

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1303 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86



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.

Cominco's Red Dog plan masks subsidy

A few weeks ago, three representatives from Cominco, a Canadian-based mining company, argued their case for the Red Dog zinc mine before the Fairbanks Chamber of Commerce.

It was quite a presentation. There was a film and a slide show to boot. The inescapable conclusion seemed to be that the mine was of great benefit to the state. People would get jobs during the construction phase and, for a lucky 400, there would be permanent employment at the mine itself.

NANA, the Kotzebue based regional corporation, owns the prospective minesite, for which it expects to receive hefty royalties. Because of some peculiar provisions of the Alaska Native Claims Settlement Act, all the other regional corporations will share in the profits. It sounded like a good deal for everybody.

Cominco's arguments were persuasive, except for just one item. The whole project was said to depend on the expenditure of \$150 million by the state to build a road for hauling the ore and a port facility for shipping it out. Only then could the company put its financing package together for the rest of the operation.

With all the free-market advocates in the room, you'd have thought somebody might at least twitch or moan softly over that part of the deal. Nobody did, though. Apparently that kind of state spending is universally acceptable in Alaska these days.

In fairness, the Cominco people thought that the \$150 million was not really a subsidy. Besides being the kind of "infrastructure" that the state is supposed to provide, the road and port would generate a user fee of \$10 million every year for 30 years, thereby doubling the state's money.

The trouble with the "infrastructure" argument is that the facilities aren't being built for public use, but for private profit. And if you do your math, you'll find that \$150 million paid back over 30 years at \$10 million a year amounts to a loan at a very low interest rate.

If a low-interest loan isn't a subsidy, why can't you get one to buy a computer, or a front-end loader, or an addition to your house? Of course the state's contribution to Red Dog is a subsidy; furthermore, it raises important questions of policy in Alaska.

If the state's arrangements with Cominco and NANA are approved,



Steve Cowper

Views expressed here do not necessarily represent those of the Daily News-Miner

you can bet it won't be the last such request. In fact, it will be a signal for all sorts of proposals to "create jobs" and to "diversify the economy."

Who is going to get these subsidies? The ones who promise campaign contributions? Those in the districts who deliver the votes to the right people? Furthermore, who is to control where the subsidies go? The legislature? The governor? A council of wizards? A dart board?

Down in Ketchikan, U. S. Borax is waiting for better market conditions before developing their molybdenum mine some miles away. To Borax's credit, they've never asked for a state subsidy, but after Red Dog, why shouldn't they? Jobs are hard to come by in Ketchikan, and more people live and vote

there than in Northwest Alaska.

In case you hadn't noticed, there aren't any rules any more about public spending. Nothing is out of bounds. The money's free (meaning it comes from the oil companies), so there isn't any reason to watch the till. Plenty more where that came from, right?

Wrong. The downward drift in worldwide oil prices has created a massive treasure hunt in Juneau. They're looking for money everywhere, but they won't find much. The next thing you know, they'll be looking at our wallets.

So we'd better make some kind of informed judgment as to whether we really want to subsidize industries in Alaska, and if so, which ones. If we decide that government participation in private business ventures is a good thing, then we need to decide what standards will apply to such activities so that things won't get out of hand.

Government participation in the marketplace is not new. All sorts of countries have tried it: Great Britain, Brazil, Nigeria, Poland. None of them could figure out how to make it work, though, for in the end the government does not respond to the market. It responds instead to political pressure.

According to the available evidence, the wisest course for Alaska to take is to forget subsidies to industry. We can help to encourage entrepreneurship in a lot of intelligent ways - providing useful information, a sensible regulatory structure, low taxes - but all the indications are that the laws of the marketplace ought to determine whether natural resource extraction can be profitable.

None of this is an indication of hostility towards the Red Dog project. I hope the world suddenly discovers thousands of new uses for zinc. I hope Cominco and NANA are able to put it together and that everybody involved gets rich. I wish them all the success they can achieve, as long as they don't use my tax money.

In the meantime, here's some more math. If we invested the \$150 million at 11 percent, the \$16.5 million in annual interest would be enough to give each one of those 400 Red Dog employees \$41,250 a year forever, and none of them would even have to pick up a shovel.

Of course math is the same thing as logic, and we all know how much logic has to do with it.

Steve Cowper, a former state legislator representing Fairbanks, is a lawyer now engaged in professional arbitration.

...part of a science project for a
or high school student.

Junkie didn't do well. He slowed
down, got fat and dropped dead.
Healthnut stayed healthy and
learned to speed through the maze.
And Lori Demond, a student at Was-
illa Junior High School, concluded in
her project that diet had affected her
pets' performance.

Junkie did not die in vain. He was
a participant in one of the 213 experi-
ments that packed West High

the International Science and Engi-
neering Fair on May 11.

Some of the projects were simple;
others were startling in their sophis-
tication. And some were just plain
fun.

There were the banana batteries,
created by amateur scientist Bill Nor-
ton. The student plugged zinc and
copper plugs into fruit and measured
the trickles of power produced by
chemical changes inside. The banana
wasn't too great, Norton wrote. The

the judges plenty of consumer tips.
Youths determined that a "new and
improved" brand of gum tasted no
better than its unimproved ancestor.
The students also tested shampoos,
toothpastes and the teeth-staining
power of various soft drinks.

"Some of these projects are really
something," said fair director Robert
Pawlowski.

While science fairs have been held
here for decades, the sophistication of
the projects have been increasing

Curiosity and tenacity provided the
winning combination for the 11 first-
place winners.

The grand-prize winner, Jeff
Morgheim, won a trip to the Interna-
tional Fair for his elaborate experi-
ment on the effects of ultraviolet
light on some forms of plant hor-
mones. Other first-place winners stu-
died the effects of aloe vera on rabbit
injuries; the effects of cold tempera-

See Page B3, SCIENCE

tigator and one of the mission
astronauts, Don Lind, a mag-
netospheric physicist, with in-
formation about expected au-
roral activity.

"It's really going to be up
to Don. There will be so much
aurora, and he will make the
decision about which to vi-
deotape and when. He spent a
year at UAF as a visiting
professor, so he has a good
idea of what I'd be consider-
ing."

Clocks in urges close look at Cominco ties to S. Africa

By ROBB FULCHER
United Press International

JUNEAU — An interna-
tional mining firm's plan to
develop a huge zinc deposit in
northwest Alaska should be
carefully scrutinized, because
the firm has a joint venture
diamond mine in South Africa,
the House majority leader
said Friday.

"I have always been cau-
tious about the Red Dog Mine
project because of the amount
of state money involved, and
the fact that they have inter-
ests in South Africa does not
make them look any better,"

Rep. Don Clocksin, D-Anchor-
age, said.

Clocks in has co-sponsored a
resolution calling for the state
of Alaska to sever its busi-
ness ties with South Africa
until racial oppression in that
country is ended.

South Africa's apartheid
system of racial separation,
which sharply curtails the lib-
erties of the country's 22 mil-
lion blacks and does not rec-
ognize them as citizens, is
drawing increasing criticism
in the United States.

Cominco Ltd., a Vancouver,
British Columbia-based min-

ing firm, wants to develop a
vast zinc deposit northwest of
Kotzebue, in cooperation with
the NANA Native regional
corp., which owns the land
over the mineral deposit.

The Sheffield administra-
tion has supported the devel-
opment, and has announced
plans to pump \$150 million
into the project, although offi-
cials have not made it clear
how the money would be
made available.

Legislation has been intro-
duced in the House and Sen-
ate that would make \$175
million available for the

project in the form of bonds
and grants to fund the con-
struction of a road and port to
service the mine.

Under plans by the legisla-
ture and the administration,
the state would recover its
investment in the mine
through tolls and user fees
from the road and port.

Clocks in said the Cominco
project should be looked at
closely because of the amount
of state money involved, and
the South African connection
makes the project even more
questionable.

"South Africa would not be

a deciding factor in my deci-
sion on whether to support
the project, but it is one of
the considerations," Clocksin
said.

Cominco has been taking
part since 1978 in a small,
joint venture diamond mine
north of Cape Town, South
Africa, and maintains an ex-
ploration office in Johannes-
burg, company spokeswoman
Lisa Parker said.

There are 120 employees,
almost all of them black
South Africans, at the mine,
and nine employees at the
exploration office, Parker

said.

Cominco officials stressed
that the South Africa employ-
ees are paid at least 50 per-
cent above the prevailing
South African minimum
wage, and they have benefits
such as a pension plan, death
and disability benefits and a
minimum 18 days paid vaca-
tion each year.

The mine employees work
a five-day, 51-hour week and
are paid room and board in
addition to their wages, Par-
ker said.

See Page B-3, COMINCO

Spotlight on libraries — something you can make book on

April 15, An Daily News

It's going up, this wonderfully huge build-
ing that looks like an assemblage of Quaker
Oats boxes: the new state headquarters li-
brary, which probably is to be called the
Loussac Library, but which I would just as
soon name after Wilda Marston. On my list of
civic priorities, I have to admit I put libraries
at the top, even ahead of performing arts
centers and limited-access freeways. I am, I
suppose, a library junkie.

I am not the only one.

There is in fact a group called Friends of
the Library, which sounds like a pretty good
group to belong to if you are a joiner.
Librarians need all the help they can get.



satch carlson

ets.

Besides, if it weren't for libraries, I
wouldn't be what I am today. Whatever that
is.

I don't remember how it was that I came to
be familiar with the Washoe County Library
as a child; it was a somber, gothic place (since
replaced with the most wonderful library in
the Western Hemisphere — but that's another
story), with a special section for children, one
of which I was stuck as at the time. But it
didn't seem to bother the librarians if I
wandered out of the children's section into the
Big Time, the REAL stacks. (Not that the

strongly influenced by H. Allen Smith. Twen-
ty years later, on rereading him, I was
astounded at the similarities in our writing
styles — and I can't think of a way to claim
that his was derived from mine.)

The first time I checked out books from the
real stacks, of course, I was terrified, but the
librarians didn't bat an eye; they didn't care if
I was corrupting my morals by reading
humorists, as long as I got the books back on
time. For my part, I was enchanted and
grateful to live in a place that provided books,
all kinds of books, that I could read for free.

Hill's project started with a tankful of dead fish and a mystery. The fish were floating in an aquarium near the blackboard in a Dillingham High School classroom. The mystery was what killed them.

Hill, a sophomore, spent months chasing the fish killer — which she now suspects was dust left by newfangled blackboard pens. Those pens, Hill said, contained ketone solvents which can lead to skin irritation and are suspected of causing respiratory and nervous damage.

"We thought that the dust from the pens may have fallen into the tank," she said. "Once we put a cover over the fish, they stopped dying."

Hill's work garnered her \$50 in cash, a blue ribbon and a blender.

But while she won, she said she wants to know a lot more about the pens which are now commonly used in Alaska schools. She wrote to several pen manufacturers asking them for information on their ink. There were no replies, she said.

"I still haven't figured out exactly what's in them," Hill said of the suspect pens. "The manufacturers don't give away that kind of information."

Manslaughter conviction upheld

The Associated Press

The conviction and sentence of Stephan J. Dresnek of Anchorage for manslaughter and assault in connection with a drunken driving case were upheld Friday by the Alaska Court of Appeals.

A two-ton pickup driven by Dresnek collided with a

Today there are 129 international students at UAF. Canadians (32) still dominate, but there is a smorgasboard of global representation.

Most students have made their way here without a formal exchange program and without financial assistance. Many are older, graduate students.

"Homesickness is of more importance with them because they are quite a bit farther from their homes," says Greg Snoddy, head resident at Nerland Hall, where many of the foreign students live. "The important thing is to keep them busy, get them in with the crowd, try to introduce them to people, activities, on campus."

Toward that end, Nerland Hall is the scene of international dinners, speakers, student programs on their home countries and slide shows. "We

directors or deans to allow the students to enter the university even though their English is not up to par," Snoddy says. "That's a major problem. We need to set a straight policy on English language ability for the students."

Arna Isacsson is from Sweden. Her English is easily understood, with only a faint accent.

"I wanted to see a wildlife management program in the states. Since I'm from up north in Sweden, I wanted something similar (geographically)," she says. "We don't have wildlife programs in universities like they have here."

Isacsson wants to return to Sweden to work with wildlife in the Laplands, specifically wolves. There are only eight, but even with such a small population, "the wolf question in Sweden is as hot as it is here," she says, referring to predation conflicts.

Swedish children study English in

they watch TV."

Isacsson says she's had problems because she insists on doing independent study and taking higher level courses. But lectures are the tough part.

"It's so fast all the time. You're listening with your pen. So many words I didn't know how to spell."

She'd write those down, guessing at the spelling, "and I couldn't figure out what I meant" later, she says.

"I have found the people that are most open to me are the people from other countries," says Isacsson. "They yield more. They open up more, to learn what I have to say from my culture, while Americans say, 'This is not Sweden. You have to adapt.'"

Masumi Tsurumi is on exchange from Nagoya Gakuin University in Japan, studying economics. Her English does not come easy, although it was required at junior and senior

and reading comprehension learned, Tsurumi says speaking English is another matter.

"We have an English handicap, listen to lecture in my case, sometimes I can't understand what the instructor says. Sometimes I need transfer from English to Japanese she explains.

Vahid Hashemi, an Iranian, had a head start. He went to high school in America, and started at a junior college in California before coming to UAF to major in electrical engineering.

He was surprised to find many things in Alaska are less expensive than Outside.

"The food is not cheaper, definitely, but the overall living on campus comes out cheaper than the Lower 48," he says.

But what he likes best about Alaska is that people are "friendly, very friendly. When I was in the Lower 48 they were friendly, but there was distance," he says.

Cominco ties questioned

Continued from Page B-1

The employees get a three-day weekend and free travel home to their villages once each month, Parker said.

The South African government maintains that the country's blacks are not citizens of South Africa but are instead citizens of black-only villages, and they are allowed to live permanently on only 13 percent of the country's land.

Cominco spokesman Don

Townson said Cominco is in compliance with the Canadian Code of Conduct Concerning the Employment Practices of Canadian Companies Operating in South Africa.

The code, established by the Canadian government, directs companies to pay equal wages for equal work, to pay at least 50 percent above South Africa's minimum wage, and to allow workers to form unions.



SHATTER YOUR OLD IMAGE.



State of Alaska

PERMANENT FUND DIVIDEND ASSISTANCE

A Representative from the Alaska Department of Revenue will be available for Permanent Fund Dividend Assistance Tuesday, April 16 thru Saturday, April 20 at the following location:

SEARS MALL - Sears Entrance

11:00 a.m.- 7:30 p.m. Tuesday thru Friday
10:00 a.m. - 6:00 p.m. Saturday

Note: There will not be a representative available from 3:00 - 4:00 pm.

Business License Applications and 1984 Claim for Refund of Political Contributions and Child Care Expenses will also be available. For information, assistance, or applications contact our representative at the above location or call 276-2272.

State contract delayed on Red Dog mine study

By ANN CONY
Daily News reporter

JUNEAU — Work on a \$267,000 state contract to study options for financing Cominco Ltd.'s proposed Red Dog mine has been delayed by a conflict of interest within the company chosen to do the study.

The conflict, involving SRI International of Menlo Park, Calif., was revealed earlier

this month when state officials learned that the SRI project manager was a retired Cominco officer. The man draws a monthly pension from Cominco, according to Bert Wagnon, executive director of the Alaska Industrial Development Authority, which is overseeing the study.

SRI has since named a new

See Back Page, RED DOG

Red Dog Mine study delayed

Continued from Page A-1

project manager to avoid the appearance of a conflict of interest, said Wagnon.

