

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

267 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

Feb 21 4:10 PM

Call to order: informal meeting

Present: Haugen, Hayes, Greening, Gardiner
(Malone) Jorild ~~Exotic~~ At Power Lick

Williamson, Hatterman, Del Rio, Olson, Surick
Mr. Surick Presented a project followed by the Comm.
Add to Bill possibly:

- Entrance requirements:

- Facts that have to exist before Guaranteed

- Feasibility Study

Generation
Economic

} either done by
one co or two.

15:1 → amt. in PF amt avail for bond guarantee
Size of Bonds

7 You'd [pay for trip??]
Jim Curley, Argetsinger, Atney

Suggests that the At Power Lick be the
means to evaluate the initial projects.

Curley - wants to prevent duplication of ~~projects~~ ^{demand on PF}
mandated by another Bill

3

82

$$\begin{array}{r} 3 \\ \overline{) 75} \end{array}$$

4

47,000,000

$$\begin{array}{r} 47,000,000 \\ \overline{) 3,000,000} \\ 282 \\ \hline 180 \end{array}$$

4

0 6 $\frac{1}{3}$

$$\begin{array}{r} 0.06\frac{1}{3} \\ \overline{) 3,000,000} \\ 282 \\ \hline 180 \end{array}$$

$$82 = 6.4(x)$$

$$\begin{array}{r} 31 \\ 6.4 \overline{) 32,000,000} \\ \underline{6.4} \\ 180 \end{array}$$

Water R.L. Fund		
1.5 Million	- KTN	82
.1	- Craig	15
.1	- Port Limer	410
.1	- Seward - Grant Lake	82
.450	- Cordova	1,230
.200	- Kenai	
.200	- Thomas Bay	
.250	- Tanana + Haines	
3.5	- Water supply ANC ship Creek	
.1	- T-H	

0
1

5 billion
30.

Need

Front End Planning Funding

Need someone to determine initial feasibility →
At Power Auth.

Loans under Water Res Dev Loan Fund
Williamson suggests -

Ket. 1.5 mill 1.3 contin^{study} 'lic of Swan Lake

Poll of
Bear St

P4 Lynn Craig 100 th
Kachak has 400,000 watts 100,000 hydro P4 Lynn
Seward 100 th Grant St fastid

Cottone 450,000

Kenai 200,000

Thomas Bay 200,000

HELIP 250,000

Virginia St → licenc

200, Lower Salmon

30,000 Haines vicinity

Arch 3.5 mill water supply line Chupce
Thrift Hacks ~100,000 Small projects

6.5 million

He has drafted a bill for approp from Gen Fund
for Water Res. Dev. In Fund. 6.5 mill.

Sitka 10.5

Pete Jeans

Haugen, Gardiner Gruening -
subcommittee for power projects



feasibility
study
118,000

licenc
applic

8tl:5#

wwwos

Minutes

House Special Committee on
the Alaska Permanent Fund

Room 124, Capitol Building
February 14, 1978

Chairman Gruening called the meeting to order and welcomed those present. Committee members attending were: Rep. Miles, Rep. Haugen, Rep. Gardiner and Rep. Hayes. Rep. Haugen introduced members of the audience to the Committee: Bob Loescher, John Halloway, Chuck Folley, Mr. Cashen, Ferral Campbell, Sterling Gallagher, Bill Maerig, Don Bouy, Mr. James Williamson, Mr. Long, Bob Cross, Ed Zastral, Art Morgan, Jim Edenso, Art Perry and Bill Corbus most of whom had been invited by Rep. Haugen to inform the Committee of the needs for electric utility funding.

Mr. Don Bowie, Asst. Utilities Manager in Ketchikan indicated that financing for power projects could best be assisted by either long term low interest loans or a state guarantee of bonds.

Mr. Jim Williamson, of R. W. Beck and Ass., presented two papers to the Committee: "Role of the Alaska Permanent Fund in Funding the Water Resources Revolving Loan Fund" and "Financing of Water Resource Projects in Alaska" both of which were developed for the Southeastern Conference. His suggested methods for financing were direct dedication of funds from the Permanent Fund to water resources or outside loans guaranteed by the state (perm. fund).

Mr. Robert Loescher of SeaAlaska Corp, brought with him a copy of a "Preliminary Feasibility Study on Hydroelectric Potential" (in S. E.). The study (funded by REA) consolidates areas with good potential for projects. He cited the need for funds to continue into engineering phases. His suggestions for financing were long term low interest loans for plants and transmission lines and deferred payments during the first 3-5 years to allow for feasibility.

Mr. Bill Corbus, Manager of AEL&P cited Juneau's unique situation in having a sufficient power supply and urged the Committee's help in resolving the other SE communities' problems. He suggested adding a section in 595 allowing for use of funds to upgrade existing facilities as well as for construction of new facilities and allowing rural electric cooperatives and private utilities to be eligible to receive loans.

Mr. Bill Maerig of the Petersburg Electric Utility suggested the Committee look at the increased return in taxes and jobs generated by funding electric utilities. If the principal of the Permanent Fund were used to invest in long term low interest rate loans for small projects then the increase return would benefit the state as a whole with increased stability and jobs as well as increased tax base.

In conclusion of the testimony on funding of public utilities, Chairman Gruening indicated a strong personal commitment to finding a way to fund these projects.

The Committee recessed at 8:40 PM and reconvened at 9:00 PM for a work session on HB 596.

Mike Doogan's memo on the technical and grammatical corrections suggested by White, Weld was given to Mr. Berrier to incorporate into a committee substitute bill he is drafting.

Chairman Gruening asked that Committee members having suggested language for setting an upper dollar limit before legislative approval is necessary (enterprise fund) submit it by the end of the week. Rep. Hayes indicated that he would have a suggestion to submit.

Mike Doogan's memo on policy changes suggested by White, Weld was taken up:

Item 2 was moved by Rep. Miles and adopted unanimously.

Item 3: Chairman Gruening moved to clarify whether a suspension creates a vacancy.

Item 4: Chairman Gruening moved this amendment be adopted and there was no objection.

Item 6: Rep. Hayes moved for adoption and there was no objection.

Item 8: Mr. Berrier was directed to resolve this and assure a liason between the APFC and AEIC and a letter of intent to accompany 596 was suggested by Rep. Gardiner.

Item 10: Rep. Hayes moved to adopt and there was no objection.

Item 11: It was decided no change was needed here.

Item 12: Mr. Berrier's memo of 2-14 was presented relating to this and items 1 and 2 were moved by Chm. Gruening. The motion passed with Rep. Hayes objecting.

