

SCOMM

#50:18

COMMITTEE REPORT  
HOUSE

4/19

(5)

FURTHER:

FINANCE

4/10/85

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

Date:

4/18/85

HOUSE SPECIAL COMMITTEE ON  
STATE LOANS

The Committee on FINANCE has had HB 105

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

under consideration and recommends:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for CS 113105 (Loans)  same title
- new title
- and recommends it do pass
- AND attaches a "Letter of Intent"  New Fiscal Note
- Zero Fiscal Note Attached
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

[Signature]

[Signature]

[Signature]

\_\_\_\_\_

\_\_\_\_\_

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MEMBERS HAVING  
OTHER RECOMMENDATIONS:

See Cost 10.00

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]

CHAIRMAN

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: HB 197  
Title: RE: Maximum Student Loans

Sponsor: Sund, et al.  
Requestor: Sund  
Date of Request: 2/19/85

FISCAL DETAIL

Agency Affected: Education  
Program Category Affected: Postsecondary  
Education Commission  
BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>N.A.</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

<b>CAPITAL</b>						
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<b>REVENUE</b>						
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FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. Rousburg, Executive Director Phone: 465-2854  
Division: Alaska Commission on Postsecondary Education Date: 2/19/85  
Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
Agency: \_\_\_\_\_

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

7/1/84

2/15/85

MEMORANDUM

TO:  
FROM: Representative John Sund  
RE: HB 197

Sectional analysis of proposed Student Loans legislation:

The purpose of this bill is to give undergraduate and graduate students the opportunity to apply loan money, promised to them for the upcoming school year, toward their summer quarter tuition.

The present Alaska Statutes will not allow students to attend more than three quarters or two semesters at full loan funding. (\$2,000 quarter/\$3,000 semester) As a result, students who require more than four years to graduate must travel home for the summer and re-register in the fall for their remaining units. For a student going out of state and living off campus, the cost of travel and the trouble of relocating an apartment can be overwhelming.

This bill amends AS 14.43.110 - the statute setting loan terms in the Dept. of Education.

Section 1

This section provides that the committee may make a loan to a student for a summer term even if the total loan for the school year exceeds the \$6,000 maximum. The loan for the summer term will be counted against the \$6,000 maximum for the following school year.

To do this a student would present his loan promissory note to the school financial aid office and they would allow him to register for the summer and pay tuition with his first loan disbursement in September.

Section 2

This section provides that the committee may make a loan to a graduate student for a summer term, even if the loan for the school year exceeds the \$7,000 maximum, if the loan for the summer term is counted against the \$7,000 maximum for the following school year.

Section 3

This section amends AS 14.43.160 by adding a new paragraph that defines "summer term". The period from June 1, to August 31 is used, as it includes the dates that a school would provide for a summer term.

This bill would directly save undergraduate and graduate students time and money while creating no new cost for the state.

Background Materials on the Dedication Clause

Prepared by

Philip S. Barnett, Law Associate, Sierra Club  
Legal Defense Fund, Inc.

April 16, 1985

Article IX, § 7, of the Alaska Constitution, the dedicated funds clause, provides as follows:

The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

In State v. Alex, 646 P.2d 203 (Alaska 1982), the Alaska Supreme Court held that the application of the clause should not be limited to taxes and licenses. The Court observed that in a draft at the Constitutional Convention, the prohibition against dedication was applied to "all revenues." After a review of the history of the Convention, the Court held that the change from the draft to the final version was not intended to have significant consequences. Rather, "the purpose of the proposed amendment was to allow for the setting up of certain special funds." Id. at 210. All other dedications were intended to be prohibited.

The "certain special funds" mentioned in Alex are easily identified, for they were expressly referred to during the Constitutional Convention. Specifically, they are pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts which the state might collect on behalf of local government units. See 1982 Alaska Op. Atty. Gen. No. 13 at 10-11.

The loans that will be used to capitalize the road and port do not fit within one of the exempt "certain special funds." Therefore, they cannot be dedicated.

Sunday, April 14, 1985, The Anchorage Times 1-3



## Red Dog: an ideal investment

By Robert R. Richards

THE ALASKA legislature has before it a dandy project that is an absolutely ideal opportunity for meaningful investment by the State of Alaska to foster economic development.

This project is ideal for several reasons.