AIDA plans to negotiate with Cominco the terms of proposed state financing after the SRI study is completed. The study is to include recommendations on financing terms and conditions.

Cominco is asking the state for a \$150 million low-interest loan to build a port and a 57-mile road to serve the proposed zinc mine north of Kotzebue.

Cominco, an international mining company based in Canada, plans to develop the Red Dog zinc deposit in partnership with Nana Regional Corp., a Kotzebue-based Native corporation that owns the land.

Cominco and the Sheffield administration have asked the legislature to appropriate the first \$18 million of the loan this year, though terms and conditions for state financing of the port and road will not be nailed down before the legislative session ends.

Department of Administration Commissioner Lisa Rudd on Wednesday cleared the way for AIDA to enter into a contract with SRI by rejecting as too late a protest filed Monday by an SRI competitor.

Arthur Young & Co., whose proposal had been rated second-best, argued that the state should re-evaluate the top proposals for the financing study because SRI's proposal relied heavily on the experience of A. Olaf Wolff, a former vice president of Cominco, whom SRI originally designated as the project manager.

"SRI's independence and objectivity were compromised by placing an ex-Cominco official in the key role of project leader on their team," the Arthur Young protest said. "Obviously the firm selected to assist AIDA in developing a finance plan for

the Red Dog mine and port will be in a unique position of influence concerning the state's potential bargaining position in negotiating the commercial terms and conditions of any future state financial assistance to Cominco."

SRI officials could not be reached for comment Wednesday evening.

Wolff's resume, which was included in SRI's study proposal, states that he is former vice president of Cominco.

Wagnon said he and other AIDA staff members were aware of that when they rated SRI's proposal above Arthur Young's and 11 others.

While the resume did not list the dates of Wolff's employment with Cominco, it appeared that he had been with Cominco for five years and he had held held jobs with two other companies including SRI, since leaving Cominco, Wagnon said.

The AIDA board of directors, controlled by Sheffield appointees, on Feb. 25 accepted staff recommendations that SRI receive the contract.

While negotiating the SRI contract, "I came to find out that he (Wolff) retired from Cominco in 1970 and that he was there for 25 or 30 years," Wagnon said. "When he said the word 'retired,' that's when the red light went on."

Wagnon said he learned that Wolff receives monthly pension payments from Cominco.

SRI replaced Wolff with Eugene Thiers, who, like Wolff, holds the title of senior management consultant, Wagnon said.

The AIDA evaluation team reviewed Thiers' resume and judged his qualifications to be equal to or better than Wolff's, and the AIDA board of directors concurred, Wagnon said.

AIDA had planned to submit a first draft of the Red Dog financing plan to the legislature in mid-April.

Anc Daily News 3/21/85 p.1

Cominco closing may rescue zinc

by Olav Sveta

When Cominco Ltd. announced a month-long closure starting mid-December of the Polaris zinc-lead mine and the Black Angel mine in Greenland, it was thought its European customers' appetite for concentrates had been sated.

That is true. The European smelters and refiners of Cominco zinc concentrates are sitting with seasonally high inventories.

But the real reason for the closing of two profitable mines could be quite different than what is generally accepted, says Raymond Goldie, mining analyst with Richardson Greenshields.

At the time of the announcement, Cominco and its overseas customers, who rely on the company for nearly one-quarter of zinc metal production, were in the midst of negotiations. In the absence of new agreements, the Europeans could be sitting with near-empty warehouses by the spring of 1985.

Mr. Goldie believes Cominco is prepared to extend the shutdowns to prove a point — if the Europeans still demand discounts from the posted \$US900-per-tonne price, then Cominco will not be shipping concentrates.

"Cominco's actions appear to carry an implicit threat that, if zinc prices don't improve, Cominco will extend the shutdowns," Mr. Goldie said.

There is also the possibility the company, fed up with the braying for discounts by its traditional buyers, could strike a deal with Japanese smelters.

Nor does Cominco seem overly concerned about losing market share, Mr. Goldie noted. Marginal suppliers only reopened mines about a year ago when prices improved. With tags again at lower levels, these producers might be loathe to boost production until solid price gains have been made.

Besides, Mr. Goldie observed,

any expansions would require six months to complete.

So Cominco is taking the lead in showing discipline.

"It demonstrates that at least

one producer is willing to make a stand when it believes that it is not getting a fair price for its product," the analyst said.

The implication for the price of zinc? Obviously, less concentrates should translate into a tighter market. It hasn't happened so far with free market prices (London Metal Exchange) having slipped nearly a cent to 39.1¢ (US) since the Cominco move.

But Mr. Goldie is confident that with supply and demand in fairly close balance even before Cominco's actions, prices will respond.

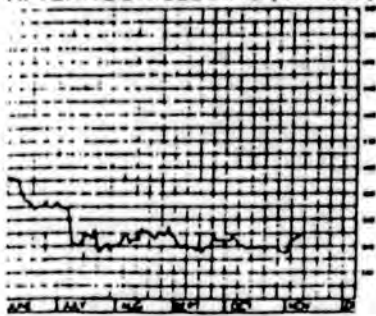
Cominco itself projects world shortages.

"Cominco and the smelters both have their eyes on the long term. Cominco wants to take full advantage of a major world shortage of zinc concentrates which, it expects, will develop by the late 1980s," Mr. Goldie said.

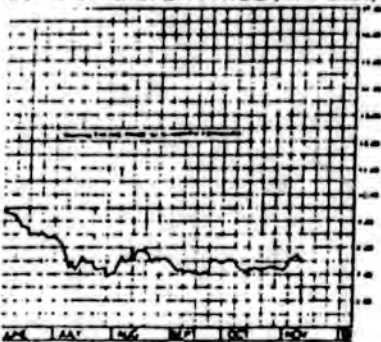
The strength of the yellow metal, meanwhile, continues. At presstime the second London fix (Nov. 13) was \$US350.45 while the key December contract on Comex was trading at \$350.90.

Richardson Greenshields analyst David R. James, noting "the much more positive tone to the gold market," said he expects a "ragged, slow erosion" of the American dollar if newly-elected President Ronald Reagan keeps his promise to try to lower interest rates.

LONDON GOLD PRICE — AFTERNOON CLOSING (in \$ U.S.)



LONDON SILVER PRICE (in \$ U.S.)



METAL AND MINERALS



Courtesy: GPS Publishing, Toronto

300

Closure of Polaris mine proof of Cominco's Red Dog commitment

By BERT TARRANT

There's more than meets the eye in Cominco Ltd. of Canada's recent announcement of a month-long closure (which began Dec. 1) of its Polaris lead-zinc mine in northern Canada.

When word of the closure was announced, the fact was jumped on by the Anchorage media as if it were proof positive that any efforts by the state to help Cominco Alaska and partner, NANA Regional Corp., develop the Red Dog lead-zinc project would be throwing so much money down a rat hole.

Cominco and NANA, the Kotzebue-based Native regional corporation, are seeking help from the state to take the edge off the steep front-end infrastructure costs (road and port) the joint venture faces if it is to develop what is considered the

richest lead-zinc deposit in the world.

NANA and Cominco had made notable progress in pleading their case and demonstrating the benefits of the project (especially in local hire in unemployment-plagued northwest Alaska) for state help when the Polaris closure (and one in Greenland) was announced.

Tactically, the announcement came at an inopportune time. The knee-jerk reaction from the media and some state-help opponents was that the closures indicated Red Dog wasn't all it was cracked up to be.

But mining industry analysts of international repute are taking an entirely different view of the closures.

When Cominco announced closure of the Polaris mine and

the Black Angel mine in Greenland, it was thought its European customers' appetites for concentrates had been sated.

That is true, according to industry observers in Canada. The European smelters and refiners of Cominco zinc concentrates are sitting on seasonally high inventories.

But the real reason for the closure of the two profitable mines could be quite different than what is generally accepted, says Raymond Goldie, mining analyst with Richardson Greenshields.

At the time of the announcement, Cominco and its overseas customers, who rely on the company for nearly one-fourth of zinc metal production, were in the midst of negotiations. In the absence of new agreements, the Europeans could be sitting with near-

empty warehouses by the spring of next year.

Goldie believes Cominco is prepared to extend the shutdowns to prove a point—if the Europeans still demand discounts from the posted \$900 per ton price, then Cominco will not be shipping concentrates.

"Cominco's actions appear to carry an implicit threat that, if zinc prices don't improve, Cominco will extend the shutdowns," Goldie said.

There is also the possibility the company, fed up with the braying for discounts by its traditional buyers, could strike a deal with Japanese smelters.

Nor does Cominco seem overly concerned about losing market share, Goldie noted. Marginal suppliers only reopened mines about a year ago when
See COMINCO, Page 18

• Cominco's mine move shows spine

Jed

Continued from Page 1
prices improved. With lower prices once again, these producers might be loathe to boost production until solid price gains have been made.

Besides, Goldie said, any expansions would take six months to complete. So Cominco is taking the lead in showing discipline.

"It demonstrates that at least one producer is willing to make a stand when it believes it is not getting a fair price for its product," the analyst said.

Although it hasn't happened so far, that should translate into a tighter market and higher prices and Goldie is confident, with supply and demand in fairly close balance even before Cominco's actions, prices will respond.

Cominco itself projects world shortages. "Cominco and the smelters both have their eyes on the long term. Cominco wants to take full advantage of a world shortage of zinc concentrates which it expects will develop by the late 1980s," Goldie said.

And the late 1980s, incidentally, is when Cominco and NANA would like to bring the Red Dog project on line.

Natives, U.S., Audubon ba

By BETTY MILLS

Daily News correspondent

WASHINGTON — Reagan administration officials, Native leaders and representatives of two national environmental groups Monday endorsed legislation to ratify a land exchange that would allow development of a major lead and zinc mine in Northwest Alaska.

Environmentalists from three national groups opposed the bill, which would allow construction of a road across

land that is now within the Cape Krusenstern National Monument. The road would allow the NANA Regional Corporation to gain access to its claim at the Red Dog mine, located 82 miles north of Kotzebue.

The testimony came at a Senate Energy subcommittee hearing chaired by Alaska Republican Frank Murkowski.

The bill was introduced by the Alaska delegation to implement the land exchange negotiated by NANA and the

Interior Department. Under the deal, the Natives would receive 64,000 acres of land in the northern part of the monument and would relinquish 102,050 acres the corporation selected on the eastern side of the monument.

NANA and Cominco Alaska have joined forces to develop the mine and want to build an access road in what is now the northwest corner of the monument. The route was determined to be environmentally preferred and ec-

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environmental
ment issued las

Bill Horn,
secretary of th
partment, said
change "preser
tial integrity ar
purposes of Cap
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istence uses and

Roger Conto
gional director
al Park Service
swap would be

Red Dog mine draws widespread support

Continued from Page C-1

Anchorage. The city's utility headquarters are in additional buildings and would not be included in a consolidation of city offices.

But the city is quickly running out of room for its workers and will need to lease more space for the 2,868 employees expected to be on the city payroll by 2005.

Mann and his staff looked at six options for future city office space, including purchasing the Hill Building, leasing a large office building to consolidate city offices and continuing the current practice of leasing several buildings throughout town.

But Mann said Monday the best deal for the city is to construct a new building with about 180,000 square feet of office space. A low-interest, tax-exempt loan could be used to finance the project, he said.

If work begins now on finding a site, arranging financing and designing a building, Mann said the new city hall could be ready in three years.

Any new leases in the next five years should include a clause that would allow it to be canceled when the new facility is completed, Mann said.

The city now pays about \$957,000 a year in rent to Zamarello's Olympic Inc. If the lease is extended through 1990, the rent would rise to about \$1.07 million a year.

The city pays about 89 cents a square foot in the Hill Building, well below current market rate for downtown office space, Mann said.

The \$8.7 million asking price for the building could be a bargain. The property was appraised at \$13.7 million by city assessors.

Red Dog mine

an neficial to resident or migratory wildlife of the monument" and would enhance fishery protection.

Willie Hensley, vice president of NANA, stressed the importance of the Red Dog project as a means of employing Natives in the area.

"For our shareholders, Red Dog means approximately 400 year-round jobs. These jobs and the economic survival of our people are what is at stake," he said.

The mineral prospect, located

in the DeLong Mountains of the western Brooks Range, represents one of the largest lead/zinc/silver deposits in the world, according to Henry Giegerich, president of Cominco Alaska. The deposit has known reserves of 85 million tons and the proposed mine has a projected life of 50 years, he said. The mining claim is not in the monument.

Murkowski said the land swap would benefit the Na-

See Page C-3, RED DOG

Red Dog Mine study delayed

Continued from Page A-1

project manager to avoid the appearance of a conflict of interest, said Wagnon.

AIDA plans to negotiate with Cominco the terms of proposed state financing after the SRI study is completed. The study is to include recommendations on financing terms and conditions.

Cominco is asking the state for a \$150 million low-interest loan to build a port and a 57-mile road to serve the proposed zinc mine north of Kotzebue.

Cominco, an international mining company based in Canada, plans to develop the Red Dog zinc deposit in partnership with Nana Regional Corp., a Kotzebue-based Native corporation that owns the land.

Cominco and the Sheffield administration have asked the legislature to appropriate the first \$18 million of the loan this year, though terms and conditions for state financing of the port and road will not be nailed down before the legislative session ends.

Department of Administration Commissioner Lisa Rudd on Wednesday cleared the way for AIDA to enter into a contract with SRI by rejecting as too late a protest filed Monday by an SRI competitor.

Arthur Young & Co., whose proposal had been rated second-best, argued that the state should re-evaluate the top proposals for the financing study because SRI's proposal relied heavily on the experience of A. Olaf Wolff, a former vice president of Cominco, whom SRI originally designated as the project manager.

"SRI's independence and objectivity were compromised by placing an ex-Cominco official in the key role of project leader on their team," the Arthur Young protest said. "Obviously the firm selected to assist AIDA in developing a finance plan for

the Red Dog mine and port will be in a unique position of influence concerning the state's potential bargaining position in negotiating the commercial terms and conditions of any future state financial assistance to Cominco."

SRI officials could not be reached for comment Wednesday evening.

Wolff's resume, which was included in SRI's study proposal, states that he is a former vice president of Cominco.

Wagnon said he and other AIDA staff members were aware of that when they rated SRI's proposal above Arthur Young's and 11 others.

While the resume did not list the dates of Wolff's employment with Cominco, it appeared that he had been with Cominco for five years and he had held held jobs with two other companies, including SRI, since leaving Cominco, Wagnon said.

The AIDA board of directors, controlled by Sheffield appointees, on Feb. 25 accepted staff recommendations that SRI receive the contract.

While negotiating the SRI contract, "I came to find out that he (Wolff) retired from Cominco in 1970 and that he was there for 25 or 30 years," Wagnon said. "When he said the word 'retired,' that's when the red light went on."

Wagnon said he learned that Wolff receives monthly pension payments from Cominco.

SRI replaced Wolff with Eugene Thiers, who, like Wolff, holds the title of senior management consultant, Wagnon said.

The AIDA evaluation team reviewed Thiers' resume and judged his qualifications to be equal to or better than Wolff's, and the AIDA board of directors concurred, Wagnon said.

AIDA had planned to submit a first draft of the Red Dog financing plan to the legislature in mid-April.

State contract delayed on Red Dog mine study

By ANN CONY
Daily News reporter

JUNEAU — Work on a \$267,000 state contract to study options for financing Cominco Ltd.'s proposed Red Dog mine has been delayed by a conflict of interest within the company chosen to do the study.