Item 13: "Amendment to 596" was presented and Chm. Gruening moved for adoption. There was no objection.

Rep. Gardiner presented an amendment (Page 11, line 5 of 596) and moved that it be adopted in concept. There was no objection and Mr. Berrier was directed to draft it.

The Committee will try to meet after session each day this week. There is a tentative meeting with White, Weld set up for Tuesday, February 21.

The meeting adjourned at 10:05 PM.

RWB
2/14/78

The Southeastern Conference
Meeting in Juneau
February 15, 1978

FINANCING OF WATER RESOURCES PROJECTS IN ALASKA

GENERAL

Since 1975 there has been a renewed interest in activity in the development of water resources in the State. Investigations of a number of projects, particularly hydroelectric, have proceeded and several of these projects are in the Federal Energy Regulatory Commission Licensing stage. Financing to date has been through the Water Resources Revolving Loan Fund (HB 171-1975 and amended in 1977). During the last two years the legislature has provided for appropriations to the Loan Fund for seed money for these projects.

At the annual convention in Sitka of the Southeastern Conference in October 1977, Jim Williamson of R. W. Beck and Associates, Inc. discussed the role of the Alaska Permanent Fund in funding the Water Resources Revolving Loan Fund (WRRLF) (copy of paper attached). He discussed the background to the WRRLF, the importance of long term-low interest financing to hydroelectric development, funding requirements of hydroelectric projects now in the final investigations stages (Sitka, Petersburg-Wrangell, Ketchikan, and Kodiak), and the estimated funding requirements for FY79.

The following updates the information presented at the October convention and describes the possible financing methods and estimated financing requirements, both on a short term and long term basis, for water resources projects in the State.

SHORT TERM SITUATION (FY 79)

POSSIBLE FINANCING METHODS

As discussed later it is considered that the most reasonable method of providing the long term financing requirements for water resources developments in the State is through the auspices of the Alaska Permanent Fund. However, because it appears that the mechanism for administration of the Permanent Fund will not be resolved for some time, to meet the urgent needs of the communities involved, interim short (FY79) financing is needed. From FY80 onwards it is assumed that arrangements will be made for continued financing for development of the water resources through the Permanent Fund.

There are a number of potential methods for providing funds to meet the short term needs of the communities which are developing their water resources projects. Basic ones are listed below.

1. Loans from General Fund to
Water Resources Revolving Loan Fund

There are two principle courses of action in this regard, by an appropriation bill or a line item in the legislative budget. In general this has been made available in the past two years through the medium of an appropriation bill administered through the WRRLF.

2. Loans from General Fund
to the State Power Authority

Again the two alternatives for funding are the appropriation bill, or a line item in the budget.

3. Loans from General Fund
to an Individual Community

This method was used to provide Sitka's needs last year and is simply a variation of the above two methods.

4. Loans from the Renewable
Resources Development Fund

This is a potential source, at least for part of the FY79 needs for hydroelectric development, if excess monies are available.

Of these methods an appropriation bill for the total amount required by the various communities for investigations in FY79, appears to be the most practical, either via the Water Resources Revolving Loan Fund as in the past, or through the State Power Authority. The Water Resources Revolving Loan Fund has the advantage that loans from this fund will be low interest - long term, and repayment will be deferred until the project goes into commercial operation, as stated in the Act. A typical appropriation bill is enclosed as Exhibit A. If a separate loan was given to Sitka, the appropriation to the Water Resources Revolving Loan Fund for the Municipality of Sitka would be spelled out in the amount of \$10,500,000 as a separate line item.

ESTIMATED FUNDING REQUIREMENTS FOR FY79

An estimate has been made of the funding requirements for communities which are committed to project development for FY79. These communities are being contacted individually to determine their requirements so that a more definite amount can be developed for inclusion in the appropriation bill. At this time a broad estimate requirement is between \$3,000,000 and \$4,000,000 for communities

other than Sitka. Sitka will require \$10,500,000 for its Green Lake Project as it enters into its first year of major construction. Sitka may, however, obtain a commitment from the Administration for the full amount of the loan to finish construction of the Project in the amount of \$44,450,000, which is in addition to the \$2,050,000 borrowed to date. One suggestion is to introduce two appropriation bills, one for Sitka's FY79 needs of \$10,500,000, and the other for the needs of the other communities in the exact amount to be determined, but in the range of \$3,000,000 to \$4,000,000.

Interim funding of projects should be low interest, long term, with repayment of principal and interest to commence on the date of commercial operation of the project, or ten years from the date the loan is granted, whichever is sooner, in accordance with the Water Resources Revolving Loan Fund Act. Current loans are at 5% interest. It is intended that the seed money loans would be rolled-over into the construction loan for the project, and then repaid under the conditions of one loan including interest accumulated through investigations, design and construction, and commencing at the date of commercial operation.

LONG TERM SITUATION

POSSIBLE FINANCING METHODS

The principal potential financing methods to meet the long term needs of water resources development in Alaska are considered to be as follows.

1. Permanent Fund Source

a. Direct Dedication from Permanent Fund

Repayment to the Permanent Fund can be made on a procedure identical to amortization of revenue bonds on a long term basis (40 to 50 years). Loans could be administered through:

(1) Water Resources Revolving Loan Fund under the Business Loans Division of the Department of Commerce and Economic Development,

(2) State Power Authority

(3) Renewable Resources Development Fund administered by an agency such as the Alaska Renewable Resources Corporation as in the House proposal.

(4) Some newly designated entity such as the Alaska Enterprise Investment Corporation, Development Bank Corporation, etc.

This procedure is consistent with the policy statement of the Southeastern Conference at its annual convention in October 1977, supporting the setting aside of an adequate percentage of the Permanent Fund to be used solely for construction of hydroelectric energy and potable water sources. As discussed later, to meet the estimated requirements over the next six or seven years, it would require direct dedication of about 10% of all oil revenues to financing of the State's water resources, (except major developments such as Susitna), if their needs were to be met from this source.

b. Outside Loans Guaranteed
by Permanent Fund

In this case the Permanent Fund would be invested outside the State in high yield securities, and would provide backing for loans for water resources construction. It appears most convenient to consider that these loans would be administered through either (1) the State Bond Bank or, (2) the State Power Authority.

c. Loans from the Renewable
Resources Development Fund

Monies available from the RRDF are expected to be limited in amount (dedication of 5% of oil revenues), but could provide some of the funds necessary for water resources development as well as fisheries and lumber. The method of administering these loans has not been determined but one concept is through the proposed Alaska Enterprise Investment Corporation.

