenue bonds secured by the building itself and lease payments from the State. OMB classifies both these transactions as debt service. Legislative Finance agrees with OMB on the Atwood building, but classifies the Anchorage jail agreement as a lease and places it in "agency operations" row of the fiscal summary because Anchorage will retain ownership of the facility upon termination of the agreement. The transaction appears as debt service in the bill and in the table below, and will be counted as debt service in Legislative Finance reports until the legislature reclassifies the transaction.

Endowment Fund Earnings = 7.0%
PCE Fund Earnings = 5.0%
PCE Expenditure = $14.6 Million for FY00
PCE Expenditure = $15.7 Million Thereafter
Endowment Value 2/1/01 = $100,887,951

POWER COST EQUALIZATION
FY 2000 - Subsequent Years
($ Thousands)

	Deposit Date	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	Subsequent Years
Endowment Fund											
CBR	7/1/2000		100,000								
Four Dam Pool Debt Service	8/1/2001			9,000							
Four Dam Pool Sale	12/31/2001			81,000							
Mkt Value Increase for Fiscal Year			2,977	10,405	13,227	13,210	13,203	13,198	13,197	13,196	13,196
Transfer to PCE Fund			7,062	13,348	13,466	13,307	13,268	13,213	13,203	13,199	13,197
Balance -- End of Fiscal Year			95,915	182,971	182,732	182,635	182,570	182,555	182,548	182,546	182,545

Terror Lake out of operation

Sale of 4 dam pool

	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	Subsequent Years
PCE Fund										
Carryforward	2,345	6,293	1,402							
Fast Track Supplemental -- AIDEA	3,600									
Four Dam Pool Debt Service	5,516	10,377								
Transfer from Endowment Fund			7,062	13,348	13,466	13,307	13,268	13,213	13,203	13,199
Earnings -- PCE Fund	227	432	382	382	382	382	382	382	382	382
NPR-A	9,163									
Other Funds -- Needed to reach $15,700			6,854	1,970	1,852	2,011	2,050	2,105	2,115	2,119
Available for PCE Expenditure	20,851	17,102	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
PCE Expenditure	14,558	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
3/14/2001										
PCE Endow W4										

Supplemental 01 1,546.3

Reduced from 7,800

Summary of FY '01 and FY '02 PCE Funding Changes

FY 01		
Funding Available	$15,700.0	
Supplemental	$1,546.3	
Total FY 01 PCE Requirement	$17,246.3	
FY 02		
Transfer from PCE Endowment Fund to PCE Fund	$7,062.0	
Carry Forward from FY 01	$1,402.0	
PCE Fund Earnings	$382.0	
Balance Required for FY 02	$6,854.0	(reduced from $7,800.0)
Total FY 02 PCE Requirement	$15,700.0	

W 4

Endowment Fund Earnings = 7.0%
PCE Fund Earnings = 5.0%
PCE Expenditure = $14.6 Million for FY00
PCE Expenditure = $15.7 Million Thereafter
Endowment Value 2/1/01 = $100,887,951

POWER COST EQUALIZATION
FY 2000 - Subsequent Years
($ Thousands)

	Deposit Date	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	Subsequent Years
Endowment Fund											
CBR	7/1/2000		100,000								
Four Dam Pool Debt Service	8/1/2001			9,000	Terror Lake out of operation						
Four Dam Pool Sale	12/31/2001			81,000	Sale of 4 dam pool						
Mkt Value Increase for Fiscal Year			2,977	10,405	13,227	13,210	13,203	13,198	13,197	13,196	13,196
Transfer to PCE Fund			7,062	13,348	13,466	13,307	13,268	13,213	13,203	13,199	13,197
Balance -- End of Fiscal Year			95,915	182,971	182,732	182,635	182,570	182,555	182,548	182,546	182,545

	Fiscal Year 2000	2001	2002	2003	2004	2005	2006	2007	2008	Subsequent Years
PCE Fund										
Carryforward	2,345	6,293	1,402							
Fast Track Supplemental -- AIDEA	3,600									
Four Dam Pool Debt Service	5,516	10,377								
Transfer from Endowment Fund			7,062	13,348	13,466	13,307	13,268	13,213	13,203	13,199
Earnings -- PCE Fund	227	432	382	382	382	382	382	382	382	382
NPR-A	9,163									
Available for PCE Expenditure	20,851	17,102	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
PCE Expenditure	14,558	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
3/14/2001										
PCE Endow W4 Supplemental 01		1,546.3								
		17,246.3								

Reduced from 7,800

Narrative for PCE Spreadsheet W4

March 14, 2001
Alaska Energy Authority

[Note: Unless otherwise stated, dollar figures shown below are expressed in thousands. For example, "$3,600" = $3.6 million.]

A. Power Cost Equalization (PCE) projections require the consideration of two separate funds:

1. The Power Cost Equalization Endowment Fund (the "Endowment Fund") established in AS 42.45.070.

2. The Power Cost Equalization and Rural Electric Capitalization Fund (the "PCE Fund") established in AS 42.45.100.

The Endowment Fund was created by Ch. 60, SLA 00, and was initially funded by an appropriation of $100 million from the Constitutional Budget Reserve.

Earnings from the Endowment Fund may be appropriated annually to the PCE Fund, from which actual PCE expenditures are made.

B. Spreadsheet W4 is divided into two halves:

1. The upper half shows the Endowment Fund.

2. The lower half shows the PCE Fund.

C. The "Fiscal Year 2000" column shows the following historical information:

1. The Endowment Fund entries are blank because the Endowment Fund did not come into existence until July 1, 2000 – the beginning of FY2001.

2. PCE Fund income is shown as follows (all figures in thousands):

   a. $2,345 beginning balance carried forward from FY1999.

   b. $3,600 supplemental appropriation passed by the 2000 Legislature.

   c. $5,516 in debt service receipts from the Four Dam Pool. This amount equaled 60% of total debt service from the Four

Dam Pool received in that year and was deposited in the PCE Fund in accordance with former AS 42.45.050.

d. $227 in PCE Fund interest earnings. AS 42.45.100 provides that interest earnings of the PCE Fund remain with the Fund.

e. $9,163 appropriated from the NPR-A special revenue fund.

The sum of these deposits – $20,851 – is shown on the spreadsheet as the amount "Available for PCE Expenditure."