The conflict, involving SRI International of Menlo Park, Calif., was revealed earlier

this month when state officials learned that the SRI project manager was a retired Cominco officer. The man draws a monthly pension from Cominco, according to Bert Wagnon, executive director of the Alaska Industrial Development Authority, which is overseeing the study. SRI has since named a new

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Anc Daily News 3/21/85 p.1



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REPRESENTATIVE TONY VASKA
Alaska State Legislature
House of Representatives

DISTRICT 25

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KWETHLUK
MEKORYUK
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NAPASKIAK
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PLATINUM
QUINHAGAK
TOKSOOK BAY
TUNTUTULIAK
TUNUNAK

December 19, 1984

Dear House and Senate Resource Committee Members:

I am enclosing a copy of an article titled "The Death of Mining," which appeared in the December 17, 1984, edition of Business Week. I hope that you will read this article, as it contains information which should be useful to you in deciding whether to spend state money to support the mining industry.

The article displays that the mining industry in this country is in serious trouble. The article says that:

"The recovery of 1983-1984 largely by-passed producers of copper, iron ore, nickel, lead, zinc and molybdenum. Now, after a proloner period of painful losses, these companies are reeling from what are clearly chronic problems: shrinking markets, huge debt, and depressed prices. Three or four major metals producers may even be forced out of the business over the next few years. In a very real sense the industry is dying."

As you know, the state does not receive tax revenues from the mining industry. Therefore, I fear that spending large amounts of money to support the mining industry would have little benefit to the state. There is a very real chance that even with this state financial support mining industries could not survive.

Sincerely,

Representative Tony Vaska

Encl.

ANV/krh



THE DEATH OF MINING

AMERICA IS LOSING ONE OF ITS MOST BASIC INDUSTRIES

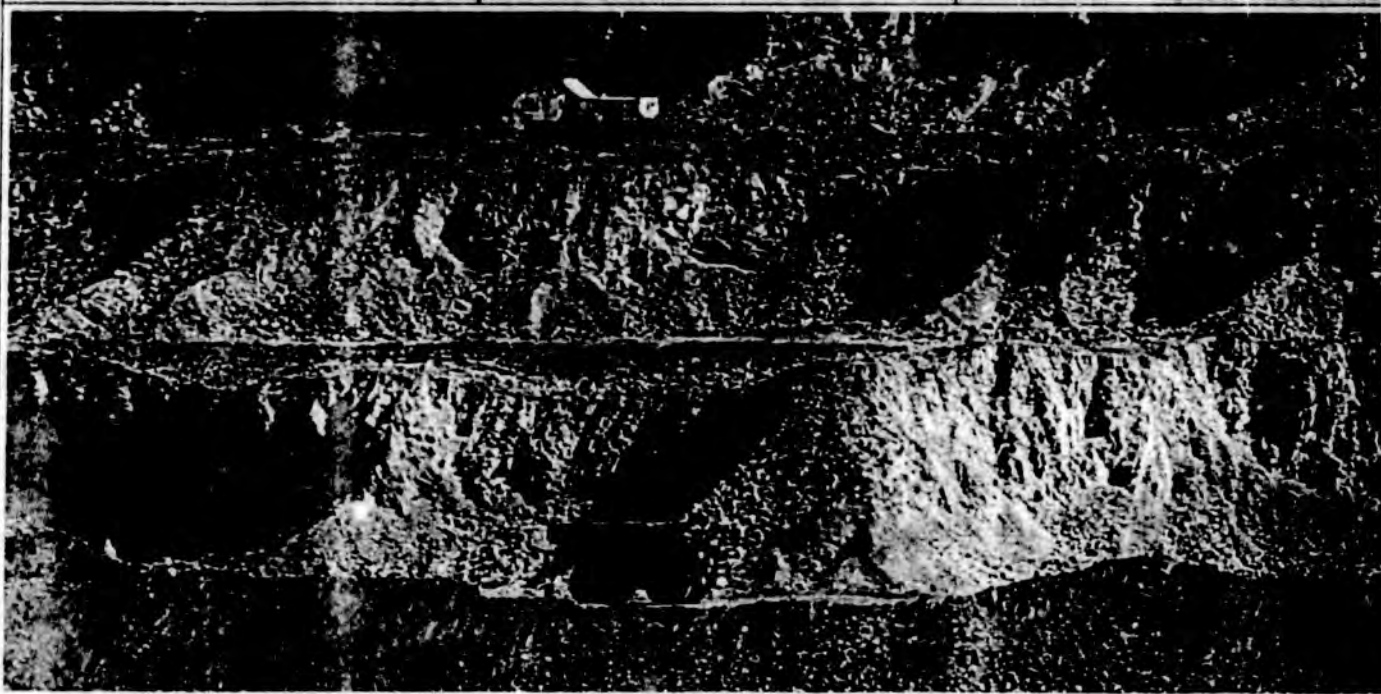
Just south of Tucson, a two-lane highway rolls through the desert to Mexico. Along one 26-mi. stretch, it skirts five open-pit copper mines amid the saguaro cactus, mesquite, and ironwood. This is U.S. 89, known as *el camino de la muerte*—"road of death"—for the toll it has taken on drivers zooming north from a hard-drinking night in the border town of Nogales. But the macabre name might just as easily refer

to the mines that line this lonely road. Once the workplaces of thousands, they are now either closed or up for sale—a stark reminder of the sad state not only of U.S. copper companies, but of most of the rest of the North American metals mining industry.

The recovery of 1983-84 largely bypassed producers of copper, iron ore, nickel, lead, zinc, and molybdenum. Now, after a prolonged period of painful

losses, these companies are reeling from what are clearly chronic problems: shrinking markets, huge debt, and depressed prices. Three or four major metals producers may even be forced out of the business over the next few years. In a very real sense the industry is dying.

The pangs of mining are the latest example of what may be an industrial megatrend: the inexorable shift of production and processing of all basic



(TOP) JACK RENDULICH (BOTTOM) JEFFREY HAMILTON

materials from the industrial countries to the Third World. Like steelmaking, metals mining is vulnerable to some fundamental forces. It is an industrial activity in which, these days, the developing nations have an almost unbeatable pair of economic advantages: cheap labor plus very-low-cost reserves.

The industry's plight ripples far beyond the dozen or so companies that dominate metals mining in North America. Just four years ago, metals mining in the U.S. was an \$8.9 billion enterprise. By 1983 it had shrunk to just \$5.9 billion. Mining employment, already down to 44,800 at the start of this year from 109,000 in 1981, could fall a further 30% over the next two to three years. The contraction is already creating modern-day ghost towns (page 68) in mining regions of the country. And while lower metals prices do mean at least a short-term benefit for manufacturers and consumers, some observers are concerned that the industry's problems may one day put national security at risk. "We need a copper industry, for defense purposes if nothing else," asserts Representative Morris K. Udall (D-Ariz.), chairman of the House Interior Committee.

REAL DANGER. For all these reasons, metals mining could become the next *cause célèbre* in Washington's continuing debate over industrial policy. Many officials within the Commerce, Defense, and Interior Depts., as well as in Congress, now believe the U.S. may soon have to choose between forgoing major segments of its minerals-producing capability and subsidizing them. "We are in real danger of losing 75% of our copper industry and 40% to 50% of our iron-ore industry," warns Robert C. Horton, head of the Bureau of Mines. All across the mining spectrum the signs are plain:

□ The largest copper producers—Kennecott, Asarco, and Phelps Dodge—are deep in the red again this year. Phelps Dodge lost \$50 million in the first nine months. Kennecott Corp.'s \$41 million operating loss in metals during the third quarter brings its total loss in the business since 1981 to \$483 million. Asarco Inc., which suffered a net loss of \$70 million in the first nine months of 1984, had to cancel its fourth-quarter dividend.

□ The major oil companies—which once rushed into metals as the next best thing to oil—are already giving up. Last month, Pennzoil Co. took a hefty \$100 million write-off to reflect the decreased value of Duval Corp., its copper and molybdenum mining subsidiary. Three months earlier, Atlantic Richfield Co. took a \$785 million write-off on Anaconda Minerals Co., a copper and metals fabricator it purchased in 1977 for \$680 million. Both companies have put their metals operations on the block.

□ In iron ore, U.S. Steel, Hanna Mining, and Pickands Mather announced in November yet another round of temporary mine closings that will shut down most of Minnesota's iron-ore Mesabi Range this winter. Days later, Canadian steelmaker Stelco Inc. announced that it was permanently closing its Griffith Iron Ore Mine. That added a further 1.5 million tons of ore-producing capacity to the 25 million that has been shut down for good in the U.S. and Canada since 1980.

□ In nickel, zinc, and lead, the scene is much the same. Toronto-based Inco Ltd., a giant nickel producer, has posted 13 consecutive quarters of operating deficits. Noranda Inc., a major zinc and lead

producer, lost \$38 million in the third quarter, wiping out its first-half profit.

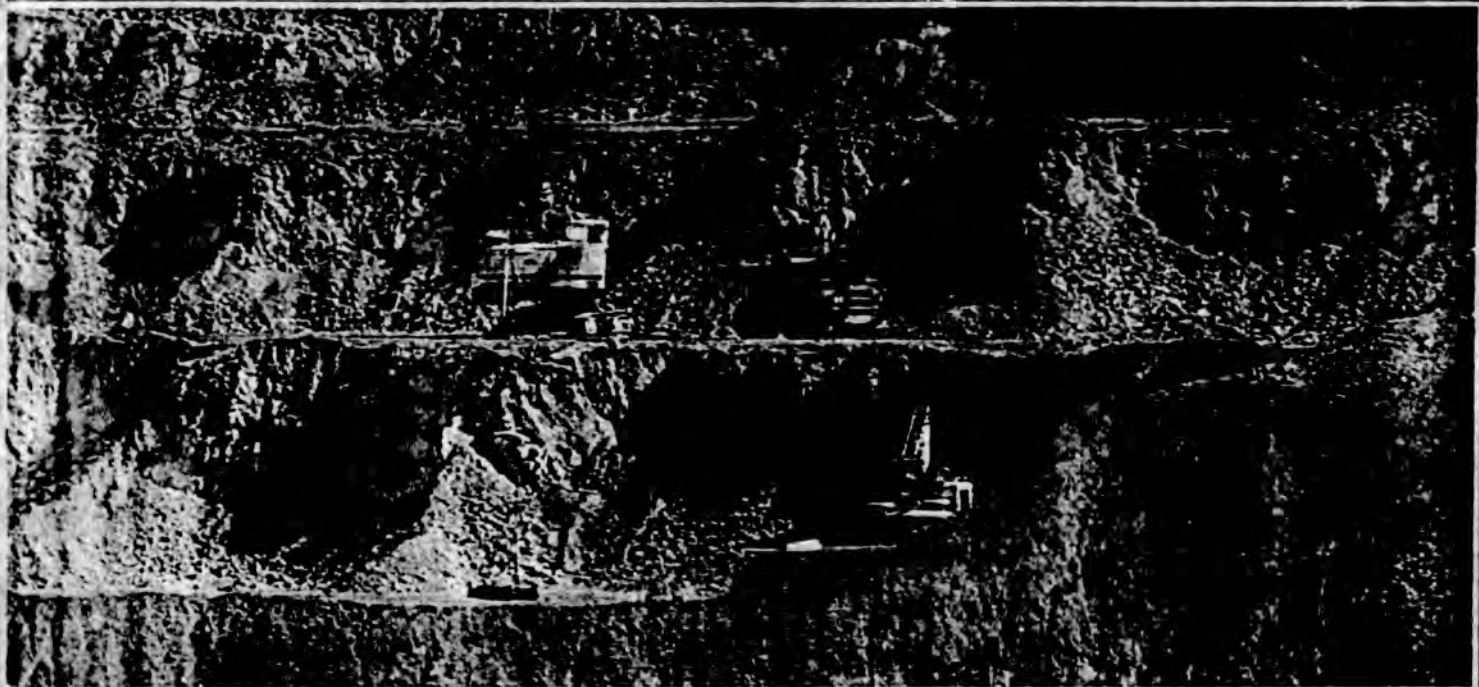
A series of factors accounts for mining's malaise. The industry is hobbled by a worldwide excess of capacity that shows no sign of abating. Despite disappointing demand for most metals, Third World countries, eager to exploit more of their natural resources, keep opening giant new mines that incorporate the latest recovery techniques. The strong dollar makes their low-cost products particularly appealing to U.S. buyers. Underlying all this is a weakening geological base: Many of the richest domestic base-metal reserves are coming close to depletion, while the low-grade ore that remains is becoming too costly to recover.

In their day, North American mining companies ranked among the world's industrial elite. Amax, Anaconda, Asarco, Kennecott, or their forerunners helped settle the West. Huge family fortunes derived from mining, including the Hearsts' and the Guggenheims'. Mining companies were among the first U.S. multinationals, dominating world markets during the boom that followed World War II. Amax Inc. once held 50% of the Free World market for molybdenum, a metal used in everything from light bulbs to jet engines. Inco once supplied 90% of the world's nickel.

WILD FLUCTUATIONS. Things began to change in the 1970s. Copper and iron-ore mines in South America and Africa were expropriated. The North American industry was hit with large environmental expenditures. New competitors from the Third World appeared, many of them state-owned and blessed with abundant reserves.

Price-setting, once the province of the North American oligopolies, shifted to

PENNZOIL'S SIERRITA COPPER MINE IN ARIZONA: THOUGH UP FOR SALE, IT HAS SO FAR SURVIVED BY CUTTING WAGES AND BENEFITS AND EXTENDING WORK HOURS



Cover Story

the floors of the world's commodities exchanges, chiefly the London Metal Exchange. Steady prices yielded to the wild fluctuations now the norm in the business. Demand for iron ore, nickel, and molybdenum started to wobble as the biggest customer for all three metals—the U.S. steel industry—faltered.

But the most devastating blows came with the recession of 1981-82. After hitting record, or near record, levels in 1979 and 1980, earnings of the North American producers collapsed. From 1982 through this year's third quarter, 10 of the largest independent North American mining companies reported net losses totaling \$1.8 billion. At the start of 1981, their debt amounted to 36% of their capitalization; by the end of this year's third quarter, it was close to 41%—at least 10 percentage points above the average for U.S. industry. Return on shareholders' equity, which stood at 18% five years ago, is likely to end up this year at minus 1%. On average, the shares of the U.S. metals mining companies in the group sell for 36% below book value.

The situation has grown so grim that Interior Secretary William P. Clark, who last fall tried to win import relief for copper producers, is now publicly voicing his alarm. Worried about U.S. dependence on foreign minerals, Clark has ap-

pointed a 25-member task force to search for ways to preserve the nation's remaining mines. In mid-November, the panel, headed by retired Rear Admiral William C. Mott, issued its first substantive proposal. It called for the U.S. strategic metals stockpile to be placed in the hands of a Comsat-type, quasi-government corporation instead of several agencies. A single entity presumably could make decisions more smoothly than the present mix of overseers can.

ROCKS IN WATER. The industry's most visible problem is prices, which have lately had all the buoyancy of rocks in water. Even though strikes have curtailed 63% of U.S. lead mining capacity since summer, lead has nonetheless fallen an additional 5¢ a lb. since July. Although inventories of copper on the London and New York exchanges have dropped 50% since January and world demand for the metal may hit a record 8.3 million tons this year, copper is now 61¢ a lb.—9¢ below its price last April.