2. General Fund Source

This source has been used for the front end monies which have been acquired for development to date. It is possible that the State could appropriate monies annually for water resources construction as the Federal government does. However, with the other demands on the State budget, this is not considered to be a reliable source of funding major expenditures for a community development and could well result in disastrous delays in project construction.

Of the above methods, the direct dedication from the Permanent Fund to development of water resources in Alaska is considered to be the most desirable and practical. This is in the best interest of the State since it utilizes revenues from exhaustible mineral resources to develop renewable water resources.

3. Conditions of Loans

Hydroelectric projects are capital intensive. Once the project is built, the major part of the annual cost of the project is the debt service since operating costs are small. Hence although the overall cost of power from a hydroelectric project is often less than that from a diesel generating plant, the impact of revenue bond financing with its related higher interest rate and shorter term results in a significant increase in the cost of power from the project. It is very important that low interest - long term financing be available to the small communities in Alaska.

Rather than consider a subsidy in the interest rate, one possible means of achieving its feasibility with less hardship on the community is to utilize a variable interest rate in the loan conditions. In this manner, conditions of the loan could be arranged so that the initial interest on the loan could be in the 3, 4 or 5% range, which would increase over the period of the 40 to 50 year financing term, to result in an overall average rate of interest commensurate with going rates for high grade investments. This procedure could certainly be applied by the State in direct financing through the Permanent Fund, and might be possible as a condition of outside loans guaranteed by the Permanent Fund. It is almost essential if the communities are going to develop hydroelectric projects rather than oil fired generation, and thus keep electric rates within reason.

ESTIMATED REQUIREMENTS THROUGH 1985

A broad estimate has been made of the funding requirements through 1985 as shown in Exhibit B. Estimated requirements are broken into two parts: those for communities for which loans have been made under the Water Resources Revolving Loan Fund Act, (Sitka, Ketchikan, Petersburg-Wrangell and Kodiak) and additional requirements estimated based on past and current discussions with communities relating to hydroelectric and water supply projects.

The purpose of this projection is to provide a basis for consideration by the Permanent Fund Committee in considering future requirements for water resources development. Typically, the early costs for a project (seed money) are small and increase in magnitude over the first three or four years of investigation, design and FERC licensing, prior to the major expenditure incurred during construction of the project. Exhibit B shows the estimated requirements for water resources development including investments, less debt service repayment, through 1985. It also shows that to meet these requirements from the Permanent Fund, assuming a 30% contribution of oil revenues, it would require a dedication of one-third of

this amount (10% of all oil revenues). This is twice the amount now dedicated to the RRDF.

The estimated range of monies available is based on the predictions in Charts 3 and 4 of the final report by the House Special Committee on the Alaska Permanent Fund, and in essence represents the intermediate and highest predictions. Hence it appears that every effort should be made to attempt to have 10% of all mineral lease, royalties, royalty sales proceeds, federal mineral revenue sharing payments and bonuses, received by the State of Alaska, dedicated exclusively to the development of water resources projects. It is also possible that some amount of the RRDF could be contributed strictly to water resources and thus reduce the 10% requirement on the Permanent Fund by a like amount.

A BILL

FOR AN ACT ENTITLED:

"An act making a special appropriation to the Water Resources Revolving Loan Fund; and providing for an effective date."

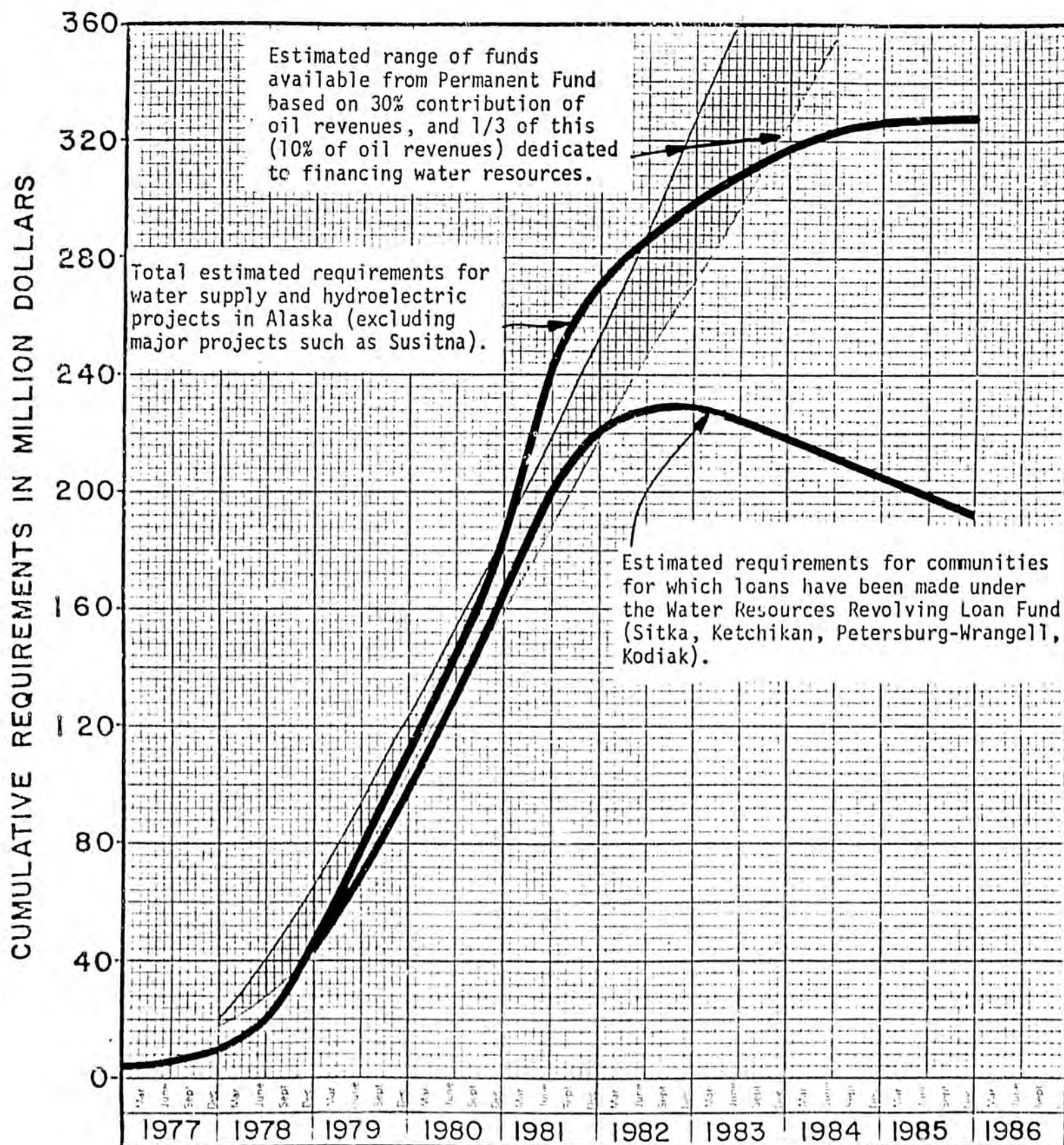
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. The sum of \$ _____ is appropriated from the general fund to the water resources revolving loan fund.