3. $14,558 is the amount that was actually expended on PCE. FY 2000 was the first fiscal year following substantial changes to the PCE formula that were enacted by the 1999 Legislature. Although AEA initially projected that $15.7 milli n would be needed to fully fund the revised formula, the actual r uirement in FY 2000 turned out to be approximately $1.1 million le s. As a result, the PCE Fund balance carried forward into FY 001 ($6,293) is approximately $1.1 million higher tha initially projected.

D. The Fiscal Year 2001 column shows the following information and projections:

1. $100,000 from the Constitutional Budget Reserve was deposited in the Endowment Fund in July 2000 – i.e. the beginning of FY2001.

2. AS 42.45.080 provides that the Commissioner of Revenue will invest the Endowment Fund "in a manner likely to achieve at least a seven percent nominal return over time." While this is the long term expectation, actual results may vary. As of February 1, 2001, the value of the Endowment Fund reported by the Commissioner of Revenue was $100,888. This represents an annualized rate of return of only 1.5% over the first 7 months of the fiscal year and reflects the poor performance of the financial markets during that period of time.

3. For projection purposes, spreadsheet W4 assumes that the Endowment Fund will realize 7% annualized earnings compounded monthly from February 1, 2001 forward. Based on this assumption, the projected "Market Value Increase" in the Endowment Fund for all of FY2001 is $2,977.

4. Ch. 60, Sec. 14, SLA 00 – the legislation that established the Endowment Fund – defines the allowable amount that may be

appropriated from the Endowment Fund during each of the initial two years of its existence. For the FY2002 budget, that amount equals 7% of the market value of the Endowment Fund on February 1, 2001. 7% of $100,888 equals $7,062. This is the anticipated amount to be appropriated this year from the Endowment Fund to the PCE Fund to help fund PCE in FY2002.

5. After this appropriation is made, and given the assumption of $2,977 in earnings for the Endowment Fund during FY2001, the balance of the Endowment Fund on June 30, 2001, is projected to be $95,915.

5. Turning now to the PCE Fund, the FY2001 beginning balance carried forward from the prior year was $6,293.

6. $10,377 in debt service from the Four Dam Pool was deposited in the PCE Fund on August 1, 2000. This is equal to 100% of Four Dam Pool debt service for power consumed during FY2000, all of which was deposited in the PCE Fund per HB447 enacted by the 2000 Legislature.

7. $432 is the projected amount of interest earnings on the declining PCE Fund balance during FY2001, assuming an average interest rate of 5%.

8. The sum of these deposits – $17,102 – is shown on the spreadsheet as the amount "Available for PCE Expenditure."

9. $15,700 was appropriated for PCE during FY2001 and AEA projects that the entire amount will be expended. PCE outlays are projected to be significantly higher than last year primarily due to higher fuel prices.

   The estimated PCE Fund carryforward into FY2002 is therefore $1,402.

E. The Fiscal Year 2002 column shows the following projections:

1. All debt service from the Four Dam Pool for power consumed during FY 2001 will be deposited in the Endowment Fund per AS 42.45.070(4). The projected amount shown on spreadsheet W4 ($9,000) is less than the amount of debt service paid in the prior year ($10,377) due primarily to an expected reduction in power

sales from the Terror Lake project, which was under repair and therefore offline for part of the year.

2. The sale of the Four Dam Pool is projected to close on December 31, 2001. At that time, an estimated $81,000 will be deposited to the Endowment Fund based on the following agreements and expectations contained in the MOU between AEA and the purchasing utilities:

   a. $73,000 is the base purchase price for the projects.

   b. In addition, the uncommitted balance of an existing Insurance Fund will be released to the State. This amount is estimated at $13,000 which, in combination with the base price, would result in a total expected payment of $86,000.

   c. A credit against the purchase price of $5,000 was provided in exchange for agreement by the utilities to relinquish $20 million in loan funds that had previously been appropriated for the proposed Swan-Tyee intertie. The net deposit to the Endowment Fund is therefore estimated at $81,000.

3. FY2002 earnings of $10,405 are projected based on a 7% rate of return on the Endowment Fund balance. Note that the $81,000 portion of that balance from the Four Dam Pool sale will not be deposited until mid-way through FY2002 since, consistent with the MOU and as stated above, the expected date of closure for the sale is December 31, 2001.

4. Per Ch. 60, SLA 00, the amount to be appropriated from the Endowment Fund by the 2002 legislature is equal to 7% of the Endowment Fund balance on February 1, 2002. The amount of this appropriation is projected to be $13,348, and would be available for PCE in FY2003.

5. Turning finally to the PCE Fund in FY2002, the beginning balance carried forward is projected to be $1,402.

6. As discussed above, it is anticipated that this Legislature will appropriate $7,062 from the Endowment Fund to the PCE Fund to be used for PCE in FY2002.

7. PCE Fund interest earnings at an assumed 5% rate during FY2002 are projected to yield $382.

8. An additional $6,854 would be needed from the General Fund or other sources if PCE outlays during FY2002 are to be funded at the $15,700 level.

F. The 2003 Legislature is expected to appropriate money from the Endowment Fund for the FY2004 PCE budget. Ch. 60, SLA 00 provides that 7% of the average market value of the Endowment Fund for the previous 3 fiscal years may be appropriated annually for PCE beginning with the FY2004 budget. There are two provisos, however, as follows:

1. The time period prior to the closing of the Four Dam Pool sale is to be excluded from the calculation of the Endowment Fund's average value.

2. This method of calculating the intended appropriation from the Endowment Fund will be effective for the FY2004 budget assuming the Four Dam Pool sale closes during FY2002. If the closing date of the sale is delayed beyond FY2002, this method of calculation is deferred accordingly.

In spreadsheet W4, the projected transfer from the Endowment Fund at the end of FY2003, for deposit in the PCE Fund at the start of FY2004, is $13,466. This is equal to 7% of the projected average monthly market value of the Endowment Fund during the 6-month period from January 1, 2002 (the presumed date of the $81,000 deposit from the Four Dam Pool sale) to July 1, 2002.

G. If PCE expenditures are to be maintained over the long term at the $15.7 million level, then approximately $2.0 million per year will be needed from a source other than the Endowment Fund or PCE Fund earnings beginning in FY2003 based on these assumptions and projections.