"These are not normal economics as we have known them," says Asarco President Richard de J. Osborne. "Based on the fundamentals and on historic precedent, we should now be several quarters into a price recovery." Yet, in real terms, the price of copper is lower now than at any time in this century except

during the trough of

Industry executives blame on the mighty U.S. dollar. The industry has allowed foreign producers to sell metal to U.S. buyers at a discount to maintain—or even fattening—their own currencies. Inco's Chairman Charles E. Wilson says the U.S. dollar is killing the industry. "We are hoping the dollar will weaken. But even if it does, it's too little, too late." The industry's devaluation is over. Brian E. Felske, a Toronto-based consultant, says "A 10% decline would be good, but it isn't going to get producers back to profitability."

Moreover, a declining dollar necessarily means that the price of copper, lead, and molybdenum will rise. Firoze E. Katrak, a consultant of the Boston commodities firm Charles River Associates, says: "Even in times of glut, producers set their prices on the basis of the most expensive costs, which happen to be in the U.S.—and would also have to rise on worldwide supplies of copper, though Katrak believes prices will rise moderately over the next

WHY CHILE IS THE KING OF COPPER



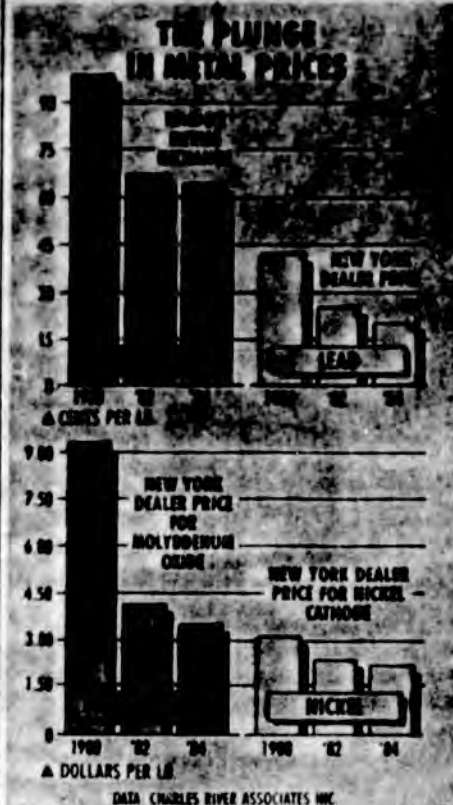
CHEAPER LABOR: CODELCO MINERS' WAGES ARE HIGH BY CHILEAN STANDARDS—BUT ONLY A TENTH OF WHAT U.S. MINERS GET

he thinks they will more likely languish near present levels. He predicts that copper will sell for less than 90¢ a lb., in constant dollars, through the rest of the century and that nickel and lead prices will stagnate into the 1990s. The price of molybdenum, he predicts, will remain weak through 1987.

A significant increase in volume also seems far off. Metals experts almost all agree that demand will hold steady, or at best grow modestly, over the next decade. Cleveland-based Hanna Mining Co. is forecasting that North American consumption of iron-ore pellets will average no more than 74 million tons a year through 1990—a far cry from the 109 million tons consumed in the peak year of 1979. Demand for copper, nickel, lead, and zinc is seen increasing by only 1% to 2% for the next 10 years.

A host of factors is curbing growth. New materials, such as plastics and optic fibers, are replacing metals in many product lines. Katrak estimates that, by 2000, technological advances will enable manufacturers to use only two-thirds as much copper per unit of output as they do today. Lead is being banished from gasoline, its second-biggest market, while longer-lasting, lighter batteries are slowing consumption in its primary market. More and more metals recycling is occurring almost everywhere.

In the few markets where demand



continues to grow respectably, supplies keep growing as fast or faster. According to Katrak, world molybdenum consumption may increase 3.5% a year through 1990. But so many new molyb-

denum mines have opened up during the past five years that annual capacity is now 69% greater than the 106 million lb. expected to be consumed next year.

For many struggling producers of North America, the telling factor is the decline in the grade of their ore. "The high-grade, easily accessible deposits have been mined out" in the U.S., says John W. Goth, Amstar's senior executive vice-president. Most of the richest deposits now are in developing countries. That is a major reason why the giant Corporación Nacional del Cobre de Chile (CODELCO) is now the world's foremost producer of copper (below).

Similarly, Cia. Vale do Rio Doce, the Brazilian state-owned mining company, will be the world's premier iron-ore producer when its giant Carajás mine comes on stream next year. Not only does Carajás contain 20 billion tons of the world's richest iron ore, but Brazilian labor costs are 78% lower than those at U.S. mines. By 1988, output could hit 35 million tons a year—nearly as much as the entire U.S. produced last year.

'UNCONSCIONABLE' LOAN. It is unlikely that Carajás ore will flood the U.S., since domestic steelmakers have a huge investment in North American iron-ore mines and processing facilities. But Japanese and European steelmakers have signed long-term contracts that should allow them to buy Carajás ore for even

If Chile is the Saudi Arabia of copper, Corporación Nacional del Cobre de Chile (CODELCO) is the Petromin of Chile. Formed as the successor to five mining companies nationalized in 1971, this state-owned giant is blessed with more than 25% of the world's known copper reserves. Its gargantuan Chuquibambilla mining and processing complex yields ores with 1.65% copper—2½ times what a typical U.S. deposit contains. At 44¢ per lb., CODELCO's production costs are the world's lowest. Not surprisingly, it accounted for 16% of all copper mined by non-Communist countries last year.

While sheer size gives CODELCO operational advantages, its rock-bottom labor costs are what make competitors weep. Although its 26,000 workers earn only a tenth of what U.S. copper companies pay, their wages are much higher than average for Chile, where 25% of the work force is idle.

In 1983, while the North American mining industry was deep in the red, CODELCO netted a respectable \$220.6 million on sales of \$1.8 billion. This year, in spite of severely depressed copper prices, it is expected to earn \$140 million. Profits would be even higher were it not for a government decree that diverts 10% of copper rev-

enues to the Chilean armed forces.

As U.S. copper producers see it, CODELCO's success comes mainly at their expense. Last year the company shipped a record 330,000 tons to the U.S.—46% of copper imports and 15% of all the copper used by U.S. manufacturers. Clearly, the strong dollar was a factor. But U.S. companies say CODELCO's refusal to scale back despite bulging world inventories is the prime reason world copper prices are so low. While U.S. mines are typically operating at 40% of capacity, CODELCO continues to run flat out. Douglas J. Bourne, chairman of Duval Corp., Pennzoil Co.'s mining subsidiary, charges that this is a deliberate attempt to drive U.S. companies out of the business.

RADICAL BREAK? CODELCO officials respond that their operation is the chief prop under a teetering economy. Chile depends on CODELCO for 46% of its foreign exchange. The government's 1983 interest payments on \$20 billion in debts consumed all of the \$678.5 million the company handed over to the state in taxes that year. Chile's military strongman, Augusto Pinochet, is likely to impose additional unpopular austerity measures to maintain debt payments, so the pressure will remain on CODELCO to keep production and ex-

ports high. The company is authorized to spend \$1.4 billion by 1986 to expand its mines. Outsiders estimate that by 1990 it could be mining 40% more copper than the 1.1 million tons it now produces a year.

Simon D. Straus, a former Asarco Inc. vice-chairman who is now a consultant, concedes that the Chilean government has monumental problems. But he believes that both CODELCO and Chile would be better off in the long run if they cut copper production to raise prices. That would ultimately bring in more foreign revenue, he says, while slowing the depletion of Chile's most important resource.

Chilean officials point out that for such a strategy to work, CODELCO would have to move in concert with other Third World producers, who are also spewing out copper at an accelerating rate. Given the developing world's plight, such cooperation is questionable. And that sort of planning would mark a radical break with Santiago's 11-year reliance on the free market. Some CODELCO executives even argue that copper's reign as a key metal is limited, so Chile should sell all it can before the market shrinks.

By John O'Brien in Santiago and Patrick Houston in Toronto

Cover Story

less than this year's Brazilian price of \$17 per dry metric ton, and that will pressure U.S. producers to make even more drastic cost cuts. Says Robert McInnes, president of Cleveland's Pickands Mather & Co.: "Importation of subsidized or low-cost foreign ore is, without question, one of the gravest threats our industry faces." Equally ominous, the cheap Carajás ore will cut the pro-

duction costs of some foreign-made steel, which already claims more than 20% of the U.S. market.

The Carajás mine project particularly galls U.S. executives because its \$5.1 billion price tag was underwritten with a \$500 million loan from the World Bank. "The world did not need Carajás," snaps Hanna Chairman Robert F. Anderson. Adds S.K. Scovil, chairman of Cleve-

land-Cliffs Iron Co.: "It was unconscionable [that] they made that loan."

Given so many adverse forces, it seems only a matter of time before the North American metals mining industry suffers a major casualty. Analysts contend that Phelps Dodge Corp., the second-largest U.S. copper producer, is especially vulnerable because it relies on copper for almost all its revenues. The

THERE'S NOT MUCH JOY IN LEADVILLE

For more than a century, Leadville, Colo., has mirrored the ups and downs of the mining industry. The town, then called Ore City, was devastated in 1865 when its gold mines played out. Twenty-eight years later, it was racked by the great silver crash, which turned local kings into paupers overnight. Now molybdenum has dealt Leadville a cruel blow.

Four years ago, Amax Inc.'s Climax mine employed 3,000 and had a payroll of more than \$80 million. Then demand for molybdenum plummeted. Amax closed the mine, and Leadville's unemployment rate leaped to 40%. Although Climax has since reopened with some 800 employees, the company has made it plain that the mine will never again employ thousands.

So residents of historic Leadville are now courting tourists and small businesses. This, the town hopes, will open up 2,500 jobs in 5 to 10 years. If it does, Leadville could provide a prototype for other withering mining towns. **BAWDY HOUSES.** Leadville has a wealth of Old West lore. Molly Brown got rich on its gold; Oscar Wilde outdrank the miners at a local silver mine. Once known as "the wickedest town in the West" because of the bawdy houses that lined Stillborn Alley, it still boasts unspoiled gingerbread cottages and Victorian commercial buildings.

After Amax shut down Climax, Leadville hired a full-timer to head its Chamber of Commerce, launched a series of summer events that included gold panning and a 100-mi. ultramarathon along the Continental Divide, and invested \$40,000 in a multimedia presentation ballyhooing its assets. By yearend the town will have spent \$100,000 marketing itself, and its merchants have approved a \$900,000 bond to upgrade the sidewalks and lighting.

As a result, says Elaine Kochevar, executive director of the Chamber of Commerce, tourism jumped 75% last summer, and revenues from the local sales tax rose nearly 25%. She expects



THE TOWN—BETRAYED BY GOLD, SILVER, AND MOLYBDENUM—IS TURNING TO TOURISM

more of the same this winter. With an \$850,000 grant from the state, Leadville's ski area, Ski Cooper, has expanded. This year it will offer lift tickets at \$12 a day—half the price at nearby Vail. Visitors are invariably reminded that a three-bedroom house in Leadville—just two hours from Denver—typically costs \$45,000, a fraction of the price at other Colorado ski resorts.

Big investors have taken notice. Dallas' Trace Investment Inc. plans to purchase six buildings, including the 1885 Vendome Hotel, where President Benjamin Harrison once trod a lobby floor inlaid with silver dollars. The company will pay about \$1.5 million for all six buildings and intends to spend \$10 million restoring and converting them to modern hotels or condominiums.

Revving up tourism may prove easier, however, than attracting new businesses. One reason: Two-mile-high Leadville, situated just below the timberline, seems desolate to many outsiders. Winters are so long that the locals quip that Leadville has only two seasons—this winter and last.

The days are gone in Leadville when

the Guggenheims could build a fortune starting with one small smelter, or a David May could launch a nationwide department-store chain. "We're not going to land a Sperry Rand," admits Kochevar. Still, she adds, small manufacturers and distributors could be drawn to Leadville, with its ready labor and easy access to a railroad, airport, and interstate highway.

MELTDOWN. Eight new enterprises have started up in the past two years. To draw still more, the town has formed the Leadville Improvement Group with \$50,000 in state assistance. This office is now applying for a \$250,000 grant from the U.S. Housing & Urban Development Dept. To be matched by local banks, the money would finance low-cost loans to new businesses.

Compared with some previous schemes for reviving Leadville, the current plan looks eminently workable. Following the depression of 1893, for example, the town built a three-acre ice palace, complete with ballroom. It did a booming business—until a warm spell began melting its ice blocks.

By Sandra Atchison in Denver

Cover Story

company has lost \$187 million since 1982, and "unless the world copper price improves very sharply throughout the rest of the decade, it is difficult to see how the company can survive," says William G. Siedenburg, an analyst with Smith Barney, Harris Upham & Co.

GETTING TOUGH. The day of reckoning also may be nearing for Kennecott, the copper mining giant acquired by Standard Oil Co. (Ohio) three years ago for \$1.8 billion. Sohio has been mulling over a proposed \$1 billion modernization for Kennecott's huge Bingham Canyon mine in Utah but has not approved the expenditure. That mine "is not something you'd lightly turn your back on," says Sohio Chairman Alton W. Whitehouse Jr. "But we just aren't going to take [Kennecott's] losses indefinitely."

As Big Oil backs out of metals mining, the independents are struggling to survive. While some are closing down high-cost operations, others can't even find the money to meet the steep severance and shutdown costs without eating into the cash they need to pay their debts. Corporate staffs are being cut. Falconbridge Ltd., a Canadian nickel producer, has slashed white-collar employment so much that top management now occupies one floor instead of three in its Toronto headquarters. Chairman William James even shares a secretary.

Mining companies are also getting tough with their unions. The most dramatic example is Phelps Dodge, which in July, 1983, accepted a strike at its Arizona mines and smelters rather than settle for the terms other copper producers agreed to. The company has replaced the strikers with nonunion workers and now awaits court rulings on decertification votes. In October, Pennzoil's Duval subsidiary unilaterally imposed a new labor contract on workers at its Sierrita (Ariz.) mine, cutting wages 15%, dropping cost-of-living adjustments, and increasing work time for all employees by two shifts a month.

These cost-cutting measures have resulted in impressive productivity gains. The cost of producing copper in the U.S. has dropped 25% in the past three years. Inco has lowered its breakeven point for nickel 12% this year alone, to \$2.30 a lb., and Chairman Baird's goal is to get down to \$2 next year.

NO FAT. More gains are needed. "We've reduced costs, but not at the same precipitous rates as metals prices have declined," says Kennecott President G. Frank Joklik. But making further headway will be tough. "The mining companies don't have any more fat to shave off," says Canadian consultant Felske.

Because they see diversification as a way out of their troubles, some base-

metals mining companies are rushing into gold—so many, in fact, that North American gold production is expected to jump 50% by 1989. "The only thing worth developing now is a good-grade precious metals deposit," says Alfred Powis, chairman of Noranda. His company is spending \$230 million to develop its Hemlo stake in Northern Ontario, a gold vein that eventually could add \$38 million to the company's annual profits.

Other companies are looking further afield. Newmont Mining Corp. intends to add a "fourth leg" to its copper, gold, and energy businesses, says Chairman Plato Malozemoff. Hanna is on the diversification trail too, but it will be cautious: It has been burned by bad moves in the past. Some 85% of its \$28.8 million loss last year resulted from energy businesses it acquired in the late 1970s.

Amax, which had eight separate metals divisions, is restructuring all its min-

slowly, because of what some see as an anomaly in the thinking of many metals mining executives: While they are rarely averse to the risks of developing new ore deposits, that same spirit usually does not extend into the marketing and financial aspects of their business. "The industry is dominated by guys who bring things to the surface," says consultant Felske. "They have to become more sophisticated in the commercial side of the business."