It is a perfect size: \$150 million.

It is self-liquidating through user fees.

It is perfectly timed: 1987-1988 when a downturn in state capital construction projects is anticipated.

It is perfectly located: in a rural area where the citizens have expressed a strong desire for new jobs.

IT REPRESENTS further diversification of the Alaska economy and of an economic region where 88 percent of personal income is dependent on state and federal government.

It involves a prudent degree of risk with the return on the investment being guaranteed by a strong multinational private company.

It presents the potential for significant downstream benefits by stimulating subsequent resource development projects by the private sector.

It presents substantial ancillary benefits through reducing the costs of fuels and supplies to the citizens of the area.

It represents a significant boost to the prosperity of Alaska's native corporations.

It represents a major thrust forward of Alaska's role as an exporter.

Most important, it generates a strong financial return on the investment: in excess of 14 percent.

IN SHORT, this investment opportunity — from virtually every vantage point — is about as perfect as you can get. It represents an ideal prototype investment by the public sector to stimulate investment by the private sector.

I am referring to the port and road associated with the Cominco/NANA Red Dog project.

This resource development package, representing a viable, cooperative effort by the public sector and the private sector, is precisely what we Alaskans have been looking for.

The Cominco/NANA Red Dog project involves a zinc, lead and silver mine 90 miles northeast of Kotzebue which would be the largest zinc mine in the world. It will create 630 full-time jobs for the duration of its 80 years of operations. It will inject \$100 million annually into the Alaska economy in the form of payroll and benefits, local purchases, transportation, taxes, and royalties to native corporations.

ON-SITE construction work is expected to commence in 1987, and production is scheduled to begin in 1989.

The total cost of the project is estimated to be \$400 million, including \$150 million for the port and road. Cominco will guarantee to pay the toll fees and the cost of operation and maintenance of the facilities. Cominco further guarantees that, if it is necessary to postpone develop-

ment of the mine, it will repay the state the money which the state has invested in the port and road.

There are two very important distinctions to keep in mind when analyzing this project. The first is the definition of return on investment. The second is our understanding of whether or not Alaska is facing a buyer's market or a seller's market.

First the definition of return on investment. As any financial analyst knows, return on investment embodies the full array of incremental returns — all of the primary, secondary, tertiary and further financial benefits of an investment — including not only revenue generation but cost reductions. Cominco's calculations show that the return generated from the toll fee and the direct taxes to the state from operation of the mine generates a return on investment of 12.8 percent.

Secondly, existence of the mine would in turn reduce transfer payments (welfare, unemployment, etc.) to the region, estimated by the governor's task force to generate another 0.9 percent return, increasing the total return to 13.7 percent.

Additionally, when the multiplier effect is added in (that is, the taxes paid by all of the firms which sell goods and services to the mine and to the workers at the mine) the return increases to over 14 percent.

The second critical element is timing. Alaska is not the sole possessor of huge rich zinc deposits. There are many other potential places for investment in lead and zinc mines by the private sector, and there is not room in the forecasted gap between world demand and supply to accommodate all of the potential mines. Indeed, Alaska is a seller in a buyer's market, and in order for us to pre-empt other potential producers, we must move now to take advantage of this window of opportunity.

It is in Alaska's self-interest to move ahead vigorously with this ideal opportunity for a significant thrust forward in our critical striving for a more diversified and expanded economic base.

*Robert R. Richards, an economist, is vice chairman of Alaska Pacific Bancorporation.*

Original sponsor: Rules/Governor

1  
2 IN THE HOUSE

BY THE HOUSE SPECIAL  
COMMITTEE ON STATE LOANS

3 CS FOR HOUSE BILL NO. 105 (Loans)

4 IN THE LEGISLATURE OF THE STATE OF ALASKA

5 FOURTEENTH LEGISLATURE - FIRST SESSION

6 A BILL

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

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

13 \* Section 1. AS 37.15.410 is amended to read:

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

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

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

1 AS 44.88.173 and, to the extent feasible, shall incorporate into the final  
2 finance plan for the DeLong Mountain transportation project the following  
3 terms and conditions:  
4

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

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

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

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

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

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

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

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

1  
2 (A) ensures a reasonable return on the state's investment  
3 in the project; and

4 (B) guarantees equitable access to the facilities by all  
5 users.