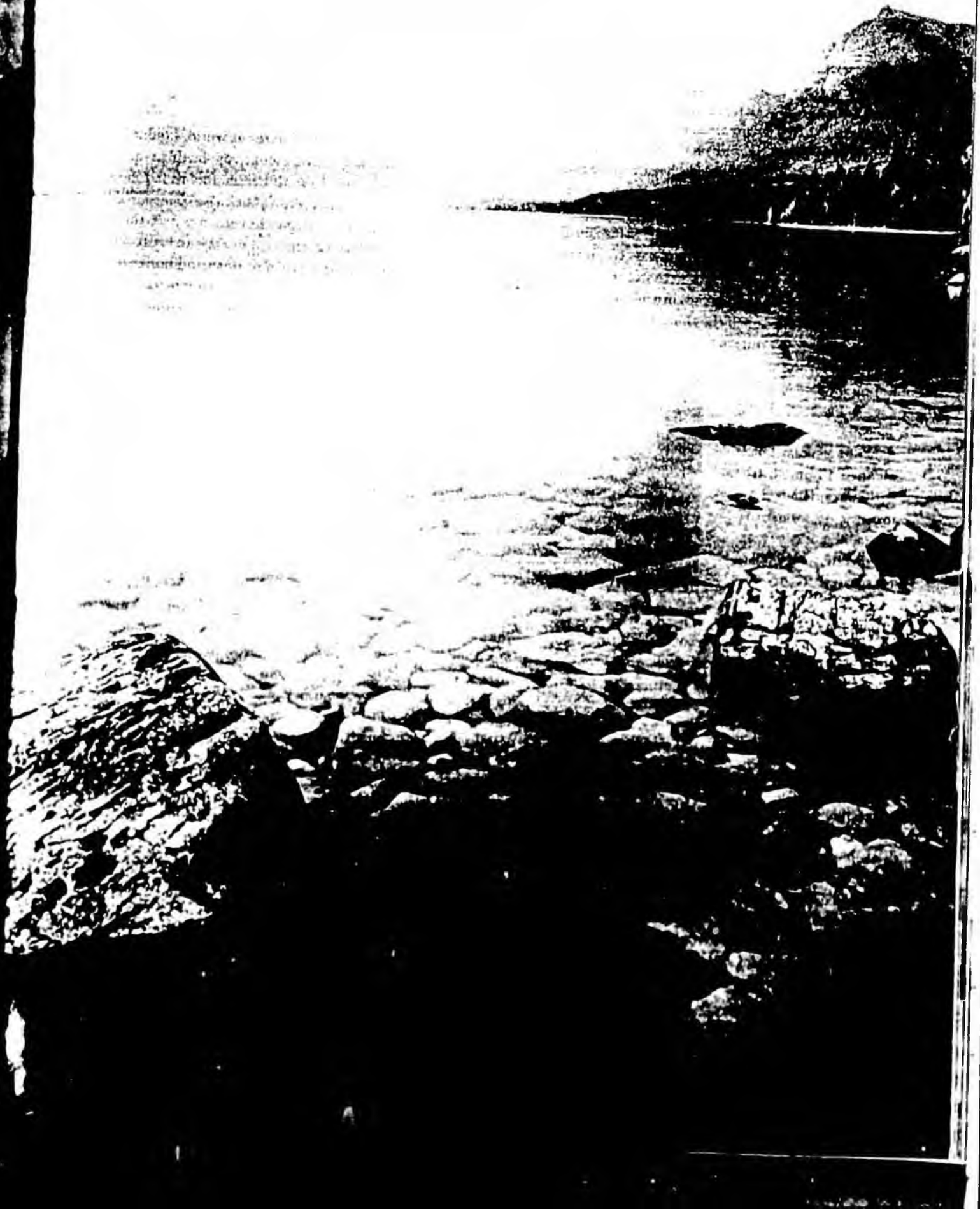
Into the Heart of Sorrow

The author discovers through her spiritual practice that from the labor of grief something beautiful can be born. BY ANNE CUSHMAN

ON A COOL, BRILLIANT MORNING TWO summers ago, high thunderclouds just gathering over distant peaks, my husband and I hiked into the Desolation Wilderness to scatter our baby daughter's ashes.

Lou's family has a tiny cabin on Echo Lake, high in the Sierra Nevada mountains. His grandfather built the cabin as a refuge when he came back from World War I: no electricity, a woodstove for heat, propane for cooking, kerosene lamps. The only access is by boat. We had gone there for a week to grieve and heal: nights, a requiem of stars and wind and woodsmoke; days, of chilly sun and wildflowers.

On our fourth day there, we tucked into my daypack the little urn of Sierra's ashes, a ceramic jar painted with forget-me-nots that we had gotten for a wedding present. We rowed our canoe across Echo Lake and hiked for an hour into the pine forest. We climbed over a rocky ridge to a tiny, deserted lake set in a [illegible] mountains, with snowy peaks and blue sky reflected in its dark waters. At one end, a waterfall ru[illegible]n, a ribbon of foaming white. This is where we wanted Sierra's body to return to the earth.



Sierra died while she was still inside me, a few days before she was due to be born. Doctors induced labor, and I gave birth to her body early on the morning of Mother's Day. My midwife washed her, dressed her, and brought her to me and Lou, wrapped in a soft blue blanket. She had a round face; dark brown hair; a sweet, sad mouth; the delicate, long-fingered hands of an artist. Her eyes were shut, as if she were taking a nap.

No one could tell us why Sierra had died. Her body was in perfect condition, with no sign of any problem whatsoever. An autopsy revealed a healthy placenta, a healthy umbilical cord, a healthy baby. It was possible, the obstetrician said, that her umbilical cord had somehow become pinched as she dropped into position for birth, cutting off the flow of oxygen. But in the end, all anyone could offer us were statistics: that about one in 250 pregnancies ends in a full-term stillbirth. And that about half the time, no one can figure out what went wrong.

This is not the story I thought I would be writing. I've been a Buddhist and a yoga practitioner for 17 years. I had planned a home birth with a wonderful German midwife named Angelika, who told me that childbirth would take my spiritual practice to a whole new level. I'd even arranged to write an article for *Yoga Journal* on "the yoga of giving birth."

But I'm writing this story instead.

The author practicing yoga on her deck at home during her last week of pregnancy.

LOU TOOK A PICTURE OF ME doing yoga on our patio just two days before Sierra died. I'm sitting on my mat in a wide-legged straddle, wearing maternity leggings and a purple T-shirt stretched snug over my bulging belly. I am reaching toward the camera, my arms stretched wide as though I want to embrace the whole world. I am laughing. I look unbelievably happy.