REDEMPTION? Some believe that redemption may be found in high technology. The Colorado School of Mines has launched what could become a \$25 million research effort to adapt automated factory techniques to mining. In October, Inco created a separate equipment company to develop machinery for continuously mining and transporting ore, now done in batches. But the potential of such innovations is limited. Concludes

THE SAD STATE OF METALS MINING

Composite figures for 10 leading independent metals mining companies: Amax, Asarco, Cleveland-Cliffs, Cominco, Falconbridge, Hanna, Inco, Newmont, Noranda, and Phelps Dodge

	1979	1980	1981	1982	1983
	Millions of dollars				
NET EARNINGS	\$1,770	\$1,872	\$539	\$ - 963	\$ - 778
TOTAL DEBT	5,088	5,814	6,773	7,876	7,744
DEBT AS A PERCENT OF CAPITALIZATION	34%	34%	36%	42%	
RETURN ON EQUITY	18	16	5	- 8	
DATA COMPILED FROM FINANCIAL REPORTS					

ing operations to make them more market-responsive. The company also wants to expand into more specialized products such as molybdenum chemicals, ceramics, and plastic composites. "That's the only way," says Chester O. Ensign Jr., who heads the company's strategic planning and development group, "to make sure Amax doesn't perish."

Consultants agree such changes are necessary. "Metals companies have got to become more market-driven," says Frank Schwab Jr., president of Fenvesy & Schwab Inc., a management consulting firm in New York. He also urges companies to get more involved in commodities trading to help offset the volatility of their business. Finally, Schwab advises his North American clients to enter joint ventures, especially with foreign partners. "Somehow," he says, "our companies have to develop a workable program to finance the development of ore reserves outside the U.S."

Here and there, mining companies are beginning to embrace such strategies. But even insiders acknowledge that the industry as a whole is changing too

Noranda Chairman Powis: "There's not going to be one technology that will change the economics of this industry."

The chance of getting much government help is dim. Mining companies lack political clout because their constituency is relatively small and they have been unable to put together a unified lobby. Moreover, a growing chorus of voices argues that a shortfall in U.S. metals production is not necessarily a problem. After all, notes John A. Cordes, head of the Mineral Economics Dept. at the Colorado School of Mines, "countries like Japan and West Germany have very, very strong economies with very low levels of metals self-sufficiency."

The U.S. is rapidly heading in their direction. Indeed, if another broad-based recession were to hit the U.S. in 1985 or 1986, it would probably sound the death knell for an industry that is already permanently bedridden.

By Patrik Houston in Toronto, Zachary Schiller in Cleveland, Sandra D. Atchison in Denver, Mark Crawford in Washington, James R. Norman in Houston, and Jeffrey Ryser in São Paulo



Alaska Environmental Lobby, Inc.

204 N. Franklin Street, Suite 3 Juneau, Alaska 99801

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State Financing For the Red Dog Lead Zinc Mine (Delong Mountain Transportation System)

The Alaska Environmental Lobby, a coalition of 19 groups within the State, has followed and testified on legislation involving the Red Dog mine for the last three years. The issue is important to us for four reasons. First, we are interested in all legislation affecting natural resource conservation and development. Because of its size alone, the Red Dog project deserves special attention. Second, the mine and transportation corridor are in an undeveloped part of the state, and we want the development to be sensible and environmentally responsible. Third, the proposed state subsidies to this project are huge. In effect, the state is going into the mining business without public debate or approval. Fourth, the state is delegating enormous power to a state authority, the Alaska Industrial Development Authority (AIDA). The history of the Alaska Power Authority shows that the state should be much more cautious with giving power to AIDA.

The Red Dog Mine. The world's largest producer of lead and zinc, Cominco, has entered into a partnership with NANA Regional Native Corporation to develop a mine in Northwest Alaska, about 90 miles from Kotzebue. It will be on NANA Corporation land. At full production, it could be the world's largest zinc mine. The ore body is extremely rich and easy to remove. Hank Giergerich, the president of Cominco Alaska, has stated that once the mine is developed, the operating costs will be lower than 90% of the world's zinc mines.

Development Costs. The promoters of this impressive mine say that they need financial aid from the state of Alaska before they can develop the project. Strange as it sounds, they say that Cominco, a large healthy multinational corporation, cannot raise the needed funds from private sources. They go on to say that help from the state will make the difference between stop and go.

It is certain that the development costs for the mine will be high. The site is in a roadless area, and the most direct route to tidewater is 55 miles. There is no port facility at tidewater, and shallows will prevent ocean freighters from getting close to shore. The most direct route to tidewater requires Congressional approval. The alternatives are longer and more expensive.

The crucial question is whether the high development costs of the mine will be paid off in the long run by the profits from the mine. The profits will vary tremendously with changes in the world price of lead and zinc. These prices are very hard to predict. The prices for lead and zinc went into a slump at the last recession, and so far they have not recovered.

State Participation. The state is being asked to build a road and port facility for the use of the Red Dog mine, as well as other mines which may or may not be developed in the same area. If the state built the port and road, it would help Cominco, because Cominco would not have to raise and repay so much money to get the project started. The project would be financed with revenue bonds issued by the state. Cominco and any other mines would pay tolls for the use of the road. According to current Department of Commerce projections, the tolls would pay only part of the costs of the road and port facility.

The difference between the tolls that Cominco pays and the repayments on the bonds that the state makes would be a subsidy of the mining road and port. The magnitude of the subsidy would depend on the tolls negotiated with Cominco. The lower the tolls, the higher the subsidy. Interest rates for bonds also are a factor. If bond interest rates were high at the time of the bond sale, the state would have to pay more. The bond sale will be before construction, but tolls will be collected only after construction, or possibly later. The longer the interval without toll payments from Cominco, the greater the state contribution to the project.

The Economic Development Fund. Last year the Legislature created the "Economic Development Fund" within the Alaska Industrial Development Authority. This was the result of a late night last minute maneuver on the House side that also authorized a revenue bond sale for the Knik Arm Crossing. The economic development fund would provide the difference between low toll payments and high bond payments. The current plan for subsidy would have the state dedicate \$18 million dollars and a bond portfolio worth \$112 million to the fund. This amounts to a blank check for the Red Dog project with an upper limit of \$140 million, if precise restrictions are not placed on the use of the fund.

The Bond Issue. The state plans a sale of \$175 million dollars to build the road and port facility. This is a revenue bond sale, and so does not require voter approval, as would state guaranteed "general obligation bonds", such as school bonds. The revenue bond issue will be backed up by the tolls on the road and port, and the \$140 million in the economic development fund mentioned above. To further reassure investors in the bonds, the authorization of the bond issue will also have "moral obligation" language, which instructs AIDA to notify the legislature and the Governor if the economic development fund is depleted and there is danger that the bondholders will not be paid. Thus the backing of the state is not guaranteed, but it is suggested.

Legislation has been introduced on both sides of the Capital to set up the bond issue and economic development fund. They are HB 369, HB 370, SB 279 and SB 280. Draft legislation, which may be amended to HB105, Anchorage Airport Bonds, does the same thing, but with fewer restrictions.

Hasty Decisions. Incredibly, this legislation is being considered before the state has an accurate view of the profitability of the mine. They do not know if the road and port subsidy is really needed to help the mine, or if Cominco is just trying to mine the state for extra dollars. If a subsidy is needed, they do not know the magnitude of it. A detailed finance plan is being prepared by Stanford Research Institute under contract to the State of Alaska. But it will not be ready in final form until August. Draft versions may be ready before the Legislature adjourns. Only after the finance plan is ready will the state have an idea of how much of the \$18 million in cash and \$112 million in bonds is really needed to get the mine started.

RED
DOG

RECOMENDATIONS OF THE ALASKA ENVIRONMENTAL LOBBY

- 1.) The State should not subsidize mining ventures. Mining is a complicated and speculative business. The estimation and assumption of risks in mining development should be left to the private sector. If the world's largest producer of lead and zinc can't find investors to develop the Red Dog mine, the state should not try to second guess the market.
- 2.) If Legislators are determined to subsidize mining ventures, they should have an overall plan for subsidizing mining ventures. Is Red Dog the best mine to subsidize? Will the next mine to come along receive such generous treatment?
- 3.) The State is being hurried into a blind commitment to Red Dog. The legislature should wait until the Stanford Research Institute financial plan is completed, and until affected agencies have a chance to respond to questions from Legislators about the subsidy plan.

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

RECEIVED JAN 28 1985

7TH FLOOR FRONTIER BLDG.
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RESOLUTION OF INTENT

WHEREAS, the State of Alaska encourages the diversification of the Alaska economic base through the development of mineral resources; and

WHEREAS, the State of Alaska supports economic development in Alaska and the expansion of regional job opportunities; and

WHEREAS, the State of Alaska recognizes that the lack of transportation facilities in Northwest Alaska poses an economic barrier to the attainment of economic development; and

WHEREAS, the Alaska Department of Commerce and Economic Development is the principal state department responsible for facilitating economic development in all regions of the state; and

WHEREAS, Cominco, Alaska, a division of Cominco, American is considering the development of the Red Dog mineral deposit in the DeLong Mountains area; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog mineral deposits; and

WHEREAS, the Alaska Department of Commerce and Economic Development, in a report entitled Red Dog Project Analysis, identified substantial regional benefits in the event that the DeLong Mountains transportation project is developed; and

WHEREAS, the projected cost of the development of the Red Dog mineral site, excluding the cost of developing transportation facilities, is estimated to be \$290 million (in 1985 dollars); and

WHEREAS, the projected cost of the transportation facilities is estimated to be \$152 million (in 1985 dollars); and

WHEREAS, the lack of available transportation facilities near the mineral deposit may substantially delay private development of the Red Dog mineral deposit; and

WHEREAS, it is contrary to the best interests of the state for there to be a substantial delay in the development of the DeLong Mountains mineral resources and, in particular, in the development of the Red Dog mineral deposit; and

WHEREAS, the transportation facilities which, among other public purposes, would be used in conjunction with the development of the Red Dog mineral deposit are collectively referred to as the DeLong Mountains transportation project; and

WHEREAS, the Alaska Industrial Development Authority (AIDA), a public corporation of the State of Alaska has authority under Alaska Statutes Title 44, Chapter 88, to participate, either independently or in conjunction with a private developer, in the financing and development of public transportation facilities such as the DeLong Mountains transportation project;

NOW THEREFORE BE IT RESOLVED that Cominco, Alaska and the Alaska Department of Commerce and Economic Development, on behalf of the State of Alaska, agree to the following STATEMENTS OF INTENT:

1. The State of Alaska supports ongoing efforts by the Alaska Industrial Development Authority to examine the feasibility of AIDA financing of the DeLong Mountains regional transportation project.

2. The parties recognize and support AIDA's intent to promptly execute all necessary professional services contracts, including a contract with a firm nationally recognized in the field of financial planning, to assist in the preparation of the financial plan required pursuant to AS 44.88.173.

3. If AIDA participates in the financing of the DeLong Mountain transportation project, the parties agree that AIDA and Cominco, Alaska will enter into an agreement which will provide, inter alia, for the establishment of equitable user fees payable to AIDA in an amount sufficient to enable AIDA to repay amounts loaned by the state to AIDA; and for the refunding of certain state expenditures in the event that Cominco, Alaska decides not to proceed with the development of the Red Dog mineral deposit.

4. The State of Alaska states its intent to submit appropriate funding requests to the Alaska legislature in support of the DeLong Mountain transportation project.

5. The State of Alaska and Cominco, Alaska recognize that this Resolution of Intent does not limit or otherwise affect AIDA's Board of Directors' independent judgment with respect to AIDA's participation in the DeLong Mountain transportation project, nor does this Resolution of Intent limit or otherwise affect the independent judgment of the Alaska legislature upon its consideration of funding requests.

Date:

Dec 18/1984



H. M. Giegerich, President
Cominco, Alaska

Date:

Dec 17, 1984



Richard A. Lyon, Commissioner
Department of Commerce and
Economic Development

I. BACKGROUND

To help understand the Alaska Industrial Development Authority's (AIDA) potential role in the DeLong Mountains transportation project, some history is useful. Prior to 1984, AIDA could not have participated in projects such as that contemplated for the DeLong Mountains, in that State law did not permit AIDA to own projects, except in cases of default. Rather, what AIDA could do then, and still does now, is to issue tax exempt industrial development bonds to assist private investors in the financing of a variety of projects. AIDA has been very successful in this role, having issued over \$700 million worth of tax exempt revenue bonds during the past few years. However, despite this success AIDA still could only play a passive role, in that AIDA could neither initiate or own projects.

During the 1984 legislative session, both the Governor and the Legislature decided that a more active State participant was needed for certain economic development projects. Many proposed developments are likely to be of a joint public-private nature, because of resource ownership, access, and so forth, hence an active state representative is needed. This is especially true if it appears that the State will become involved financially. For instance, in many situations, new infrastructure facilities have to be constructed before development can proceed. Although these facilities are, by and large, the responsibility of developers as a group, they are not necessarily the responsibility of any single developer. And, if the cost of providing the required infrastructure facilities has to be borne by one developer, it may be that these costs, in addition to the developer's other costs, are simply too much for the proposed project to bear, so the development does not proceed. In such cases, it may be appropriate for a governmental entity to construct the necessary infrastructure facilities, and then charge fees to all users to pay for the facilities. Furthermore, if the State decides to participate financially in providing these infrastructure facilities, it is much easier to do so via a governmental entity as opposed to directly with a private developer.

Of course, State government should not get involved in a development project simply because it is difficult for the developer to pay for some costs. Rather, State involvement should be based upon the benefits of the project to all Alaskans. In light of the State's almost singular dependence upon the petroleum industry, development of new, non-petroleum based or dependent industries is of critical importance. Further, when evaluating a proposed new development, it is important to keep in mind the total impact of that project or development. Generally the project is being evaluated during its start-up phase, where costs are significant and revenues are, at best, just starting. Since the State is concerned with the future economic situation, as well as the present, the benefits to the State over the long term must be given adequate weight, rather than focusing strictly on short term return.

II. WHY IS AIDA INVOLVED

The question remains, why did the Governor and the Legislature decide AIDA should have the ability to actively become involved in infrastructure projects such as discussed above. Although there may be other reasons, at least some of the major factors were:

- (1) AIDA is a known, existing entity that has an independent legal existence from the State, but is still controlled by the State.
- (2) AIDA can (and does) issue debt that is separate and distinct from the State.
- (3) AIDA has experience with complex projects.
- (4) AIDA has extensive experience with financing and bonding, particularly tax exempt bonding.

As a result, in 1984 the Legislature passed Chapter 162, which broadened AIDA's ability to participate in economic development projects. As well as expanding AIDA's powers, Chapter 162 also established a new fund in AIDA, the Economic Development fund, that is legally and financially separate from the Authority's existing fund. It is through this new fund that AIDA can exercise its new powers to:

- (1) own and operate certain types of projects;
- (2) charge user fees for these projects;
- (3) issue debt for these projects; and
- (4) accept state loans or grants for these projects

III. AIDA AND THE DELONG MOUNTAINS TRANSPORTATION PROJECT

Because of AIDA's newly acquired abilities, the decision was made to involve the Authority in the DeLong Mountains transportation project. The transportation project itself consists of a port and a 55 mile road in the western DeLong Mountains area, near Kivalina. The cost of the port is estimated at \$65 million, and the cost of the road is estimated at \$85 million, for a total estimated cost of \$150 million for the project, with all figures in 1985 dollars. Although this region is a heavily mineralized area, only one mine site is presently close to going into production. This is the Red Dog deposit, a zinc, lead and silver deposit being jointly developed by Cominco Alaska and the NANA Regional Corporation. Other major deposits are known, such as GCO Mineral's Lik deposit, but development of these are thought to be five years or more behind Red Dog.