Section 2. This act takes effect July 1, 1979.

DEVELOPMENT OF ALASKA'S WATER RESOURCES

BROAD ESTIMATE OF FUNDING REQUIREMENTS



The Southeastern Conference
21st Annual Convention October 13-14, 1977
Sitka, Alaska

ROLE OF THE ALASKA PERMANENT FUND
IN FUNDING
THE WATER RESOURCES REVOLVING LOAN FUND

Presented by James V. Williamson
R. W. Beck and Associates, Inc.

BACKGROUND TO WATER RESOURCES REVOLVING LOAN FUND

Implementing Legislature

In 1975 the Alaska Legislature enacted House Bill 171 creating a Water Resources Revolving Loan Fund. The Act specified that loans from this fund are to be used to develop and conserve in the public interest, the water resources of Alaska using State revenues from mineral development. The Act stated that loans from this fund shall be long-term and at low interest and shall be utilized for capital improvement projects for hydroelectric generation and water supply. The purpose of this loan fund then was to use revenues from mineral development (primarily oil and gas) which are depletable resources, to develop renewable water resources. The principle inherent in the Act then is to utilize oil and gas revenues to finance construction of water resources and hydroelectric projects in needy communities so that Alaska will have the benefits of these projects long after the oil and gas sources are exhausted.

In 1977 the legislature amended House Bill 171 by House Bill 356 which was enacted. The principal purpose of this amendment was to set more precisely the conditions for loans from the fund. As now enacted, loans from the fund shall be for a term not to exceed 50 years, and the rate of interest shall be not less than 3 nor more than 5% per year on the unpaid balance. Repayment of a loan shall commence on the date of commercial operation of the project, or 10 years from the date the loan is granted, whichever is sooner. We have combined the provisions of the 1975 Act as amended in 1977 as shown in Exhibit A.

Section 45.86.030 states that receipts from mineral rentals and royalties and from the Alaska mineral lease bonus permanent fund, shall be appropriated annually and deposited in the Water Resources Revolving Loan Fund. The mineral lease bonus permanent fund was ultimately enacted as the Alaska Permanent Fund, but the intent of the 1975 legislature was that monies from such a permanent fund would be appropriated annually and deposited in the Water Resources Revolving Loan Fund.

Appropriations to Water Resources Revolving Loan Fund

An appropriation bill to provide seed money to the Water Resources Revolving Loan Fund to various communities, in the amount of \$3,000,000, failed to pass in the 1975 legislature but was enacted in 1976. House Bill 700 listed the communities and their funding requirements as shown in Exhibit B, Sheet 1. The Governor reduced the \$3,000,000 amount to \$2,500,000. Sitka was the only community which took advantage of the amount provided for it of \$450,000, and commenced detailed investigation of its Green Lake Project in the summer of 1976. The other communities were reluctant to borrow money from the loan fund since the loan conditions stipulated by the administration were not especially attractive.

However, based on the proposed revisions to the implementing legislature in 1977, an appropriation bill (House Bill No. 357) was introduced in the amount of \$3,500,000 for various communities as listed in Sheet 2 of Exhibit B. The bill as actually passed is shown in Exhibit B, Sheet 3 and provides for a total of \$3,600,000 being appropriated from the general fund, but with only \$200,000 going to the Water Resources Revolving Loan Fund. The remainder of the funds were distributed as \$1,600,000 to the Department of Revenue for a loan to Sitka for its Green Lake Project, and \$1,800,000 to the power project revolving loan fund. The Governor reduced the amount in the power project revolving loan fund from \$1,800,000 to \$540,000, and deleted the \$200,000 amount in the Water Resources Revolving Loan Fund.

In September this year the Water Resources Revolving Loan Fund Committee approved loans to the communities shown in Exhibit B, Sheet 1, except Anchorage and Cordova, and in the amounts shown on that schedule except that Petersburg's loan is \$910,000 (\$100,000 additional). Hence, the entire \$2,500,000 in the original appropriation bill has now been committed. In addition, the Department of Revenue approved a \$1,600,000 loan to Sitka based on House Bill 357 for continuing work on the Green Lake Project in FY 78. These communities are now proceeding with detailed investigations including exploratory drilling and other field work as a basis for preparation of an application for an FPC License, and design of the project, as soon as possible.

IMPORTANCE OF LONG-TERM - LOW INTEREST FINANCING

Hydroelectric projects are capital intensive. Once the project is built the major part of the annual cost of the project is the debt service since operating costs are small. Hence although the overall cost of power from a hydroelectric project is often less than that from a diesel generating plant, the large amount of capital required by a small community is essentially impossible to obtain from conventional sources. Further, the impact of revenue bond financing with its related higher interest rate and shorter term results in a significant increase in cost of power from a hydroelectric project. This is demonstrated by a comparison made for the proposed Virginia Lake Project of the Thomas Bay Power Commission in the following table. This table shows the estimated cost of power from the Virginia Lake Project, based on conventional financing at 7%, 30-year term, as compared to 3%, 4%, and 5%, 50-year term financing from the Water Resources Revolving Loan Fund. The cost of power is also compared with that estimated for new diesel generation in the same time frame. This comparison has been made on the first year of operation, and also over the first 10 years of operation of the hydro project.