I had done yoga daily throughout my pregnancy. I'd had no morning sickness, no back pain, no swollen feet, no varicose veins. It felt natural to lift up into Elbow Balance at five months or to flow through a modified Sun Salutation at eight and a half, legs spread wide to make room for my belly.

As I grew closer to my due date, I felt my perspective changing. It changed physically, of course; I chose and modified every pose to serve the child kicking and squirming inside me. Its emotional tone changed even more dramatically. It became softer, gentler, more meditative; my awareness spiraled deep inside, centering on the warm glow in my heart and belly. With every posture, I felt like I was bowing down in awe before the mysterious power of life.

When I looked into classic yogic and Buddhist texts to see what they had to say about the miracle of bringing new life into the world, I didn't find much encouragement. I looked up "birth" in the indexes of a dozen books: All I could find were references on how to avoid getting born again.

In classic yogic thought, after all, the only way to achieve lasting happiness is to break our attachment to the world of flesh and bones—to cease to chase after the taste of strawberries, the smell of roses, the touch of a lover's mouth on the skin at the base of the neck. All these things will die and rot, the yogis remind us; the body is just a temporary vehicle, discarded like worn-out clothes when the spirit moves on. We should seek our refuge in a larger Self, beyond our personal identities, cravings, fears, and dreams.

In India I'd met yogis, living in caves in the Himalayas, meditating naked and ash-smeared by the funeral pyres in Benares, the city of death; wandering as beggars from town to town, their only possessions a staff and a metal tiffin-tin. To prove their scorn for the body, they take ascetic vows—sleeping in slings hung from trees or holding a hand in the air for years at a stretch until the arm withers to a twig. They leave their families, change their names, and never speak of their past.

Before he left his family and palace in pursuit of enlightenment, the great yogi known as the Buddha, or Awakened One, had a son; he named him *Rahula*, which literally means "fetter."

But as I sat in meditation, hands cupping my belly, I found myself wondering. After all, most of the great yogis were men; they had never been pregnant, never been mothers. Once you've felt that hurricane of life swelling up from nowhere inside your womb, can you speak the same way about detachment from the world? Would you want to?

Following an impulse I couldn't quite name, I

very pose to se porarily retired my Buddha statue from my altar. nside me. Its e ing home in the pouring rain from a daylong ramatically. It ration retreat, I stopped at a garage sale in my ive; my awaren hborhood and spotted a statue of Kuan Yin, the the warm glow ful Buddhist goddess of compassion, her arms ature, I felt lik stretched in blessing. Sierra wants this, I thought, mysterious po I took it home to her room, overlooking her car and bassinet.

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WE SPENT THE LAST week of Sierra's life getting ready for her birth. Lou and I went shopping with his mother for the st items we needed: little footsy pajamas and night-s, flannel receiving blankets decorated with bears d balloons; knit booties and caps; tiny cotton T-rts; ecosensitive diaper covers with names like bottoms. We puzzled over the bewildering array diaper bags: Did we want the one that looked like a faux fur evening purse or the one disguised as a business briefcase? His mother and I laughed at him, but Lou insisted on buying a tiny electric heater for warming up disposable baby wipes. "I don't want her little bottom getting cold," he insisted.

I had already rounded up the home birth supplies my midwife had ordered: cord clamps, sterile gloves, plastic king-size sheets, hydrogen peroxide, hot water bottle, cotton balls, olive oil, sanitary pads, sitz bath herbs. I planned to labor in our garden, attended by lavender, irises, hummingbirds, and quail. I planned to deliver in our king-size bed, with the view of the giant eucalyptus through the window. "The room you give birth in," my midwife told me, "will forever be a little piece of heaven."

Back from our shopping, Lou and I lay on the bed and played our favorite game: Watch Anne's Belly. My skin rippled and bulged like a sheet pulled over a kitten. Little knobs — feet? hands? knees? — cruised the surface. Wherever we pressed our hands, we were met with eager pokes of curiosity and greeting. Lou put his face close to my navel. "Daddy loves you," he crooned. "Who's Daddy's little girl?" She kicked him in the nose.

We marveled at how much we already loved a person whose face we had never seen. We felt like we knew her essential nature: passionate, curious, friendly, energetic. Her rhythms were simple, predictable, unencumbered by intellect: She loved to play when Lou tapped my belly; she perked up when I ate a cookie; she fell asleep during yoga, rocked by the gentle sway of my body.

BEING A YOGI doesn't mean you have to renounce the world, I kept remembering. The Buddha taught that we shouldn't shun the world any more than we should cling to it. Instead, we should greet every part of our lives with an awake and compassionate heart. The yoga tradition offers an alternative to the ascetic path: the vision of Tantra, a radical and influential movement that emerged in both Hindu and Buddhist yoga at the start of the first millennium. The world is not a trap to be escaped, say the Tantrists. Rather, it's the sacred dance of the God and Goddess — the formless Divine taking shape again and again, as mountains and creeks and redwood trees and exploding galaxies. The world of jasmine and broken bottles, of waterfalls and rotting bones, cannot be separated from the Ultimate Reality — they are one and the same.

> Once you've felt that hurricane of life swelling up from nowhere inside your womb, can you speak the same way about detachment from the world? Would you want to?

Out of the vision of Tantra emerged the practices of hatha yoga: the study of body and breath in the service of spiritual awakening. In hatha yoga, our bodies do matter. The incarnate details of our lives are important: the flow of blood and subtle energies, how we move, how we breathe, how we sit and stand and twist and bend.

When we flow through our yoga poses, when we sit in meditation and watch the mystery of breath coming in and out, we are celebrating the embodied Divine. This human body, this human life, is where we know love, where we touch the Infinite.

I knew, of course, that my spiritual practice would not protect me from disaster. Practice is not magic: meditation and yoga are not the equivalent of slipping a $20 bill to some divine maître d' to insure a prime seat in the cosmic restaurant.

We may come to yoga seeking the godlike beauty and eternal youth promised in the fourteenth-century *Hatha Yoga Pradipika* or the decreased stress and tight abs promised by modern fitness magazines, but scratch the surface of the teachings and we find another, deeper message: [illegible] who's born, death

continued from page 105

is certain, and certain is birth to one who has died. Therefore, in connection with a thing that is inevitable, you should not grieve," the god Krishna tells Arjuna in the *Bhagavad Gita*.