What is being considered at this time is to have AIDA construct the transportation project, and then charge fees (or tolls) to all users. At first, it is expected that Cominco Alaska would be the only significant user, but eventually other users are expected.

At this time, AIDA's continued involvement and eventual completion of the project looks favorable, however, no final "go-no go" decision has yet been made. Prior to making a final decision, the Authority has to prepare a Finance Plan, as prescribed by AS 44.88.173.

The Finance Plan has to identify the operational and capital costs of the project, and identify where all revenues will come from to pay these costs. The Finance Plan will offer a variety of financing options, with at least one of the options being that approach which minimizes any cost to the State. In preparing a Finance Plan, AIDA has identified the following guidelines:

- (1) attempt to minimize the total costs of the project;
- (2) minimize any State General Funds required;
- (3) make maximum use of tax-exempt financing;
- (4) design a plan that has the optimum chance of completing the project as expeditiously as possible; and
- (5) never allow the State or AIDA to be in the position of having a completed project without a user, unless the State and AIDA are reimbursed for their investments.

IV. WHAT HAS OCCURRED TO DATE

Since AIDA became involved with the transportation project in the summer of 1984, a number of activities have occurred.

- (1) A Resolution of Intent has been executed between the Department of Commerce and Economic Development and Cominco Alaska (Appendix A).

- (2) An RFP for the Finance Plan (required by 44.88.173) has been prepared and distributed (Appendix B). A draft report is due this session of the Legislature. The statute requires that a Finance Plan be prepared and presented to the Legislature, the Governor and the State Bond Committee before issuing bonds or otherwise incurring debt for the project. It also mandates, among other things, that if a project requires financial assistance from the State, the state financial assistance must be available before bonds are issued for the project.
- (3) An RFP for civil engineering services to verify cost figures for the road and port has been prepared and distributed.
- (4) The Authority has assembled a team of legal and financial experts to assist with the project.
- (5) Much attention has been focused on how to finance the project. For AIDA to build the project, it will need to have \$150 million to pay for construction. These funds can come from a variety of sources, with the most likely ones being tax exempt revenue bonds, state loans to AIDA, and possibly state grants. A number of differing financial scenarios have been considered, all of which have indicated the need for some initial state financial involvement, for instance loans to AIDA.
- (6) Last year the Legislature appropriated \$3.4 million to AIDA for the project. To date, it has been used for the following items:
 - (1) Finance Plan costs of between \$250,000 - \$300,000
 - (2) Engineering services of \$50,000 - \$100,000
 - (3) Miscellaneous AIDA expenses of approximately \$10,000

The remainder is available for various aspects of the DeLong Mountains transportation project consistent with the appropriation and finance plan.

- (7) An additional \$18 million request for a state loan to AIDA has been included in the Governor's FY86 Budget Request. As noted above, all analysis to date indicates the need for state loans, and this would constitute the initial capitalization.

V. WHAT IS PLANNED FOR THE FUTURE

The goal of this project is to allow development and production of the mineral resources of the western DeLong Mountains, along with the new employment and new economic activity that would result. Since this is a new (non-petroleum dependent) industry that will provide economic benefits to Alaskan citizens and State government over a long period, AIDA is eager to proceed with the project, assuming a suitable financial arrangement can be achieved. Although, of course, no results from the Finance Plan RFP are available yet, both the Department of Commerce and Economic Development and AIDA have made some initial calculations with respect to financing and costs and revenues associated with the transportation project. At this stage, under a range of different assumptions and alternatives, it is inevitably the case that State financial assistance is required, at least initially, if the transportation project and mineral development are to occur in the near future. The details of how much assistance would be required, and under what terms, will be provided in the Finance Plan. AIDA is continuing to meet with Cominco Alaska and NANA to devise an approach that minimizes any required financial assistance from the State, but still allows the project to proceed in an expeditious manner.

In closing, one seeming inconsistency needs to be discussed. The transportation project is being acclaimed as being part of a new self-supporting economic development project that will bring jobs, tax revenues, and increased economic activity to Alaska, yet a major part of this, and other discussions on the project center on the need for State financial assistance. While it is true that the project definitely appears to need State assistance, at least initially, to fairly appraise the true impact and value of the project, one must consider both the broad geographic and duration of the project. This infrastructure project will facilitate development of not just Red Dog, but also other mineral resources in the area. Further its benefits are by no means short term, but rather should go on for decades. So although there appears to be an initial financial need, when viewed in this broader perspective, available information suggests that the State may receive its initial investment back many times over. Indeed, the State's ultimate decision regarding financial involvement should consider all of these broadly based factors, and then proceed only if, in this broad perspective, it is a "good deal" for the people of Alaska.

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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ANCHORAGE, ALASKA 99503
PHONE: (907) 582-2728

RESOLUTION OF INTENT

WHEREAS, the State of Alaska encourages the diversification of the Alaska economic base through the development of mineral resources; and

WHEREAS, the State of Alaska supports economic development in Alaska and the expansion of regional job opportunities; and

WHEREAS, the State of Alaska recognizes that the lack of transportation facilities in Northwest Alaska poses an economic barrier to the attainment of economic development; and

WHEREAS, the Alaska Department of Commerce and Economic Development is the principal state department responsible for facilitating economic development in all regions of the state; and

WHEREAS, Cominco, Alaska, a division of Cominco, American is considering the development of the Red Dog mineral deposit in the DeLong Mountains area; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog mineral deposits; and

WHEREAS, the Alaska Department of Commerce and Economic Development, in a report entitled Red Dog Project Analysis, identified substantial regional benefits in the event that the DeLong Mountains transportation project is developed; and

WHEREAS, the projected cost of the development of the Red Dog mineral site, excluding the cost of developing transportation facilities, is estimated to be \$290 million (in 1985 dollars); and

WHEREAS, the projected cost of the transportation facilities is estimated to be \$152 million (in 1985 dollars); and

WHEREAS, the lack of available transportation facilities near the mineral deposit may substantially delay private development of the Red Dog mineral deposit; and

WHEREAS, it is contrary to the best interests of the state for there to be a substantial delay in the development of the DeLong Mountains mineral resources and, in particular, in the development of the Red Dog mineral deposit; and

WHEREAS, the transportation facilities which, among other public purposes, would be used in conjunction with the development of the Red Dog mineral deposit are collectively referred to as the DeLong Mountains transportation project; and

WHEREAS, the Alaska Industrial Development Authority (AIDA), a public corporation of the State of Alaska has authority under Alaska Statutes Title 44, Chapter 88, to participate, either independently or in conjunction with a private developer, in the financing and development of public transportation facilities such as the DeLong Mountains transportation project;

NOW THEREFORE BE IT RESOLVED that Cominco, Alaska and the Alaska Department of Commerce and Economic Development, on behalf of the State of Alaska, agree to the following STATEMENTS OF INTENT:

1. The State of Alaska supports ongoing efforts by the Alaska Industrial Development Authority to examine the feasibility of AIDA financing of the DeLong Mountains regional transportation project.

2. The parties recognize and support AIDA's intent to promptly execute all necessary professional services contracts, including a contract with a firm nationally recognized in the field of financial planning, to assist in the preparation of the financial plan required pursuant to AS 44.88.173.

3. If AIDA participates in the financing of the DeLong Mountain transportation project, the parties agree that AIDA and Cominco, Alaska will enter into an agreement which will provide, inter alia, for the establishment of equitable user fees payable to AIDA in an amount sufficient to enable AIDA to repay amounts loaned by the state to AIDA, and for the refunding of certain state expenditures in the event that Cominco, Alaska decides not to proceed with the development of the Red Dog mineral deposit.

4. The State of Alaska states its intent to submit appropriate funding requests to the Alaska legislature in support of the DeLong Mountain transportation project.

5. The State of Alaska and Cominco, Alaska recognize that this Resolution of Intent does not limit or otherwise affect AIDA's Board of Directors' independent judgment with respect to AIDA's participation in the DeLong Mountain transportation project, nor does this Resolution of Intent limit or otherwise affect the independent judgment of the Alaska legislature upon its consideration of funding requests.

Date:

Dec 18/1984



H. M. Giegerich, President
Cominco, Alaska

Date:

Dec 17, 1984



Richard A. Lyon, Commissioner
Department of Commerce and
Economic Development

APPENDIX B

REQUEST FOR PROPOSAL FOR FINANCE PLAN

The Alaska Industrial Development Authority is inviting proposals to assist in preparation of a finance plan for a proposed transportation project in the DeLong Mountains area.

This RFP does not in any way obligate the Authority to reimburse recipients of this RFP for any costs incurred in the preparation of a proposal. The Authority reserves the right to reject all proposals. The Authority may request some or all respondents to clarify or supplement their proposals through additional written submission. All respondents will be notified in writing of the acceptance or rejection of their proposal.

I. Introduction and Explanation of Project

A. Alaska Industrial Development Authority:

The Authority was created by the Alaska Legislature in 1967. The purpose of the Authority, as stated in the Act, is to promote, develop and advance the general prosperity and economic welfare of the people of the State of Alaska, and to relieve problems of unemployment. In 1982, the Authority's enabling legislation was amended to add to its purpose the promotion, development and maintenance of an adequate supply of multi-family housing projects. Under legislation enacted in 1984, the Authority may acquire, manage and operate certain types of projects which the Authority considers necessary or appropriate to serve a public purpose. Under the newly enacted statutory authority, the Authority is presently reviewing the possibility of financing and constructing a transportation project in the DeLong Mountains area.

B. The Proposed Transportation Project

The proposed transportation project (sometimes also referred to herein as "the project") consists of two components; (1) a 55 mile segment of road, commencing near the Red Dog mine site and going to tidewater, and (2) a port, including shore facilities. The intent of the transportation project is to provide the necessary infrastructure to encourage mining development and regional port in the western DeLong Mountains area, in northwest Alaska.

The entire western DeLong Mountains is believed to be heavily mineralized. One mine site in particular has been extensively explored, and it is understood that this particular mine would be the initial user of the proposed transportation project. This mine would be based upon the Red Dog zinc, lead, and silver deposit. The Red Dog deposit is one of the richest in the world, having indicated reserves of 85 million tons of ore with an average grade of 17.1% zinc, 5.0% lead, and 2.4 ounces per ton silver. The mine would be developed as a joint project involving Cominco Alaska and the NANA Regional Corporation. The mine site itself would be developed by Cominco Alaska without any state involvement.

The transportation project would be owned and operated by AIDA. Users, such as Cominco Alaska would be charged a fee for use of this transportation system.

C. The Finance Plan

Before AIDA can proceed with a project which it intends to own and operate, it must first prepare a finance plan. The requirements of the finance plan are listed in AS 44.88.173, which is reproduced below. The purpose of this RFP is to fulfill the requirements of AS 44.88.173.

Sec. 44.88.173. Finance plan.

- (a) Before approving a project financed under AS 44.88.172, the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project, and a description of the sources of money that will be used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.
 - (b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.
 - (c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project.
- (1 8 ch 162 SLA 1984)

II. Terms & Conditions of Performance

- A. Your proposal should be submitted with the understanding that it may form a material part of any subsequent contract. Your proposal should be complete as to all terms and conditions. After the contractor is selected the Authority may negotiate a contract with conditions considered in the best interest of the Authority. All terms and conditions must remain a firm offer for a period of not less than 60 days.

The proposal is due by February 15, 1985 (see Submission of Proposal section for details). The Authority expects to select a successful contractor by February 22, 1985. A complete first draft that is available and suitable for public distribution and comment must be completed by April 15, 1985.

Please note that the contract will not take effect until approved by the Commissioner of the Department of Administration pursuant to Alaska Statutes 36.98.040 (c).

- B. Preparation of the finance plan requires the use of certain cost figures. In general estimates of these cost figures should be available from Cominco Alaska via the Authority. Some of these estimates will have been verified by the State Department of Transportation and Public Facilities, and/or by an independent contractor. It is not the intention of the Authority that a contractor employed as a result of this RFP prepare totally independent estimates of germane cost figures. Rather, a contractor should verify that cost estimates provided are reasonable, or make any modifications which the contractor believes are appropriate.

III. Scope of Services

A. Costs of the Project

1. Capital Costs: The contractor should provide an estimate of the capital costs of the project, broken down by major component.
2. Operational & Maintenance Costs: The contractor should provide an estimate of the Operational & Maintenance costs of the project, including an estimate of cost sensitivity to different use factors.
3. All estimates should be provided in 1985 dollars, and relevant cost escalators should be provided so that cost figures can also be estimated in future years dollars.

B. Revenues of the Project

1. The revenues of the project will be provided by fees charged to users of the project. All user fees should be in dollars per ton of ore shipped through the project, unless otherwise stated. Since no final user fee structure has been adopted by the Authority, alternative possibilities need to be examined. These alternatives must consider, at a minimum, the cases listed below.

Some of the alternatives will require information specific to the proposed Red Dog mine. The contractor should assume that Cominco Alaska will, through the Authority, provide estimates of the capital costs and operational costs, including transportation costs, of the proposed mine, as well as estimates of ore production and the resultant concentrate tonnage that would be transported through the proposed road and port. A contractor may use these figures, or provide alternative figures.

2. The first set of alternatives assumes that the State will provide no financial assistance for the project. Since Cominco Alaska will be the initial user, baseline revenue projections should be based on Red Dog mine ore shipments. The contractor should provide estimates of different user fees, based upon: a range of price assumptions for zinc; a range of rates of return on investment to Cominco Alaska; a range of cost of capital to AIDA; other options deemed pertinent by the contractor.
3. The second set of assumptions assumes that the State is willing to make an unspecified amount of subsidy to the project, both to encourage its early completion and to account for its regional benefits. In this case, the contractor should select what it believes to be the "minimum rate of return on investment" required to induce a mining firm such as Cominco Alaska to make a major mining investment such as the Red Dog mine. More than one value may be selected for the "minimum rate of return", if the contractor believes a range of estimates would present a more accurate picture. Given this "minimum rate of return", the contractor is to estimate the amount of subsidy (if any) on the transportation project needed to cause the investment to be made. This should be estimated under a range of alternatives based upon differing assumptions for the: price of zinc; cost of capital for AIDA; other options deemed pertinent by the contractor. For all of the various alternatives estimated above, the contractor should indicate the cash flow to the project and the implied user fee structure of this cash flow. For any given level of subsidy, the contractor should indicate how the rate of return to the mine investor is affected depending upon whether this subsidy is used to offset the construction cost of the transportation project, or is reflected in deferred imposition of user fees on the project, or some combination thereof.

4. A proposal has been made to charge a certain user fee schedule to Cominco Alaska for its use of the proposed transportation project. This proposal will be made available to the successful contractor.

Using the proposal and using the assumptions of the earlier alternatives with respect to costs and production, the contractor is to estimate: the implied rate of return to Cominco Alaska on its mine investment, and the amount of subsidy, if any, implied in the proposal. The contractor should state specifically what assumptions are being used for key variables (e.g. price of zinc) in this analysis, and further should discuss how sensitive the results are to changes in these key variables.