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

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

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

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

**DEPARTMENT OF REVENUE**

TREASURY DIVISION

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

April 15, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

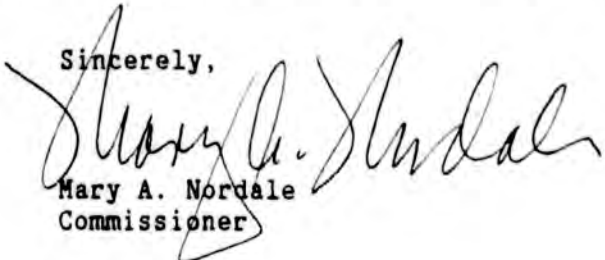
Implicit in the question is an assumption that the cash flow from the loans and the \$18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the \$18 million and only the \$71.6 million on the loans.

Hon. Arliss Sturgulewski  
April 15, 1985  
Page 4

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

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

Sincerely,



Mary A. Nordale  
Commissioner

MAN/gb  
85-57

Enclosure

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

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

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

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

Cook ✓

A M E N D M E N T

BOND COUNCIL

Offered in the HOUSE  
TO: HB 105

BY THE HOUSE SPECIAL  
COMMITTEE ON STATE LOANS

Page 1, lines 6 and 7, delete:

"international airport revenue bonds authorization" and insert "au-  
thorization of bonds or notes, establishing conditions under which the  
bonds or notes for the DeLong Mountain transportation project may be  
issued"

Page 1, after line 22, insert the following new bill sections:

"\* Sec. 2. The Alaska Industrial Development Authority is authorized to  
issue bonds or notes in a principal amount not to exceed \$175,000,000 to  
provide financing for the DeLong Mountain transportation project. Bonds or  
notes may not be issued under this section until *FINANCING PLAN  
FEASIBLE*

(1) Cominco, Ltd. agrees in writing to terms and conditions  
under which

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

(B) Cominco, Ltd. will repay all expenditures by the state  
for the project through toll fees for the use of facilities construct-  
ed as part of the project;

(C) payments by Cominco, Ltd. to the [state] will be *A.I.D.A.*

260-million  
30-YEARS  
(0+14) ADDITION

accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable profit;

Oh

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

CASHOLD INTEREST

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, <sup>AND MATERIAL</sup> land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

Oh

(4) the Alaska Industrial Development Authority ~~obtains a ruling from the Internal Revenue Service that bonds or notes issued under this section will qualify for tax exempt status;~~

→ MAYBE THE USE OF TAX EXEMPT FINANCING.

(5) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures a reasonable return on the state's investment in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted; and P - Authority → Bondholder (ECONOMIC DEVELOPMENT FUND) (GEN. FUND)

(6) the Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of this section have been met.

\* Sec. 3. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 2 of this Act that the authority will establish a capital reserve fund for the

purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state."

Renumber the following bill section.

Introduced: 1/23/85  
Referred: Transportation and  
Finance

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 105

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

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

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

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

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

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

ADD



BILL SHEFFIELD  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 23, 1985

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

Dear Representative Grussendorf:

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

Sincerely,

A handwritten signature in cursive script that reads "Bill Sheffield".

Bill Sheffield  
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: HB 105

Title: \_\_\_\_\_

Sponsor: \_\_\_\_\_

Requestor: \_\_\_\_\_

Date of Request: \_\_\_\_\_

FISCAL DETAIL

Agency Affected: Debt Service

Program Category Affected: \_\_\_\_\_

General Government

BRU, Program or Subprogram(s) Affected: \_\_\_\_\_

IARF Debt Service and Fees

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

<b>CAPITAL</b>						
----------------	--	--	--	--	--	--

<b>REVENUE</b>						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
<b>TOTAL</b>		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

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

Prepared By: Ron B. Lind, Director

Phone: 465-3911

Division: Financial and Administrative Services

Date: \_\_\_\_\_

Approved by Commissioner: Walter S. Sparks

Date: 1/11/85

Agency: DOT&PF

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

7/1/84



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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

April 9, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

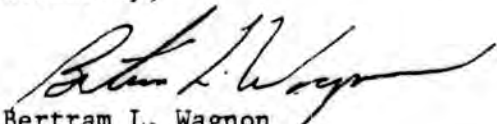
6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the \$18 million from the general fund, the \$142 million principal in loans, the interest on the \$18 million while in the fund, the interest generated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

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

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

Please let me know if you have further questions.