Since the time of the Buddha, in monasteries around the world, monks and nuns have recited the Five Remembrances, a stern incantation of life's inevitable losses. I first recited them over 10 years ago in Thich Nhat Hanh's Zen center in the south of France. It was a cool June morning, the sun rising over fields of sunflowers. I was 27 years old.

"I am of the nature to get sick. There is no way to avoid getting sick," we intoned. The meditation hall was a former stable, cool and dark, its walls built of rugged grey stone worn smooth by rivers that have long since dried up. "I am of the nature to grow old. There is no way to avoid growing old." After each recitation, a bell was struck, a cool, silvery note. "I am of the nature to die. There is no way to avoid death." Lou and I had spent the night in my tiny yellow tent on the edge of the plum orchard, our sleeping bags zipped together. "All that I love and everyone that is dear to me are of the nature to change. There is no way to avoid being separated from them."

By the time Sierra died, I had heard these teachings a thousand times. I had thought I understood them.

But understanding and experience are not the same thing.

I remember this: Six years ago, a close friend was diagnosed with inoperable lung cancer. He was a writer who'd written the seminal work on Buddhism in America; he'd been practicing Tibetan Buddhism for 25 years, doing elaborate practices and visualizations to prepare for the transition through the bardos.

We sat together in a Japanese restaurant. Tears were in his eyes. He looked at me over his udon noodles. "You'd think, after all that practice, that I wouldn't be so scared," he said.

I was doing my morning yoga when I first suspected that something had gone wrong.

I was lying on my side on my yoga mat on our patio, gently stretching in the pale gold sun. Just a few more days, I was thinking. Just a few more days until I can hold her in my arms.

It wasn't unusual for Sierra to sleep through my yoga practice. But it struck me that I hadn't felt her move since I woke up. I put my hand on my belly, pressed gently on a little knee.

It didn't push back.

An hour later, I was in the hospital, lying on an examining table, a lab technician sliding a transducer back and forth through the cold jelly on my abdomen. The doctor peered at the ultrasound screen.

"There's no evidence of movement," he said. He looked at the screen, not at me. "I can't find a heartbeat." Through my fog of terror, it took me a while to understand what he was saying. I kept

hoping he meant something else.

I sat on the table and shuddered, silent, for the last minutes it took Lou to get to the hospital. He burst into the examining room, his face wrenched with fear and hope. That's when I finally said it: "Our baby's dead."

We clung to each other and wailed.

A BABY WHO IS DEAD must still be born.

The labor and delivery room was on the 15th floor of the hospital. Lou told me it had a view of trees and the ocean; I couldn't see them, because I had cried my contact lenses out of my eyes.

The doctor painted my cervix with misoprosotol, to start it dilating. The induced contractions came on fast and hard, with a drugged intensity—every two minutes a deep convulsion of pain, a vice tightening in my belly.

As soon as the epidural kicked in, I went numb from the waist down. An IV in my arm dripped Pitocin to keep my contractions coming, fentanyl, to help me relax.

I labored all night, drugged, in the dark, my legs numb weights on the table, the contractions faint sensations, a physical report from a distant country. A catheter tube dangled between my legs, a rubber cuff on my arm swelled to take my blood pressure automatically every 15 minutes.

By dawn, I was fully dilated. A nurse propped me up with my feet in stirrups, an electronic contraction monitor strapped to my belly. "I don't know how I am going to get through this," I told my midwife. She said, "You will just have to gather up the pieces of your heart in your two hands and hold them."

"Push," the nurse and the midwife chanted. "Push push push push push—Stop. Now push. Push push push—" I held my breath, drew my belly in hard, reached my hands to the sky for strength, as in a yoga pose. I kept my eyes closed. I didn't want to see what was happening.

Afterward, Lou told me, "I watched her come out. She was covered in water and blood. The cord was amazing: thick and strong and dark and coiled. I kept hoping they would say they had made a mistake, it was a medical miracle, she'd just been in some sort of neonatal coma. I was still hoping that when she came out, she would start to cry."

WE CAME HOME from the hospital without Sierra. We left her body in the morgue. And in the middle of all the grief and rage and horror and disbelief—that persistent feeling that the universe had made a terrible error, that I'd somehow been sent somebody else's life, and that my own wonderful life was actually waiting for me somewhere, if only I knew who to call—in the midst of all that, I was stunned at how viscerally, physically I missed her. My belly was shriveled and empty, like a deflated balloon. My breasts were swollen with milk. I was bleeding as if I had had a baby, but there was no baby, and my body did not understand where she was.

> That night I dreamed that her body had been brought to me in a cardboard box, all in pieces, and I was trying to put her back together again.

They forgot to remind me in the hospital that my milk would come in. I was stunned when I looked in the mirror and saw my breasts, immense and blindly eager. To stop the milk, my midwife came to the house and bound my breasts tightly to my chest.

She told me to sip sage tea, a bitter brew that tasted like an evergreen forest, but I wasn't allowed to drink more than two cups of liquid a day. I lay on the couch with icepacks piled on my chest, thirsty and cold and heartbroken.

I asked my best friend to call the hospital to find out if I could hold Sierra again before the cremation. But they told her that the autopsy had been very thorough and that Sierra was "not viewable."

That night I dreamed that her body had been brought to me in a cardboard box, all in pieces, and I was trying to put her back together again.

A FRIEND WHO IS A woodworker built us a tiny redwood casket, held together with wooden pegs instead of nails, so it would burn completely. We asked him to carve a circle on the lid enclosing three intersecting spirals. It's a traditional Japanese symbol of Buddhism's Three Treasures: the Buddha, the awakened heart; the Dharma, the path of truth; and the Sangha, the loving community. Lou took the casket into his workroom and slowly, painstakingly outlined the carving with black paint, so it stood out like a brand.

The crematorium was a huge, industrial hangar: unpainted cinderblock walls, gritty cement floor, a row of steel ovens the size of garages. The oven we'd been assigned was already roaring because they have to be preheated; it was like standing next to a jet about to take off. It had huge rolling steel doors plastered with orange signs: "Danger! Hot!"

We were met there by Wendy and Fu, the two women Zen priests who had performed our wedding at Green Gulch Zen Center. They set up a small altar outside the mouth of the oven, with flowers and a redwood seed and a statue of the Jiso Bodhissatva, the guardian of children who have died. They lit incense and chanted while Lou and I wept.

Lou and I put our hands on Sierra's casket and told her how much we loved her and how much joy she had brought us.

"You have been such a happy, bright spirit," I said. "I'll see you in everything happy and bright for the rest of my life." Lou traced the entwined spirals on the casket lid.