5. There are potential users of the transportation project other than Cominco Alaska for the Red Dog mine. The contractor should demonstrate how the above results would change if other users were to utilize the transportation system. Estimates of the production volume attributable to other users will be available from AIDA, however an independent estimate should also be made by the contractor.

C. Financing Options

1. The intent of the Finance Plan is to develop a financial plan that will provide adequate resources to enable a project to be undertaken and completed, while at the same time minimizing the costs both to the State and to the proposed project. As such, any proposed plan that will not realistically provide for enough resources to complete the proposed project is, by definition, not a Finance Plan.
2. The contractor should examine the question of debt financing for the project. At a minimum, the following questions should be answered:

- What forms of debt financing are available, and under what conditions?
 - From a financial perspective, how much of the proposed project can be debt financed, and under what conditions?
 - What types of security will be required for debt financing, and what are the possible interest rates for various types of financing?
3. If State financial assistance is required, it could come in a variety of forms. The contractor should consider different types of State assistance, such as a cash grant, low or deferred interest loans, appropriation of capital reserve funds, and so forth. The attributes of different types of assistance should be discussed, including specific advantages and disadvantages to the State, or to the financial feasibility of the project.
4. The contractor should consider these various financing options for both the construction phase, and the term financing. That is, one type of financing may be more appropriate during construction, whereas a different option may be better for term financing.

D. Presentation of Alternative Finance Plans

1. The contractor is to provide a series of alternative total Finance Plans. The term total Finance Plan refers to including financing during construction as well as term financing. At a minimum, the contractor must include as alternatives: (1) The Finance Plan involving the minimum cost to the State; (2) the option proposed by Cominco Alaska; and (3) an option that utilizes the maximum possible tax exempt bonding. Other options having particularly favorable attributes should also be included, up to a maximum of eight alternative Finance Plans.
2. The advantages and disadvantages of each plan should be discussed. At a minimum, each plan should include the total costs of the project; the costs, if any, to the State; the estimated rate of return to Cominco Alaska; the proposed cash flow and user fee structure; and explicit listing of key assumptions.
3. The models used to develop these alternatives must be available at no additional costs to the Authority. If requested by the Authority, the contractor will make these available in a computer ready manner that can be loaded on the Authority's equipment (see Appendix A).

E. Presentation of Results

An integral part of this study is satisfactory presentation of findings. These presentations would include at a minimum interim reports as requested by the Authority, an initial completed draft report, and a final report. In addition, the contractor must be available to make presentations to the Governor, other members of the administration and to various legislative committees during, and after, the course of the study.

F. Fees

A contractor should provide a fixed price bid for the entire contract. Also, an hourly charge should be provided for any work done at the request of the Authority after the completion of the project described in this R.F.P. The Authority has budgeted approximately \$250,000 to \$300,000 for this study.

IV. Method of Evaluation

An evaluation system will be utilized to review the proposals. The factors to be considered will consist of:

- (i) a work plan which addresses the scope of services set forth in Section III of this RFP
- (ii) proposed staff;
- (iii) experience of respondent in performing an analysis of the feasibility of comparable capital facilities; and
- (iv) availability of respondent to confer with staff of the Authority and to complete the feasibility study within the contemplated time frame.

In addition, the Authority may elect to conduct oral interviews with some or all of the respondents, and if oral interviews are conducted, the interviews will be considered in the award of the contract.

V. Submission of Proposals

Proposals may be submitted by providing 6 copies of your proposal to:

Bertram L. Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, Alaska 99501

Proposals must be received at the offices of the Alaska Industrial Development Authority, 1577 "C" Street, Suite 304, Anchorage, Alaska, 99501, no later than 3:00 p.m. on February 15, 1985. The proposer is solely responsible for the delivery of their proposal and proposals received after the above date and time will be rejected.

Each proposal should be clearly marked "Proposal to the Alaska Industrial Development Authority" on its outside cover. All proposals will remain sealed and unopened until after 3:00 p.m. on February 15, 1985.

APPENDIX A

TECHNICAL SPECIFICATIONS

COMPUTERS: WANG VS 80 with a 308K-Byte Diskette Drive (S.S.,S.D.) and a Phoenix Disk Drive (75M Fixed Disk & 15M removable pack).

 WANG PC 5 1/4 inch, 360KB Diskett Drive, 256 KB or RAM and Asynchronous Serial Communications Port.

MODEMS: RACAL VACIC Full Duplex, 0 to 300 BPS, Asynchronous
 Full Duplex, 1200 BPS, Asynchronous or Synchronous
 Half Duplex, 2400 BPS, Synchronous

TELECOPIER: XEROX 295 Group three digital facsimile, 9600 BPS with automatic fall-back to 7200/4800/2400 BPS based on line quality; transmission speed of 25 seconds average.



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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

March 19, 1985

Representative John Sund
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

As requested, AIDA has compiled four possible financing scenarios as well as a general outline of what Cominco's obligations should be if the State were to invest in this project. These are attached as Appendix A and B. It is perhaps helpful to note that virtually any financing scenario that may work requires at least \$18 million in up front state assistance.

Based upon the requirement that the State take some affirmative action this session of the Legislature the most prudent course of action would seem to be:

- (1) Appropriate \$18 million to the Economic Development Fund for the DeLong Mountains Transportation project.
- (2) Capitalize the AIDA Economic Development Fund with approximately \$100 million of loans held now by the Department of Commerce & Economic Development.
- (3) It will take approximately six months to transfer loans and audit them. No financing could be done during this period. When the Legislature reconvenes in January, they could reappropriate everything back to the General Fund or allow the project to go forward.
- (4) Large project financings such as this involve an immense number of variables. Absolute certainty of the financing will occur only when the financing is completed. Neither AIDA, Cominco or anyone else can control these external factors. By taking step one and two the State will have:

- (1) Indicated to Cominco its intent to proceed with the project.

Representative John Sund
March 19, 1985
Page Two

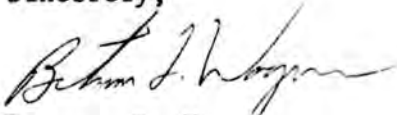
- (2) Put Cominco on notice that now they must negotiate and execute appropriate guarantees and use agreements as they have indicated to the Legislature.
- (3) Provide AIDA both time and perimeters to attempt to craft a financial transaction to provide the necessary funds for the road and port.
- (4) Should the project fail to go forward, all funds would be available for reappropriation. Interest earnings on the \$18 million as well as principal and interest on the loans would be retained in the Economic Development Fund and be subject to reappropriation.

Your requested review of the overall economics of the project as pertains to State benefits is being coordinated by Frank Homan and involves an "update" of the Red Dog Project Analysis, a comprehensive work compiled in the fall of 1984.

On Monday, February 25, 1985, the Alaska Industrial Development Authority Board selected SRI, International as the contractor to prepare the finance plan. A first draft was due by mid-April with the final product to be completed by late summer of 1985.

On March 18, 1985, Arthur Young filed a request for an administrative appeal of the award of the contract for the preparation of the finance plan. This appeal may preclude us from executing a timely contract with SRI and may make a draft written report this session of the Legislature doubtful. The Authority feels the capitalization of the Economic Development Fund with both the loans and \$18 million is the minimum required under any financing scenario.

Sincerely,



Bertram L. Wagnon
Executive Director

BLW/rg
Enclosures

APPENDIX A

Case I

Summary: Entails large bonding at outset of project. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction, then a large share of bonds are called after project begins operating.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that \$155 million in tax exempt bonds are issued on 1/1/86. Of this amount approximately \$128 million goes to the construction fund, and \$19 million is placed in a debt service reserve fund. As of 1/1/90, adequate funds are available in debt service fund to call \$56 million in bonds, leaving \$99 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This case assumes that the following general fund appropriations are made to AIDA to pay bond interest during the construction period - also assumes that interest earned on these appropriations stays with AIDA for same purpose:

DATE	G.F. APPROPRIATION (000)
7/1/85	\$30,000
7/1/86	\$20,000
7/1/87	\$20,000
7/1/88	\$10,000
7/1/89	\$10,000
TOTAL	\$90,000

4. After Completion: There are assumed to be \$99 million worth of bonds outstanding, with approximately \$12 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately \$87 million in debt that must be repaid by the revenues of the project. Debt service on this is

assumed to be: interest only 1990 - 1995: debt service \$9.1 million; interest and principal 1995 - 2015: debt service \$10.7 million. No provision has been made to repay the State contribution of \$90 million, but this could happen from tolls collected above those needed to pay debt service, and after 2015.

5. Advantages: Bonds are issued up front, so this provides high likelihood there will be enough funds to construct project. Also, early issuance locks in long term interest rate, and protects against possible changes in federal laws involving tax exempt bonding. Also provides debt service in line with Cominco Alaska's estimate of their ability to pay.

6. Disadvantages: Involves large issuance of bonds and attendant bond issuance cost, plus large risk of interest rate loss if bond proceeds cannot be invested at bond debt service rate prior to use in construction. Unless it can be guaranteed that needed state appropriations will be forthcoming, this is not a legal approach, since AIDA cannot issue debt that requires state assistance, unless the state assistance is already in place. Requires state to appropriate \$90 million for project with no specified repayment provisions. It may be that not all of the project is eligible for tax exempt bonding under federal law, and if so, this approach would probably not be feasible.

CASE IIa

Summary: Entails the state being the construction lender for the project. At completion, bonds are issued for a portion of the project cost, and those funds are used to repay state. Remainder of state construction financing is converted to long term loan, or grant.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assume tax exempt bonds for \$84 million are issued at the completion of the project, with an interest rate of 10.5%. Of this amount \$75 million would be used to pay back the state for construction financing, and \$9 million would be used for a capital reserve fund.

3. State Assistance: State assistance would be in the form of interest free construction financing: The amount needed would be in accord with the construction draws.

4. After completion: After completion, \$75 million of the state construction financing is paid back via a tax exempt bond sale. Debt service is assumed to be \$9.6 million, with \$8.6 million being required from the project, and the remainder from a self-supporting capital reserve fund. The remainder of the state construction financing, \$99 million, would be converted to either long term loan or a grant. Repayment could come from tolls collected above that needed for debt service, or after bonds are paid (2015).

5. Advantages: Minimizes amount of external debt financing, and lowers total costs that are attributed to project, because there is no construction period interest to be paid. Maximizes probability that funds will be available for construction. May provide for lower interest rate for bonds, since project is less risky because it would be a completed, functioning project before bonding would occur. Provides relatively low debt service requirements on the bonds, so some "excess" funds may be available to pay back to the state.

6. Disadvantages: Requires major commitment by the state - e.g. \$175 million over the five years. If bonds are not issued until, say, 1990, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rate might be in five years. Any repayment to the state would be over a long period of time.

CASE Iib

Summary: Entails the state being the construction lender for the project. Further it assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. At completion, bonds are issued for a portion of the project cost, and those funds are used to repay the state. Also, the cash flow from the loan capitalization is used to repay the state. The remainder of state construction financing is converted into a long term loan.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assume tax exempt bonds for \$89 million are issued at completion of the project, with an interest rate of 10.5%. Of this amount, \$80 million will be used to pay back the state for construction financing and \$9 million will be used for a capital reserve fund.

3. State Assistance: This would be in two forms, first as interest free construction financing, and as capitalization of the Economic Development Fund. The construction financing would be in accord with construction draws. The capitalization is estimated to be approximately \$100 million par value of existing state loans now held in the treasury.

4. After Completion: At completion, the state would have advanced an estimated \$1/4 million to the project. Of this amount, \$80 million would be paid back from the bond issue, approximately \$55 million would be paid back from the cash flow of the loan portfolio capitalization, and the remaining \$39 million would be converted to a long term loan. The total estimated debt service is \$10.2 million, with \$9.2 million being required from the project, and the remainder from a self-supporting capital reserve fund. This loan would be repaid with interest off the remaining capitalization and tolls in excess of the debt service, and after bonds are paid off.

5. Advantages: Minimizes amount of external debt financing, and lowers total costs that are attributed to project, because there is no construction period interest to be paid. Maximizes probability that funds will be available for construction. May provide for lower interest rate for bonds, since project is less risky because it would be a completed, functioning project before bonding would occur. Provides relatively low debt service requirements on the bonds, so some "excess" funds may be available to pay back to the state. Allows the state to be repaid most of its construction financing immediately upon initial operation of the project. Allows for good possibility that state will be repaid remaining \$39 million within foreseeable future. Should make it easier to sell bonds, because cash flow from remaining capitalization can be used to increase coverage of debt service.

6. Disadvantages: Requires major commitment by the state - e.g. \$175 million over the five years. Requires further up front commitment of \$100 million in existing state loans. If bonds are not issued until, say, 1990, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rates might be in five years.

CASE III

Summary: This case uses a combination of funding sources. The funding sources involve state loan appropriations during construction, state capitalization of the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans held by treasury, and issuance of tax exempt bonds for a major share of the project cost toward the end of the construction period. After completion the project would be financed with a combination of state debt and bond debt.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that \$110 million in tax exempt bonds would be issued to provide funds for construction during the fourth year. Of this, approximately \$13 million is for a capital reserve fund, \$75 million is for construction costs, and the remainder is for interest during construction and issuance cost. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would come in two forms. The first would be interest free loan appropriations (including interest earned on the appropriations) according to the following schedule:

DATE	G.F. APPROPRIATION (000)
7/1/85	\$18,000
7/1/86	\$15,000
7/1/87	\$15,000
7/1/88	\$15,000
TOTAL	\$63,000

The other state assistance would be the capitalization of the Economic Development Fund with existing state loans. The required amount is estimated to be approximately \$100 million in par value of loans, however any increases above this amount would lead to more rapid repayment of the state loan appropriations.

4. After Completion: At this point, the project will have \$110 million of bond debt and \$63 million of state debt, with an estimated \$7 million available in a construction/debt service fund available to reduce bonded debt. After this reduction, total bond debt service is estimated at \$11.8 million, with \$10.5 million required from the project and the remainder from a self-supporting capital reserve fund. The state debt would be repaid from interest off of the remaining capitalization and tolls in excess of the debt service, and after bonds are paid off.

5. Advantages: Allows general fund assistance to be spread over a number of years, and is less in total than many options. Since bonding isn't done until near the end of the project, there is less bond interest during construction, and furthermore the project may appear to be more certain and hence get a lower interest rate. Assuming fourth year appropriation is made concurrent or before the bonding, then state law is satisfied in that AIDA has not incurred debt with state support being in place. Treats state appropriations of \$63 million as loan, rather than grant. Should make it easier to sell bonds, because cash flow from remaining capitalization can be used to increase coverage of debt service.

6. Disadvantages: Requires significant commitment by the state, \$63 million in general fund loan appropriations and a capitalization of at least \$100 million in existing state loans. If bonds are not issued until, say, 1968, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rates may be in three years. This particular approach is very sensitive to cash flow projections, and further may require writing construction contracts that are subject to future appropriations.

Case IV

Summary: Entails large bonding at outset of project. Also assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction. After completion, some bonds are called, and income from capitalization plus project revenues are used to pay for bonds that remain outstanding.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that \$155 million in tax exempt bonds are issued on 1/1/86, with approximately \$128 million going into the construction fund. As of 1/1/90 adequate funds are available in the debt service fund to call \$12 million in bonds, leaving \$143 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would be in two forms, first as a \$30 million appropriation on 7/1/85, and second as capitalization of the Economic Development Fund. The capitalization is estimated to be at least \$100 million par value of existing state loans now held in the treasury.