Sincerely,



Bertram L. Wagnon  
Executive Director

BLW:ec

Enclosures

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

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

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

**Notes**

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

ATTACHMENT II

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

<u>Fiscal Year</u>	<u>Cash Flow from Loans (000)</u>	<u>Fund Balance (000)</u>
1995	7,060	7,060
96	6,720	14,486
97	6,382	22,317
98	6,042	30,590
99	5,736	39,385
2000	5,698	49,022
01	5,604	59,528
02	4,841	70,322
03	4,041	81,395
04	3,833	93,367
05	3,729	106,433
06	3,672	120,749
07	3,023	135,846
08	1,624	151,055
09	495	166,656
10	93	183,414
11	19	201,775
12		221,912
13		244,147
14		268,562
15		295,418

**ATTACHMENT III**

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

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

STATE

BILL SHEFFIELD, GOVERNOR

**DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT**

POUCH D  
JUNEAU, ALASKA 99811  
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

April 8, 1985

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

Dear Senator Sturgulewski:

Re: \$142 Million AIDA Transfer

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

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

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

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

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

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

No, both organizations expect repayment on a timely basis.

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

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

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

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

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

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

April 8, 1985

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

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

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

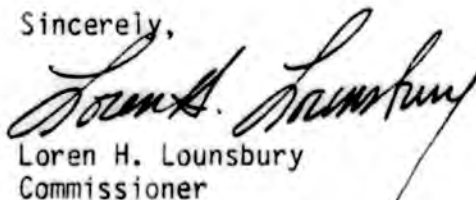
5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the \$142 million as of July 1, 1985?

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

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

Please let me know if you have further questions.

Sincerely,



Loren H. Lounsbury  
Commissioner

LHL/mst1748m  
040385c

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



## **ALASKA PUBLIC INTEREST RESEARCH GROUP**

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

### The Red Dog Road and Port Project

**THE PROPOSAL:** Cominco/NANA have formed a joint venture to develop the Red Dog zinc/lead deposit just north of Kotzebue near the mouth of the Noatak River. The deposit is 55 miles from tidewater. With Administration support, Cominco /NANA is pushing the State to build a port facility and road from the deposit to tidewater for transportation to smelters in British Columbia and Japan.

Though major components of the plan have changed several times in the last 2 months, the most recent plan is for the State to transfer \$142 million of the State's loan portfolio to the Alaska Industrial Development Authority's (AIDA) Economic Development Fund. The loan principal and interest would form collateral for a \$175 bond issue for construction of the road and port. Some portion of construction costs would be paid by facilities users over the life of the project.

Until today, an \$18 million appropriation to AIDA for the project was in the governor's budget. In February, 1984, the total cost of the project was anticipated at \$135 million. That figure increased to \$150 million in February, 1985, to \$165 million in March, 1985 and \$193 million in late March, 1985.

Varying moratoria on repayments, low-interest or no-interest loan terms, term repayment schedules and outright grants have been discussed by state policymakers and Cominco. The value of direct subsidy on the part of the State has varied from \$40.1 million in February, 1984 to \$65 million in February, 1985 to a high of \$90 million in March, 1985.

NANA and Cominco have worked out a detailed agreement covering shared profits, local hire goals, efforts to minimize the adverse impacts of the project on the NANA region, etc.

Once the infrastructure is in place, the State and Cominco/NANA anticipate that other deposits in the area will be exploited as development

costs go down. GCO, Inc. owns rights to the Lik deposit 10 miles from Red Dog, and Cominco has control of the nearby Su deposit.

**COST/BENEFIT OF PROJECT:** The State projects a 5.3/1 (down from 6.2/1) cost-benefit ratio for the port and road project. (Assumes .60/lb. price for zinc, 15% return on investment for Cominco/NANA, \$40.1 million subsidy, \$169 million in direct returns to the State in taxes or transfer payment savings.)