Financing Source	Interest Rate and Term	Estimated Cost of Power (Cents/kWh)			
		First Year (1984)		Average over First Ten Years (1984-1993)	
		Virginia Lk.	Diesel	Virginia Lk.	Diesel
Conventional	7%, 30-year	12.6	6.9		8.9
Water Resources Revolving Loan Fund	5%, 50-year	8.9		9.9	
	4%, 50-year	7.7		8.6	
	3%, 50-year	6.7		7.5	

As can be seen, the estimated cost of power with 7%, 30-year financing is almost twice the cost of power with 3%, 50-year term financing. Further, only with 3%, 50-year financing available from the Water Resources Revolving Loan Fund would the estimated cost of power from the Virginia Lake Project in the first year of operation be less than that of the alternative new diesel generation, assuming escalation of oil fuel at 7% annually. The average cost of power over the first 10 years of operation of the Virginia Lake Project is about equal to that for diesel generation if 4%, 50-year financing is available for the hydro. This demonstrates the importance of low interest, long-term financing to the small communities in Alaska.

FUTURE FUNDING REQUIREMENTS OF WATER RESOURCES REVOLVING LOAN FUND

A broad estimate has been made of the Revolving Loan Fund Requirements through 1985 for the communities which have already obtained loans as follows:

Sitka - Green Lake Project

Petersburg-Wrangell (Thomas Bay Power Commission) -
Virginia Lake Project or Thomas Bay Project -
Phase 1

Ketchikan - Swan Lake Project

Kodiak - Terror Lake Project

The purpose of this projection is to provide a basis for consideration by the Permanent Fund Committee in considering future requirements of the Water Resources Revolving Loan Fund. The list is not intended to be all inclusive; it simply enables a reasonable assumption of the order of magnitude of loans and their timing to be developed. We have prepared preliminary feasibility reports on the projects for Ketchikan, Petersburg-Wrangell and Sitka and hence there is a reasonable confidence factor in the estimated costs and schedules for these projects. The estimate for Kodiak has been based assuming the project developed for that City would have a similar cost and construction schedule as the Swan Lake Project at Ketchikan.

Typically, the early costs for a project (seed money) are small and increase in magnitude over the first three or four years of investigation, design and FPC licensing prior, to the major expenditure incurred during construction of the project. The schedule for Sitka's Green Lake Project and the estimated cash flow requirements are shown in Exhibit C. The lead time for this project is estimated to be about 6 years from initial investigations. Ketchikan's Swan Lake Project has an estimated lead time of about 7 years which is more typical of hydroelectric projects in Southeast Alaska. The proposed schedule for Swan Lake is shown in Exhibit D. Hence, it can be seen that since most of the communities involved already have power shortages, it is extremely important that the projects are not delayed by non-availability of financing. One of the critical items on the schedule is the preparation of an FPC License application and its processing which is estimated to take from 2 to 2-1/2 years under the best of conditions.

The estimated requirement from the Water Resources Revolving Loan Fund, including investments, less debt service repayment through 1985, is shown in Exhibit E. It can be seen that once the project goes on-line the debt service payment reduces the amount of the outstanding loans. By 1985 the estimated net cumulative amounts loaned from the Fund for the subject projects would be about \$200 million.

FUNDING REQUIREMENTS FOR FY79

A broad estimate has been made of the funding requirements for the four projects listed above and other communities which have shown prior interest, for FY79. A broad estimate of the requirements is about \$15,000,000 of which approximately \$10,500,000 would be required for Sitka's Green Lake Project as it enters into its first year of major construction. At the same time Sitka should obtain a commitment from the Water Resources Revolving Loan Fund for the full amount of the loan to finish construction of the project in the amount of \$44,450,000, which is in addition to the \$2,050,000 borrowed to date. It is understood that there are now no monies remaining in the Water Resources Revolving Loan Fund. Hence, the Fund will require a sizable appropriation in FY79. We believe the most logical source for this funding, and the commitment to Sitka for construction of its Green Lake Project, is the Alaska Permanent Fund.

8/22/77

EXHIBIT A

1 HOUSE BILL 171, 1975 AS AMENDED BY HB 356, 1977

2 (Combined Acts)

3 STATE OF ALASKA

4 AN ACT

5 Relating to creation of a water resources revolving loan fund.

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

7
8
9 Sec. 45.86.010. FUND ESTABLISHED. There is established as a
10 separate fund the water resources revolving loan fund. Loans from this
11 fund are to be used to develop and conserve in the public interest the
12 water resources of Alaska.

13
14 Sec. 45.86.020. FUND UTILIZATION. (a) Loans from the fund shall
15 be for a term not to exceed 50 years, and the rate of interest shall be
16 not less than three nor more than five per cent per year on the unpaid
17 balance. The repayment schedule shall be as determined by the depart-
18 ment. Repayment of a loan shall commence at the date of commercial
19 operation of the project or 10 years from the date the loan is granted,
20 whichever is sooner.

21
22 (b) The loans may be used for capital construction projects, for
23 hydroelectric generation and potable water supply including surface
24 storage and groundwater sources and transmission of water from surface
25 storage to the existing distribution system, and development of hydro-
26 electric generating facilities including transmission of power to the
27 load center. Loans may be made to applicants for new or existing proj-
28 ects including feasibility and preconstruction engineering studies,
29

1 expenses incurred in securing necessary permits and licenses, design of
2 the project and construction of capital improvements. Existing hydro-
3 electric and water supply projects may be expanded or rehabilitated with
4 loan funds under this chapter if the rehabilitation and expansion is a
5 capital improvement project.
6

7 (c) Loans shall be repaid to the fund by the borrower from reve-
8 nue derived from the sale of electric power or water.
9

10 Sec. 45.86.030. LOAN FUND SOURCE. Receipts from mineral rentals
11 and royalties and from the Alaska mineral lease bonus permanent fund,
12 shall be appropriated annually and deposited in the water resources re-
13 volving loan fund.
14

15 Sec. 45.86.040. ADMINISTRATION OF LOANS. (a) Administration of the
16 water resources revolving loan fund shall be performed by the Department
17 of Commerce which is empowered to adopt procuedres and promulgate the regu-
18 lations necessary to carry out the provisions of this chapter.
19

20 (b) There is created within the department the Water Resources
21 Revolving Loan Fund Committee chaired by the commissioner or his deputy,
22 and including as members the director of the division of energy and
23 power development and the director of the division of business loans.
24 The committee shall review all applications referred to it for approval
25 by the department.
26
27
28
29

1 (c) The department shall establish a priority list for the approval
2 of project applications based upon a determination of which projects
3 will better serve the interests of the state. An applicant may appeal
4 the level of priority assigned to his application by requesting a re-
5 view of the list of priorities by the committee. The committee, upon
6 sufficient notice and a public hearing, may change an assigned priority.
7 Applications not approved due to a lack of funds will retain the
8 priority assigned and may be held for reconsideration.
9

10 Sec. 45.86.050. ELIGIBILITY FOR PROJECT LOANS. A public utility
11 is an eligible borrower for a project loan under this chapter if
12

13 (1) it is a public utility as defined in AS 42.05.701.(2)(A),
14 and (C);

15 (2) the utility can demonstrate in its loan application that
16 the project is economically and technically feasible and, taking into
17 account the low interest on loans under this chapter, is the most eco-
18 nomical means of furnishing the proposed service.