"This is me," he said. "This is your mom. And this is you. And this" — tracing the circle around the outside — "is love. You will always be part of our family."

Then Lou and I stepped inside the railing, up to a panel of lights and buttons and dials on the side of the oven. I pushed the green button labeled "Door Open."

The steel door rolled up to a blast of heat and an orange glow. A pock-faced man in a plexiglass safety mask and metal mittens picked up the casket and placed it in the oven.

We began to chant the Heart Sutra: "Form is emptiness, emptiness is form. Form is not other than emptiness, emptiness not other than form." It's Buddhism's fundamental creed, a statement of impermanence and interdependence: All forms are temporary, and nothing is separate from anything else. Clouds become rain, water is sucked up by plants, plants are eaten by people, people disintegrate back into water and dirt. Things that seem separate dissolve into one another and disappear.

The chant is a somber, slow, monotone drone: "Therefore in emptiness there is neither form, nor feelings, nor perceptions, nor mental formations, nor consciousness. No eyes, or ears, or nose, or tongue, or body, or mind. No form, no sound, no smell, no taste, no touch." I had forgotten to close the oven door. The attendant touched a button, and the great steel doors rolled down.

The end of the chant is a mantra in Pali, the vernacular language of India at the time of the Buddha: *"Gate, gate, paragate, parasamgate, bodhi svaha."* Gone, gone, all gone beyond, gone beyond the beyond, hail the goer."

We chanted the Heart Sutra over and over as Siesta burned. Then we changed to a different kind of chant, at my request. "You are my sunshine," we sang, "my only sunshine. You make me happy when skies are grey..."

She was just a baby, after all. I couldn't bear the thought of sending her off into the great beyond with only monastic texts to sing her to sleep. We sang "Rock-a-Bye Baby," and "Row, Row, Row Your Boat," and "Yellow Submarine," and "Frere Jacques," and "Itsy-Bitsy Spider."

This is an image I will never forget: the Zen priest, Fu, in her black robes and shaved head, with one hand on her hip and the other arm arced like a spout, singing "I'm a Little Teapot" — "just tip me over and pour me out" — as the crematorium oven roared behind her.

There's a Zen story about an enlightened master weeping at the death of his baby son. His disciples came to him, bewildered. "Master," they said, "Why do you weep? I thought you told us that this world was an illusion."

"Yes," the teacher replied. "And the death of a child is the saddest illusion of all."

I used to think that spiritual practice would be a way of lessening the pain of grief; that I could escape into some Self, some detached witness consciousness that is beyond the world, from which I would watch my life dispassionately, like a movie I could turn off at any moment.

But in fact we are attached to life by a tie as primal as the umbilical cord, thick and dark and coiled and throbbing with blood. I would never want to be so detached, so cut off from that primal pulse, that I did not mourn my daughter's death.

And I don't think that's what the yogis meant — that we should use practice as a kind of spiritual epidural to anesthetize us from the pain of our lives.

For me, practice was not a way of stepping out of the pain but a way of walking right straight into it, letting it rip through my body and heart.

For me, as it turned out, practice was not a way of stepping out of the pain, but a way of walking right straight into it, of feeling it fully, of letting it rip through my body and heart. And this is how I want my practice to be. This is where I want to practice: not just on a cushion in a temple smelling of sandalwood, not just on a plastic mat in a mirror-walled studio, but in this animal body, oozing blood, tears, and mother's milk.

"Are you [illegible] your yoga?" my friends would ask, in the weeks after Sierra died. "Are you doing your meditation?"

I didn't know whether to answer, "No, not at all," or "Yes, all the time."

I spend very little time on the mat. There's nothing like death to put an asana practice in perspective. In the face of unmanageable loss, I could derive little comfort from the perfection of my Triangle Pose.

But my years of practice had given me one simple gift: the intention to rest in the moment with what was happening, breath by breath. For years I've asked myself, through meditation and yoga, to rest in sensation: to hold an intense pose and feel the burn of the muscles without moving away from it; to sit without moving in the meditation hall as waves of anger or fear or boredom crash over me. Now I could use this training to receive the grief welling up inside me — and let it tear on through me.

For me, grief wasn't a constant pain; it came in vast, convulsing contractions, like labor. A florist's truck would arrive with another bouquet of flowers, the delivery man averting his eyes as he handed them over and escaped as fast as he could, because he'd figured out by now that it wasn't good news. And I'd look at another bunch of roses or amaryllis or orchids, exquisite, sweet-scented. I would look at my whole house filling up with flowers in glass vases, already starting to die, instead of with smelly diapers and the sound of a baby crying. I'd remember the unbearable beauty of Sierra's face and her tiny curled hands. And I'd want to smash the vase of flowers against the wall.

For me, practice was not a way of stepping out of the pain but a way of walking right straight into it, letting it rip through my body and heart.

So I'd let in that wave of pain — even though it was so intense I thought it would split me in two — because I learned that, like vomiting, it was better to let it happen than to try to avoid it. And I found that I could feel it, breath by breath; that one breath at a time, it was bearable. Then the wave would pass, and I'd be lying on the beach, gasping and exhausted, but more alive than before.

And in those moments I'd see that grief and joy are inextricably intertwined. My sorrow was a way of touching a truth: that the world is both fleeting and intimately precious. "Look deeply, and you will see that you are weeping for that which has been your delight," wrote the

poet Kahlil Gibran. The Zen master Issan wrote this poem after the death of his child: "Dew evaporates, and all the world is dew; so dear, so refreshing, so fleeting."

I ONCE HEARD Thich Nhat Hanh say, "I would not want to live in a place where there is no suffering, because suffering breeds compassion." True, our grief shows us how we are "attached." But it also shows us the glorious part of our attachment—that we are woven into the fabric of the world, that we are linked to everything that is.

I don't believe my true Self is outside the world. I believe it is part of it. I believe my true Self shines in the apple trees, in the hummingbirds, in my baby's body, in the blood and sweat of childbirth, in the tears that come when I lose someone I love. It shines in the compassion that springs forth in our hearts in the presence of pain, as naturally as a mother's milk lets down when a baby cries.

For my spiritual practice, I don't want to step away from the world. I want to step closer, take it in my arms, cradle it close to my heart, like a mother holds her child.