"The ratio is high because it appears the project would not be viable without State support. Under the foregoing assumptions, the minimum level of investment the State can make in the project and have any expectation of immediate development is estimated to be \$40.1 million. Higher involvement by the State through larger amounts of subsidy will increase expected rates of return to Cominco . . . . The State could subsidize the project up to \$245.0 million and still have a benefit/cost ratio greater than 1 . . . . If the zinc price is lowered from .60 to .55 per pound (the low side of our estimated future price), the rate of return to Cominco would also fall. At the .55 price, to get the return to Cominco up to 15% the State might have to put up a subsidy of \$158.0 million in the project. Because of the lower price, the taxes are also lower; this, coupled with the higher level of subsidy, reduces the benefit/cost ratio to 1.25 in comparison to the 6.2 figure generated by a .60 price." (Red Dog Project Analysis, February, 1984.)

At .63/lb., the project is expected to be viable without state investment. The current price of zinc is .45/lb.; of lead, .19/lb.

**OTHER ISSUES:** In addition to state sponsorship of the project, a few other issues must be resolved. The road route preferred by Cominco/NANA, the southern route, is less environmentally damaging. However, it runs through the Cape Krusenstern National Monument. The joint venture has applied for a land exchange and right of way from the Dept. of Interior. Congress is considering a bill approving the land exchange.

Just as difficult is the conflict between NANA and the North Slope Borough over jurisdiction over the Red Dog deposit. After ANCSA, the Arctic Slope Native Assoc. formed a borough which included a strip of land (the Red Dog deposit) which now is part of the NANA regional corporation. The borough and regional corporation boundaries should be roughly contiguous, but the processes were completed out of synch with each other and thus the important discrepancy occurred.

Without the tax base represented by the Red Dog mine, a proposed NANA area borough will not have enough revenues to function. Since the disputed area is not populated (and a simple vote cannot be taken), a complicated detachment process is underway. Various technicalities preempt the Legislature from signing off on any agreement until the '86 legislative session. NANA has indicated that if the boundary dispute is not settled, and tax policy is not clear, the mine will not be developed.

COST/BENEFIT OF THE MINE ITSELF: The Red Dog Project Analysis anticipates the following costs and benefits of the mine:

Employment:

Direct:           143 jobs during construction  
                      (40% NANA residents)  
                      375 jobs during production  
                      (50-75% NANA residents)

Indirect:         92 during construction  
                      (23 in NANA villages)  
                      226 during production  
                      (106 in villages)

Income:

Direct:           \$8.8 million/yr during construction  
                      (\$3.5 million to NANA residents)  
                      \$12 million/yr during production  
                      (\$7.5 million to NANA residents)

Indirect:         \$2.3 million/yr during construction  
                      (\$575 million/yr in villages)  
                      \$5.7 million/yr during production  
                      (\$2.7 million/yr in villages)

Jobs for previously unemployed people:

During Construction: 38-- 12 in villages, 7 outside AK

During Production: 93--51 in villages, 10 outside AK

Tax revenues :

(Corporate income tax and mining license tax, based on probable price of zinc at .60/lb)

Cominco:

\$2 million per year through 1992, \$8 million in 1993, average \$10/<sup>million</sup>per year through 2008.

NANA:

\$2.36 million per year through 1991, \$6.68 million after 1991.

Last year's investment tax credit grants the joint venture nearly \$15 million in tax breaks through 1994.

ZINC OUTLOOK: Today's zinc price is .45 lb., lead price is .20/lb. The State's analysis of the Red Dog project assumes 20 year real prices for zinc and lead to average .60/lb and .35/lb respectively. Today's low prices are supposedly reflective of low recessionary demand and high supply of metals. Developing technology should bring about some product substitution for lead, little for zinc.

Business Week's 12/17/84 issue featured a cover story, "The Death of Mining." In it, the authors lump zinc and lead in with copper, nickel and moly markets and envision bad times ahead for the long term future. Cominco has reflected worldwide difficulties: it lost \$31 million in 1982 and \$39 million 1983. Analysts anticipate that lead and zinc demand will increase by 1-2% in the next ten years. The State is assuming a 2.5% increase in demand annually. The article does emphasize that third world mines are coming on line rapidly and are far superior to American mines as far as recovery technology goes. The Red Dog mine is analogous to a third world mine in this sense, except that transportation costs as a proportion of production costs are higher (40%) than average (10%).