19 Sec. 45.86.060. DEFINITIONS. In this chapter,

20 (1) "commissioner" means the commissioner of the Department
21 of Commerce and Economic Development;

22 (2) "department" means the Department of Commerce and Econo-
23 mic Development.
24
25
26
27
28
29

ALASKA WATER RESOURCES PROJECTS

REV. 1/30/76

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS FY 1976 and FY 1977

<u>CITY</u>	<u>PROJECT NAME</u>	<u>SCHEDULED IN-SERVICE DATE</u>	<u>FUNDING REQUIREMENTS (\$)</u>	
			<u>FY 1976</u>	<u>FY 1977</u>
PETERSBURG	BLIND SLOUGH EXPANSION	JAN. 1979	130,000	680,000
PETERSBURG - WRANGELL	THOMAS BAY	JAN. 1983	20,000	280,000
SITKA	GREEN LAKE	JULY 1981	50,000	400,000
KETCHIKAN	SWAN LAKE OR LAKE GRACE	JULY 1982	30,000	390,000
KODIAK	TERROR LAKE	JULY 1982	30,000	390,000
ANCHORAGE	MUNICIPAL WATER	.	--	230,000
CORDOVA	POWER CREEK	JULY 1982	10,000	270,000
TOTAL			\$ 270,000	\$ 2,640,000
USE			<u>\$ 300,000</u>	<u>\$ 2,700,000</u>

DRAFT

Rev. 3/3/77

APPROPRIATION TO WATER RESOURCES REVOLVING LOAN FUND
FISCAL YEAR 1978

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS

<u>COMMUNITY - OWNER</u>	<u>PROJECT NAME</u>	<u>SCHEDULED IN-SERVICE DATE</u>	<u>FUNDING REQUIREMENTS (\$)</u>
PETERSBURG - WRANGELL THOMAS BAY POWER COMMISSION	VIRGINIA LAKE HYDRO	NOVEMBER 1983	300,000
SITKA - CITY AND BOROUGH	GREEN LAKE HYDRO	OCTOBER 1981	1,600,000
KETCHIKAN - CITY	SWAN LAKE HYDRO OR LAKE GRACE HYDRO	JULY 1983	400,000
KODIAK - KODIAK ELECTRIC ASSOCIATION	TERROR LAKE HYDRO	JULY 1983	190,000
ANCHORAGE - MUNICIPALITY	MUNICIPAL WATER SUPPLY		200,000
CORDOVA - CITY	POWER CREEK HYDRO	JULY 1983	380,000
KENAI - BOROUGH	MUNICIPAL WATER SUPPLY		150,000
JUNEAU - ALASKA ELECTRIC LIGHT AND POWER COMPANY	AUTOMATING ANNEX CREEK HYDRO		480,000
CRAIG - KLAUOCK - HYDABURG MUNICIPALITIES	BLACK BEAR LAKE HYDRO		30,000
	SUBTOTAL		3,730,000
	LESS LEFTOVER FY 1977		230,000
	TOTAL		<u>3,500,000</u>

EXHIBIT B
2 of 3

Original sponsors: Gardiner, Duncan,
Eliason, et al

Offered: 4/27/77
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 357 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation for power and
7 water projects; and providing for an effective date."

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

9 * Section 1. The sum of \$3,600,000 is appropriated from the general fund
10 in the following manner:

11 (1) \$1,600,000 to the Department of Revenue for a loan to the
12 municipality of Sitka for design, site preparation and preconstruction
13 activity for the Green Lake hydroelectric project; the terms and con-
14 ditions of the loan are to be determined by the commissioner of revenue
15 in consultation with the commissioner of public works;

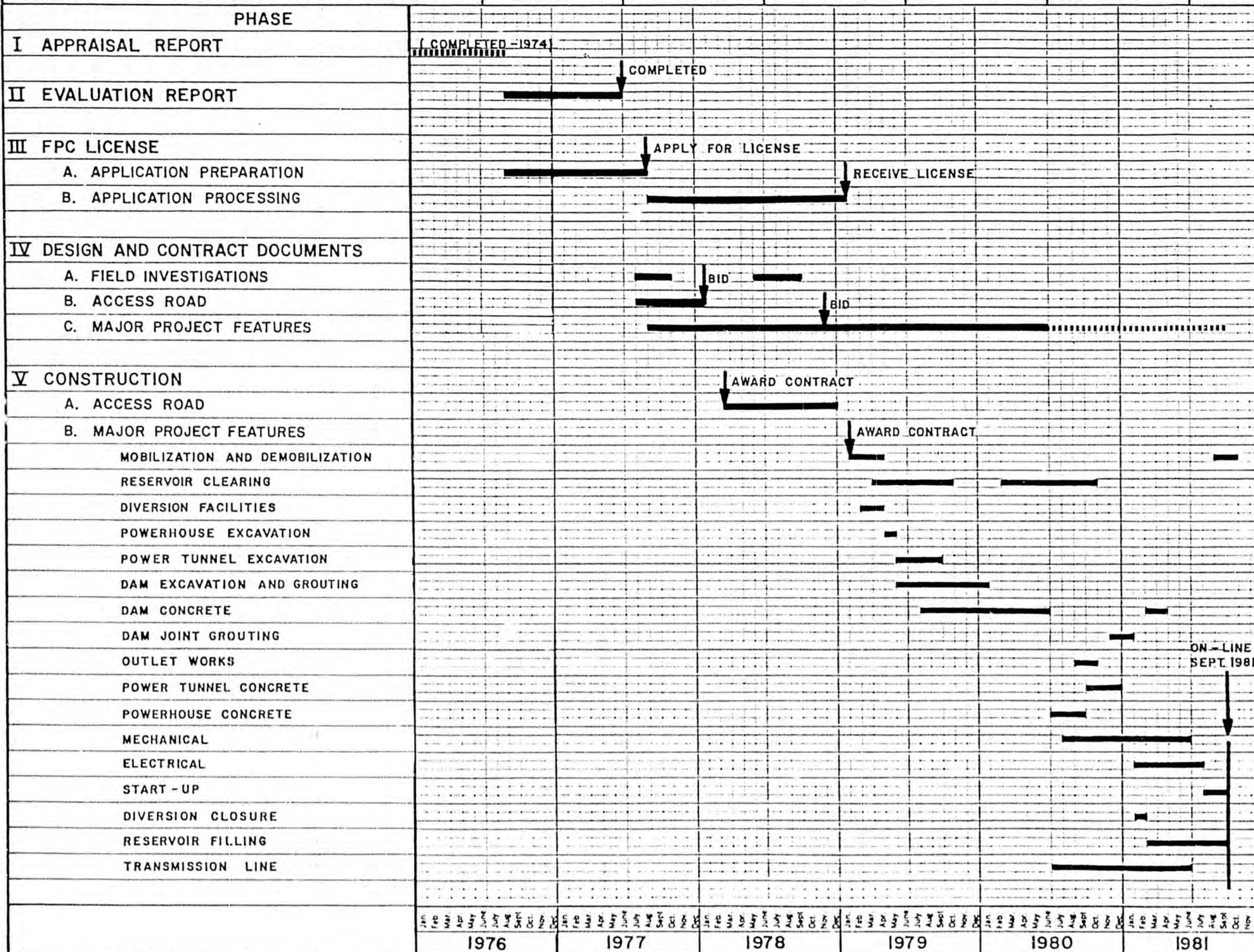
16 (2) \$1,800,000 to the power project revolving loan fund
17 established by AS 44.56.170 to carry out the purposes of that loan
18 program;