After all, my loss is one little drop in a world full of pain. Around the world the week that Sierra died, human beings were facing unimaginable suffering. Bombs were falling on Kosovo. Mothers and fathers were mourning their lost children in Bosnia, in Rwanda, in Littleton, Colorado. They were mourning their children blown apart by bombs, drowned in flooded rivers, shot in gang warfare, wasted away on drugs.

Since Sierra died, I've heard the stories of countless grieving parents. I've heard of babies who lived a few hours and died in their mother's arms. I've heard of babies who stopped breathing in their cribs, and no one ever knew why. I've heard of children taken by cancer, by car wrecks, by murder.

Every one of us has faced or will face terrible losses in our lives. Our dreams will shatter, our loved ones will die, our bodies will slowly fall apart. The question for me is this: Can I allow my practice to

take me right into the heart of this sorrow? To feel the pain and the grief? And by going through it, open into something larger?

THREE WEEKS AFTER Sierra died, I did yoga on our patio again. Above my mat, two wrentits pecked in the birdfeeder hung in the branches of our apple tree. A hummingbird darted in and out of the bottlebrush.

I made my way slowly through the poses, as if I were walking through an earthquake-damaged house, lovingly assessing the damage. Afterward I lay on my back in Corpse Pose, watching a blue jay spray a shower of seeds to the ground. Looking at the beauty around me, I felt as if I were picnicking on the edge of an abyss into which every now and then someone I loved would silently tumble.

> The yogis had it right: The world is impermanent. But it is also a sacred blessing. To hold both of those truths in our hearts at the same time is the razor's edge of practice.

Lying there, I saw that I had two possible responses to Sierra's death. One was to contract in terror, to try to cling more closely to what is precious, wrap my hand tight around it, never let it go. An ultimately futile gesture, since it would all inevitably slip away.

The other was to cherish what was precious breath by breath, with an open hand, knowing it could be snatched away at any moment and that it would ultimately be gone forever. To cherish each moment, knowing that each day is a gift and a blessing, that there may not be any more.

The yogis had it right. The world is impermanent. But the world is also a sacred blessing. To hold both of those truths in our hearts at the same time is the razor's edge of practice.

Yes, there is tremendous grief in Sierra's loss. I will never stop missing her. I

will carry her in my heart for the rest of my life.

But despite all the sorrow, what I have ultimately been left with is a sense of joy, of the precious miracle of incarnation. Of the way love is not bound by time and space. Of how the value of a life has nothing to do with how long it lasts. And of how the rippling effect of a person's life goes on and on, long after he or she is gone. Sierra is not with me in her physical form, and I am so sorry. I miss her deeply. But she is definitely still here.

She is here in the way Lou and I wrap our arms around each other in the night or the way one of us will say "Drive carefully" as the other leaves on an errand. She is with me in the way my heart softens when I see someone suffer. I see her in everything delicate and precious: a baby quail, the broken shell of a snail, a hummingbird flitting through the spray of a garden hose.

And although I would give back all of these lessons in a second to have Sierra with me in physical form again, I see that this is a real and lasting legacy. And ultimately, it's the only way any of us live on: in the way the world is different for our having been.

> What I have ultimately been left with is a sense of joy, of the precious miracle of incarnation. Of how the value of love has nothing to do with how long it lasts.

We have converted Sierra's nursery into a meditation room. Hanging in the corner is a mobile of paper cranes made by three of her cousins to commemorate her death. There's a little altar covered in Indian silk, with the statue of Kuan Yin and an incense burner made from the urn we used to hold her ashes. On the altar, in a white frame painted with morning glories, are Sierra's tiny, delicate footprints, tracks in purple ink on a piece of paper, already starting to fade.

A year to the day, on that bright summer day, we scattered Sierra's ashes in the lake. We carried her little urn down to the base of the waterfall, to the spot where the stream pouted into the lake. Lou reminded me of what one Zen master said when he was asked about reincarnation: just, "First the stream, then the waterfall, then the stream again."

There were wildflowers all around. We sat in the grass with her urn between us, and cried as we said goodbye to her, and told her how sorry we were that she couldn't stay with us. We told her how beautiful it was there, with the flowers and the water and the snowtipped mountains and the thunderclouds just starting to gather, and a whole forest full of animals, so she wouldn't be lonely.

The ashes were different than I had thought they would be. I thought they would be gray and gritty, like fireplace sweepings. But they were like a little bag of broken shells, creamy white and pale yellow, with recognizable bits of bone, including a tiny little femur head the size of my fingertip. They clinked against one another when we scooped our hands into the plastic bag. I thought the stream would carry them off right away, but they sank to the bottom and were swept up against a rock. They lay there in a little white heap on the black granite, with the water rushing over them. They were still there when we left.

Now when I think of Sierra, which is every few minutes, sometimes I remember her as a squirming, kicking presence in my bulging belly; and sometimes as a beautiful dark-haired baby, lying still in my arms with her eyes closed, and sometimes as a little pile of white bones at the bottom of a stream.

The night after we scattered her ashes, the Perseid meteor showers came. I stepped out of our cabin into the windy night and looked up—flashes of light coming out of nowhere, streaking across a sky full of stars, and vanishing into the infinite darkness. ■

Lou Lichtman [illegible] Sierra [illegible]

Subject: Education in House Finance on Thursday
Date: Tue, 20 Mar 2001 08:21:34 -0900
From: Joan Brown <Joan_Brown@gov.state.ak.us>
Organization: Alaska Office of the Governor
To: Louanne T Christian <Louanne_Christian@legis.state.ak.us>,
Peter H Ecklund <Peter_Ecklund@legis.state.ak.us>

Can these folks use the call-in number of 888-262-1555 for Thursday's capital budget hearing or do they need to go to the LIO?

1. Hal Spackman, Director of Mt. Edgecumbe in Sitka - 966-3201

2. Fred Esposito, Director of AVTEC in Seward - 224-4159

3. Yvonne Chase, Deputy Commissioner - Early Development 269-4607

HB

49

HFIN

FILE

HOUSE COMMITTEE REPO^T

(11)
Date Referred to Committee: April 21, 2001 FURTHER REFERRALS:

Date of Committee Action: 4/25/01

The FINANCE Committee considered: HB 49

HOUSE BILL NO. 49 EXTEND TERMINATION DATE FOR BD OF PAROLE

"An Act extending the termination date of the Board of Parole; and providing for an effective date."