Brad Tuck of the Institute for Social and Economic Research, wrote a chapter on mining in Alaska Resource Development last year. He anticipates that world metal prices will not increase significantly (prices would have to increase by 35% to reach the probable price of .60/lb in the state analysis). "The State will at best derive only modest revenues from non-fuel mineral and coal development. Annual revenues by the mid 1990s from Red Dog, Eagle, Greens Creek and Quartz Hill will be less than \$10 million."

-



## **ALASKA PUBLIC INTEREST RESEARCH GROUP**

Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

### RED DOG ROAD AND PORT FACTSHEET

The Alaska Industrial Development Authority (AIDA) with the support of the Administration, is pushing for an \$18 million appropriation to AIDA's Economic Development Fund, along with a commitment of the interest and principal on \$142 million of the State's loan portfolio. This commitment will become collateral for a bond issue of \$175 million for actual road and port construction.

Over the past year, the estimated cost of the project has risen from \$135 million to \$193 million, an increase of 42%. The level of direct state subsidy increase from \$40.1 million to \$65 million between February, 1984 and February, 1985. Current options include direct subsidies of up to \$90 million. If no appropriation is made, the State will provide a \$15 million subsidy to the project through tax breaks already on the books.

When the legislature gave AIDA authority to develop and own projects such as the proposed road and port, it required that AIDA produce a Finance Plan for the legislature and the governor, laying out financing options. AIDA is specifically required to seriously consider those options requiring the least state involvement.

Although the legislature is being pressed to fund the project now, before the money runs out, the conclusions of the Finance Plan will not be available until next August at the earliest. In the meantime, the legislature is considering a \$142 million loan appropriation and \$175 million bond authorization based on a series of "finance options" assembled in less than 24 hours.

The Alaska Public Interest Research Group feels that the DeLong Mountain Regional Road and Port Facility is a poorly planned project, based on inadequate financial backup and nonexistent investment criteria. Given the State's other pressing needs and declining revenues, the project should not be funded this year.

If the legislature chooses to invest in the Red Dog road and port project, it should protect Alaskans' interests by:

\*Limiting the extent of the State's direct subsidy to the initial appropriation of \$18 million;

\*Requiring Cominco/NANA and any other future users to repay the principal and interest of a market value state loan from AIDA;

\*Requiring Cominco/NANA and any other future users to cover operation and maintenance costs of the project;

\*Requiring AIDA to return to the General Fund any toll payments beyond those necessary to repay the debt service and secure outstanding bonds;

\*Putting a time limit on the project: if conditions are not met by March 15, 1986, the bond authorization lapses.



Proposed Amendments to SB 280

Section 1. (1) (c) Cominco, Ltd. will repay all expenditures (market rate interest and principal) by the State for the project through toll fees paid beginning the year of project completion for the use of facilities constructed as part of the project; ( and other payments;)

Section 1. (2) The United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Dept. of Interior or a right of way as authorized by Title II of ANILCA:

Section 1. (3) NANA Regional Corporation agrees in writing to convey to the Alaska Industrial Development Authority, (at no more than fair market value,) at no cost, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

Section 1. (5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that all bonds or notes issued under this section will qualify for tax exempt status; (and;)

Section 1. (6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that minimizes the cost to the State of (ensures the greatest return on the state's investment in) the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

Section 1. (7) the Alaska Industrial Development Authority ensures that Cominco and any other future users will pay all operation and maintenance of facilities constructed as part of the project, on a pro rata basis;

Section 1. (8) the Alaska Industrial Development Authority agrees to limit the present value of the direct subsidy to the project to \$18 million;

Section 1. (9) the Alaska Industrial Development Authority agrees to turn over any funds not necessary for bond security or construction of the authorized project to the general fund as they become available;

Section (2). If the Alaska Industrial Development Authority does not issue bonds for the project by March 15th, 1986, this bond authorization lapses.

# Alaska State Legislature

## House of Representatives

### Committee on Loans



POUCH V  
JUNEAU, ALASKA 99811

PHONE  
(907) 465-4919  
(907) 465-4920

TUESDAY, APRIL 16, 1985  
3:30 p.m.  
Capitol Room 124 (House Judiciary)

- \* HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Loan Program Funding for FY 86.

For more information, contact JOHN HARTLE  
CAPITOL ROOM 411  
465-4919

\* Indicates first public hearing.