19 (3) \$200,000 to the water resources revolving loan fund with-
20 in the Department of Commerce and Economic Development to carry out the
21 purposes of the water resources loan program.

22 * Sec. 2. This Act takes effect immediately in accordance with
23 AS 01.10.070(c).

ANNUAL FUNDING REQUIREMENTS, F.Y. (\$1,000)	450 *	1,600	10,430	12,140	17,420	4,460
CUMULATIVE FUNDING REQUIREMENTS (\$1,000)	450	2,050	12,480	24,620	42,040	46,500

EXHIBIT C



NOTE

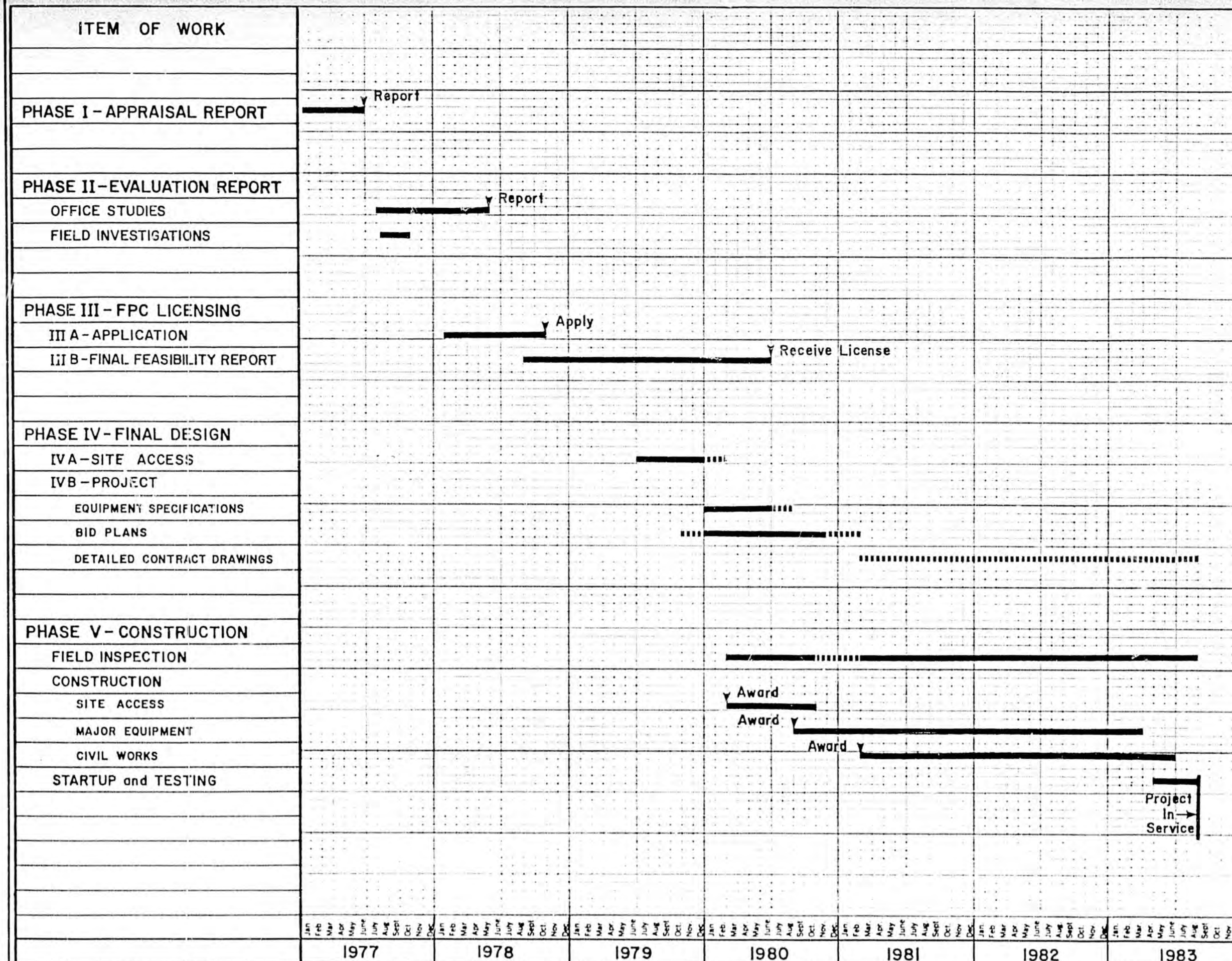
STUDIES FUNDED IN 1976-77
F.Y. * INITIATED IN SEPTEMBER
1976.