Recommends it be replaced with _____CS HB (FIN) [✓] Same Title [ ] New Title
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_____

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

List of Abbrev. For Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LAA
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES** *For Chief Clerk's Office Use Only				
FN# *	List by Dept(s):	Fiscal	Indet.	Zero

***PREVIOUS* FISCAL NOTES**				
List by Dept(s):	FN #	Fiscal	Indet.	Zero
COR	1			✓

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	Bunde	✓			
	Whitaker	✓			
	HARRIS	✓			
	CROTTY	✓			
	MOSES	✓			
	Lancaster	✓			
	Hudson	✓			
	FOSTER	X			
Chair:					
Chair:	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 49
(H) Publish Date: 01/10/01

Revision Date/Time (Note if correction): 1/5/01
Title: Extend Parole Board
Sponsor: Rules Committee
Requester: Governor

Dept. Affected: Corrections
BRU: Administration and Operations
Component: All
Component Number: 649

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

The Alaska Board of Parole consists of five members plus an administrative staff which includes the Executive Director, Parole Board Administrator, Parole Board Officer and 2 clerical positions. The operating expenditures are included in the Department of Corrections' FY02 budget. Those expenses include 319.5 for personal services, 86.4 for travel, 99.0 for contractual services, 4.7 for supplies, 0 for equipment and 0 for miscellaneous. A request is being made by the Board to include an additional parole officer and 5 clerical position and increased operating costs.

Prepared by: Candace Brower
Phone 465-4652
Division Commissioner's Office
Date/Time 01/05/01/ 4:00 p.m.
Approved by: Margaret M. Pugh, Commissioner
Date 1/5/01
Agency Department of Corrections

For distribution information, call the Governor's Legislative Office

(Rev 11/2000 OMB)

COMMITTEE COPY

TONY KNOWLES
GOVERNOR
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HB49

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 10, 2001

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

I am transmitting this bill extending the termination date of the Board of Parole for five more years, until June 30, 2006. The board would sunset on June 30, 2001 unless extended by law.

The Board of Parole performs essential functions for the criminal justice system by reviewing prisoners for possible release on discretionary parole, setting conditions for the behavior of prisoners released on both mandatory and discretionary parole, and presiding over parole revocation hearings for those accused of violating their parole conditions. The efforts of the Board of Parole go a long way toward assisting in the rehabilitation of prisoners by reintegrating them back into society while minimizing the risk to the public.

I urge your prompt and favorable consideration of this bill.

Sincerely,

Tony Knowles
Governor

HB 49

HB

49

SFIN

FILE

HB 49

was referred to the Senate Finance Committee

No hearing was held on this bill

This bill was retrieved

Alaska State Legislature
Senate
Office of the Secretary

OFFICIAL BUSINESS

STATE CAPITOL, ROOM 213
JUNEAU, ALASKA 99801-1182
(907) 465-3701
FAX: 465-2832
EMAIL: senate_secretary@legis.state.ak.us

FOR YOUR IMMEDIATE ATTENTION

DATE: May 6, 2001

TO: Finance Committee
(Mindy/Cadie - Room 520)

FROM: Office of the Senate Secretary

SUBJ: Waived Bill(s)

The Chair of the Committee noted above has waived referral on the following bill(s):

RETRIEVE

CS FOR HOUSE BILL NO. 49(FIN)
"An Act extending the termination date of the Board of Parole; and providing for an effective date."

CS FOR HOUSE BILL NO. 102(JUD)
"An Act relating to the theft of propelled vehicles."

CS FOR HOUSE BILL NO. 167(STA)
"An Act relating to license plates for Alaska National Guard personnel and for antique motor vehicles; and providing for an effective date."

Please give the bill file(s) to the page for forwarding to the next Committee of referral.

Thank you.

TONY KNOWLES
GOVERNOR
governor@gov.state.ak.us

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box [illegible]
Juneau, Alaska [illegible]
[illegible]

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State Capitol
Juneau, AK 99801-1182

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I urge your prompt and favorable consideration of this bill.

Sincerely,

Tony Knowles
Governor

HB 49

HB

51

HFIN

FILE

22-GH1012\C
Bannister
4/27/01

Adopt 4/27/01

CS FOR HOUSE BILL NO. 51(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act giving notice of and approving the entry into and the issuance of certificates of**
2 **participation for a lease-purchase agreement for a seafood and food safety laboratory**
3 **facility; relating to the use of certain investment income for certain construction costs;**
4 **and providing for an effective date."**

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

6 *** Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
7 to read:
8 INTENT. It is the intent of the legislature that the amount of money to be used for the
9 construction and equipping of a new seafood and food safety laboratory facility is
10 $12,788,000. Of that amount, it is the intent of the legislature that
11 (1) $11,600,000 shall come from the proceeds of the certificates of
12 participation to be issued by the state bond committee under sec. 2 of this Act;
13 (2) $878,000 shall come from the investment income earned on the proceeds
14 of the sale of the certificates of participation described in sec. 2 of this Act; and

(3) $310,000 shall come from the general fund for nonbondable costs.

* Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to read:

NOTICE AND APPROVAL OF ENTRY INTO AND FINANCING OF A LEASE-PURCHASE AGREEMENT. (a) Subject to annual appropriation, the Department of Administration is authorized to enter into a lease-purchase agreement for a seafood and food safety laboratory facility to be constructed under the lease-purchase agreement and to be operated by the Department of Environmental Conservation.

(b) The state bond committee is authorized to provide for the issuance of certific tes of participation in one or more series in the aggregate principal amount of $11,600,000 for the construction of a seafood and food safety laboratory facility under the lease-purchase agreement authorized in (a) of this section. The remaining balance of the construction and equipping costs shall be paid from the other money sources described in sec. 1 of this Act, including investment income of $878,000 earned on the proceeds of the sale of the certificates of participation. The estimated total cost of construction, acquisition, and other costs of the project is $12,788,000. The estimated annual amount of rental obligations under the lease-purchase agreement is $1,000,000. The estimated total lease payments for the full term of the lease-purchase agreement is $20,400,000. In this subsection, "cost of construction" includes credit enhancement and underwriting expenses, rating agency fees, bond counsel fees, financial advisor fees, printing fees, advertising fees, capitalized interest, and interest earnings used for lease payments.

(c) The state bond committee may contract for credit enhancement, underwriting, credit ratings, bond counsel, financial advisor, printing, advertising, and trustee services that the committee considers ne[illegible]y in financing the project described in this section.

* Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to read:

APPROVAL OF AGREEMENT. Section 2 of this Act constitutes the approval required by AS 36.30.085.

* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).