4. After completion: There are assumed to be \$143 million worth of bonds outstanding, with approximately \$18 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately \$125 million worth of debt that must be repaid from available sources. The annual debt service on this \$125 million is estimated to be \$14.3 million. Assuming the project tolls will generate \$10.3 million, then the other \$4.0 million is assumed to be derived from the interest from the remaining loans of the original \$100 million capitalization of the Economic Development Fund. No provision has been made to repay the state contribution, but this could happen from excess revenues.

5. Advantages: Bonds are issued up front, so this provides high likelihood there will be enough funds to construct project. Also, early issuance locks in long term interest rate, and protects against possible changes in federal laws involving tax exempt bonding. Also provides debt service in line with Cominco Alaska's estimate of their ability to pay. Requires only \$30 million worth of general fund cash appropriations, which is the least of all suggested options, to date.

6. Disadvantages: Involves large issuance of bonds and attendant bond issuance cost, plus large risk of interest rate loss if bond proceeds cannot be invested at bond debt service prior to use in construction. Assumes that all of the project is eligible for tax exempt financing, and this is not a certainty. This approach is quite sensitive to the construction draw schedule.

APPENDIX B

GENERAL GUIDELINES OF STATE/COMINCO RELATIONSHIP

SHOULD STATE INVEST IN THE PROJECT

- (1) The State of Alaska thru AIDA will own and operate the port and road.
- (2) Cominco will enter into an agreement with AIDA for payment of a user fee for operations and maintenance expense, as well as a toll fee for use of the facility.
- (3) Additional users will be accommodated upon payment of appropriate fees.
- (4) Satisfactory guarantees of total repayment of state expenditures by Cominco in the event the mine does not commence operation and accordingly completion guarantees by AIDA will be required.
- (5) NANA will provide the necessary leases and rights-of-way for the land required.

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

April 15, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

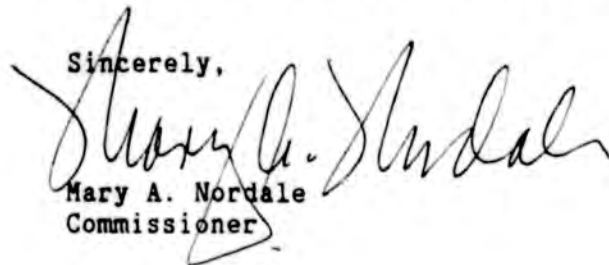
Implicit in the question is an assumption that the cash flow from the loans and the \$18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the \$18 million and only the \$71.6 million on the loans.

Hon. Arliss Sturgulewski
April 15, 1985
Page 4

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

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

Sincerely,



Mary A. Nordale
Commissioner

MAN/gb
85-57

Enclosure

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

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

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

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



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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

April 9, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

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

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

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

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

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

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

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

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

April 9, 1985

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

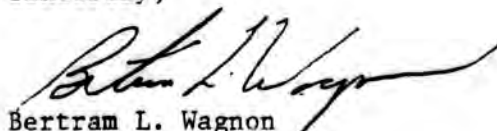
6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the \$18 million from the general fund, the \$142 million principal in loans, the interest on the \$18 million while in the fund, the interest generated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

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

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

Please let me know if you have further questions.

Sincerely,



Bertram L. Wagon
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		221,952
13		244,147
14		268,562
15		295,418

ATTACHMENT III

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

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

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

Case IV

Summary: Entails large bonding at outset of project. Also assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction. After completion, some bonds are called, and income from capitalization plus project revenues are used to pay for bonds that remain outstanding.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	\$ 4,000	\$ 1,000	\$ 5,000	\$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that \$155 million in tax exempt bonds are issued on 1/1/86, with approximately \$128 million going into the construction fund. As of 1/1/90 adequate funds are available in the debt service fund to call \$12 million in bonds, leaving \$143 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would be in two forms, first as a \$30 million appropriation on 7/1/85, and second as capitalization of the Economic Development Fund. The capitalization is estimated to be at least \$100 million par value of existing state loans now held in the treasury.

4. After completion: There are assumed to be \$143 million worth of bonds outstanding, with approximately \$18 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately \$125 million worth of debt that must be repaid from available sources. The annual debt service on this \$125 million is estimated to be \$14.3 million. Assuming the project tolls will generate \$10.3 million, then the other \$4.0 million is assumed to be derived from the interest from the remaining loans of the original \$100 million capitalization of the Economic Development Fund. No provision has been made to repay the state contribution, but this could happen from excess revenues.

Number 170 Mr. Elder answered that they were not all bad loans, just that there is a high delinquency rate.

Number 180 Representative Frank noted a sentence that says no provision has been made to repay the state's contribution but that it might be paid out of excess revenues. He asked how this fits with Cominco's pledge to repay the state.

Number 200 Mr. Elder answered that perhaps it does not fit, and said that he anticipates that the finance plan will reflect all the income that the state will receive.

Number 230 Chairman Sund asked what is the cash flow of the existing loans.

Number 235 Mr. Elder estimated that it is the neighborhood of \$15 to \$20 million annually. He added that the assets and the cash flow will collateralize the bonds, as well as the user fees. However, cash from user fees will not happen until the mine is in production. The cash flow would be used to meet annual obligations on the debt service in the meantime.

Number 257 Chairman Sund asked Mr. Elder what the legislature has to do in order to implement the plan that he is discussing.

Number 265 Mr. Elder answered that the legislature would have to appropriate \$18 million to AIDA, to appropriate the outstanding principal amounts of the loans held by the Department of Revenue to AIDA, and to give AIDA the authority to issue bonds in an amount not to exceed \$175 million.

Number 280 Chairman Sund asked if these bonds would go against the state's bonding capacity.

Number 283 Mr. Elder answered no, they would be the obligation of AIDA.

Number 292 Representative Frank asked Mr. Elder why \$18 million appropriation plus \$141 million in loans is needed in order to proceed on schedule.

Number 298 Mr. Elder answered that they want to proceed with construction in calendar year 1986.

MEMORANDUM

State of Alaska

TO: The Honorable John Sund
Chairman
House Special Loans Committee

DATE March 26, 1985

FILE NO 85I-170

TELEPHONE NO: 465-3568

FROM: **JMF**
Jack Fagnoli, Senior Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Red Dog Mine - Royalty
Payment Distribution
Likely Under ANCSA 7(i)

This memorandum summarizes information that the Office of Management and Budget (OMB) presented yesterday before the Senate Resources Committee, regarding the effects of Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA) on the distribution of potential Red Dog Mine royalty payments among Alaska Native corporations.

The attached table, "RED DOG MINE ROYALTY PAYMENTS - PROBABLE DISTRIBUTION UNDER ANCSA 7(i)", shows the percentage of total royalty payments from Cominco to NANA that each Native corporation would be likely to receive after redistribution under the allocation provisions of ANCSA 7(i). Section 7(i), as you are aware, requires that any royalty payments to NANA from Cominco due to Red Dog Mine operations would have to be shared with all other regional Native corporations. While the actual dollar amounts likely to be involved in such a distribution are uncertain, as discussed below, OMB feels that the percentage distribution shown in the table is highly probable.

As indicated yesterday in testimony before the Senate Resources Committee, OMB has chosen not to estimate possible ANCSA 7(i) dollar flows for the Red Dog Mine project at this point, because the magnitude of such dollar flows will largely be determined by the extent of any financial participation in the project by the State of Alaska.

That notwithstanding, one level of possible dollar amounts is shown in the attached table, solely to present a reference point for the order of magnitude of royalty payments that could result from Red Dog operations. The amounts shown, which are pre-tax amounts, are based on an estimate provided by Cominco on March 6, 1985, and reflect Cominco's estimate that an average of approximately \$30 million per year (1985 dollars) for thirty years will be paid in royalties to NANA, and then subsequently be redistributed to NANA and the other regional Native corporations under ANCSA 7(i). The estimate of \$30 million per year in royalty payments itself rests on Cominco's assumption in this scenario that the State would provide \$150 million in revenue bonding for the road and port

March 26, 1985

infrastructure, with Cominco repaying the State approximately \$260 million (nominal dollars) through user fees over a 30-year period.

If additional information is needed on this or any other topic, please don't hesitate to contact me or Alan Shelly at 465-3568.

cb/85I-170

Attachment

cc: Laurie Herman
Executive Assistant
Office of the Governor

Terry Elder
Deputy Commissioner
Department of Commerce and Economic Development

RED DOG MINE ROYALTY PAYMENTS,
PROBABLE DISTRIBUTION UNDER ANCSA 7 (i)

<u>Regional Native Corporation</u>	<u>Probable Share (Percent)</u>	<u>Possible Avg.* Annual Amount (1985 Dollars x 1,000)</u>
Ahtna	1.4%	\$ 300.0
Aleut	4.4	923.3
Arctic Slope	5.0	1,050.0
Bering Straits	8.5	1,786.7
Bristol Bay	7.3	1,533.3
Calista	18.0	3,780.0
Chugach	2.6	546.7
Cook Inlet	8.4	1,766.7
Doyon	12.2	2,566.7
Koniag	4.5	946.7
NANA	6.5	1,366.7**
Sealaska	21.1	4,433.3
TOTAL:	99.9%	\$21,000.0/yr. (avg.)

* Cominco estimate as of 3/6/85. Amounts shown are before taxes (mining license tax, corporate income tax). Assumes \$150 million in revenue bonding by State for infrastructure, and repayment of approximately \$260 million (nominal dollars) by Cominco through user fees over 30 years.

** In addition to Cominco estimate of \$9 million (1985 dollars) that NANA would receive annually (avg.) as its allowable 30% of gross royalty payments, assuming State participation and Cominco repayment as above.

Source: Office of Management and Budget

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

April 8, 1985

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

Dear Senator Sturgulewski:

Re: \$142 Million AIDA Transfer

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

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

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

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

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

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

No, both organizations expect repayment on a timely basis.

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

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

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

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

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

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

April 8, 1985

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

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

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

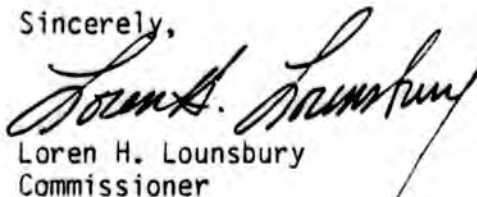
5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the \$142 million as of July 1, 1985?

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

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

Please let me know if you have further questions.

Sincerely,



Loren H. Lounsbury
Commissioner

LHL/mst1748m
040385c

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

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

March 26, 1985

Honorable Arliss Sturgulewski
Chairman, Senate Resource Committee
Pouch V
Juneau, Alaska 98111

Dear Senator Sturgulewski:

Red Dog is, by universal acclaim, one of the world's premier ore deposits and will help satisfy an expected shortfall in world zinc supply far into the 21st century. It is estimated that over a 20-year period, the Red Dog Mine will provide in direct revenues to the State over \$210 million in net present value in the form of taxes and avoided transfer payments. Additionally, the mine will create 400 direct jobs in the northwest Alaska region which experiences very high levels of unemployment, as well as some 200 jobs state-wide in service and supply sectors of the economy. Regional benefits of the project will include significantly reduced transportation costs and the mine could provide an economic base for the formation of a regional borough.

Investment by the State of Alaska in the construction of a regional port and access road, not only to the Red Dog Mine site, but also the richly mineralized Noatak region is both an opportunity for the State to diversify its economy and, backed up by sound financial analysis, is an appropriate responsibility of the government.

The State of Alaska shares the concerns expressed by the Legislature with regard to protecting State interests since it is, in fact, the State of Alaska that will be the owner of the road and the port.

Both the Administration and the Legislature are in complete agreement with regard to assurances and guarantees to be provided by Cominco and NANA. Such guarantees have already been outlined to the Legislature and consist of the following:

- Cominco will guarantee to pay toll fees that will repay State investment.
- Cominco will guarantee to pay the operation and maintenance costs of the road and port facilities.

March 26, 1985

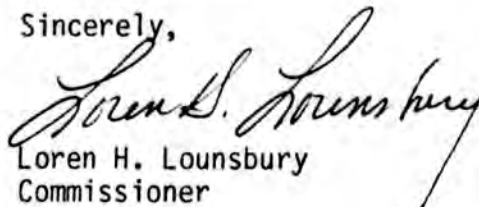
- Cominco also will guarantee minimum toll payments and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.
- To the extent that the price of zinc should rise above a level presently contemplated to yield a reasonable profit, the State believes that it should be able to have its investment liquidated at an accelerated rate. This is a provision common to many loan agreements involving sizeable investments.

Additionally, NANA will guarantee to provide necessary land to accommodate reasonable expansion requirements for future users at the port site.

The State intends to hold Cominco and NANA to these guarantees, plus any other appropriate commitments, that may be identified by the contractor, Stanford Research Institute, who will produce the comprehensive financial plan.

With the ironclad assurances and guarantees in place, the Legislature, this session, has the opportunity not only to move the Red Dog Mine project forward in a timely manner but to assure potential consumers of Alaska's exports that the State is serious about developing its natural resources.

Sincerely,


Loren H. Lounsbury
Commissioner

LHL/sa0673s
31685d

cc: Ben Harding, Special Staff Assistant
Office of the Governor
Mary Nordale, Commissioner
Department of Revenue

MEMORANDUM

State of Alaska

TO: The Honorable John Sund
Chairman
House Special Loans Committee

DATE: March 26, 1985

FILE NO: 85I-170

TELEPHONE NO: 465-3568

FROM: *JIF*
Jack Fargnoli, Senior Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Red Dog Mine - Royalty
Payment Distribution
Likely Under ANCSA 7(i)

This memorandum summarizes information that the Office of Management and Budget (OMB) presented yesterday before the Senate Resources Committee, regarding the effects of Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA) on the distribution of potential Red Dog Mine royalty payments among Alaska Native corporations.

The attached table, "RED DOG MINE ROYALTY PAYMENTS - PROBABLE DISTRIBUTION UNDER ANCSA 7(i)", shows the percentage of total royalty payments from Cominco to NANA that each Native corporation would be likely to receive after redistribution under the allocation provisions of ANCSA 7(i). Section 7(i), as you are aware, requires that any royalty payments to NANA from Cominco due to Red Dog Mine operations would have to be shared with all other regional Native corporations. While the actual dollar amounts likely to be involved in such a distribution are uncertain, as discussed below, OMB feels that the percentage distribution shown in the table is highly probable.

As indicated yesterday in testimony before the Senate Resources Committee, OMB has chosen not to estimate possible ANCSA 7(i) dollar flows for the Red Dog Mine project at this point, because the magnitude of such dollar flows will largely be determined by the extent of any financial participation in the project by the State of Alaska.

That notwithstanding, one level of possible dollar amounts is shown in the attached table, solely to present a reference point for the order of magnitude of royalty payments that could result from Red Dog operations. The amounts shown, which are pre-tax amounts, are based on an estimate provided by Cominco on March 6, 1985, and reflect Cominco's estimate that an average of approximately \$30 million per year (1985 dollars) for thirty years will be paid in royalties to NANA, and then subsequently be redistributed to NANA and the other regional Native corporations under ANCSA 7(i). The estimate of \$30 million per year in royalty payments itself rests on Cominco's assumption in this scenario that the State would provide \$150 million in revenue bonding for the road and port

March 26, 1985

infrastructure, with Cominco repaying the State approximately \$260 million (nominal dollars) through user fees over a 30-year period.

If additional information is needed on this or any other topic, please don't hesitate to contact me or Alan Shelly at 465-3568.

cb/85I-170

Attachment

cc: Laurie Herman
Executive Assistant
Office of the Governor

Terry Elder
Deputy Commissioner
Department of Commerce and Economic Development