LEGEND

MAJOR EFFORT
CONTINUING EFFORT

R. W. BECK and ASSOCIATES			
ENGINEERS AND CONSULTANTS			
Columbus, Nebraska	Seattle, Washington	Denver, Colorado	Orlando, Florida
Indianapolis, Indiana	Phoenix, Arizona	Waltham, Massachusetts	
CITY AND BOROUGH OF SITKA ALASKA			
GREEN LAKE PROJECT			
DESIGN AND CONSTRUCTION SCHEDULE			
DATE JUNE 1977	DRAWN BBB	APPROVED RWB	PG. 10

EXHIBIT D



LEGEND

Major Effort

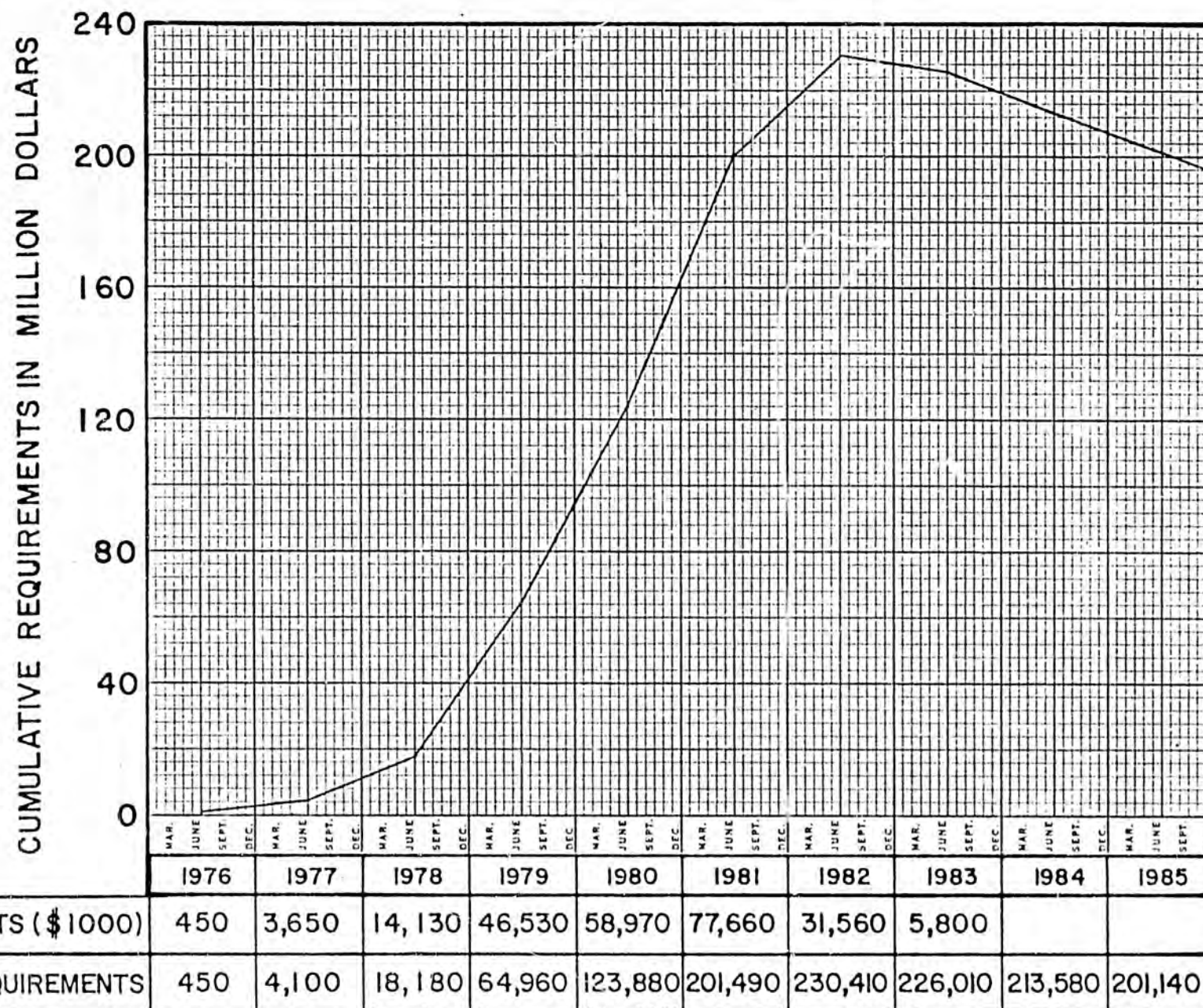
Continuing Effort

R. W. BECK and ASSOCIATES			
ENGINEERS AND CONSULTANTS			
Columbus, Nebraska Indianapolis, Indiana	Seattle, Washington Denver, Colorado Phoenix, Arizona	Orlando, Florida Woburn, Massachusetts	
KETCHIKAN PUBLIC UTILITIES			
KETCHIKAN, ALASKA			
DESIGN AND CONSTRUCTION SCHEDULE			
DATE: JUNE 1977	DRAWN: BBB	APPROVED: <i>[Signature]</i>	PG. 6

WATER RESOURCES REVOLVING LOAN FUND

BROAD ESTIMATE OF FUND REQUIREMENTS⁽¹⁾

EXHIBIT E



(1.) For hydroelectric projects for which some loans have already been made including: Sitka - Green Lake, Ketchikan - Swan Lake, Petersburg + Wrangell - Virginia Lake, and Kodiak - Terror Lake.

RWB
10/13/77

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

The Southeastern Conference
21st Annual Convention October 13-14, 1977
Sitka, Alaska

ROLE OF THE ALASKA PERMANENT FUND
IN FUNDING
THE WATER RESOURCES REVOLVING LOAN FUND

Presented by James V. Williamson
R. W. Beck and Associates, Inc.

BACKGROUND TO WATER RESOURCES REVOLVING LOAN FUND

Implementing Legislature

In 1975 the Alaska Legislature enacted House Bill 171 creating a Water Resources Revolving Loan Fund. The Act specified that loans from this fund are to be used to develop and conserve in the public interest, the water resources of Alaska using State revenues from mineral development. The Act stated that loans from this fund shall be long-term and at low interest and shall be utilized for capital improvement projects for hydroelectric generation and water supply. The purpose of this loan fund then was to use revenues from mineral development (primarily oil and gas) which are depletable resources, to develop renewable water resources. The principle inherent in the Act then is to utilize oil and gas revenues to finance construction of water resources and hydroelectric projects in needy communities so that Alaska will have the benefits of these projects long after the oil and gas sources are exhausted.

In 1977 the legislature amended House Bill 171 by House Bill 356 which was enacted. The principal purpose of this amendment was to set more precisely the conditions for loans from the fund. As now enacted, loans from the fund shall be for a term not to exceed 50 years, and the rate of interest shall be not less than 3 nor more than 5% per year on the unpaid balance. Repayment of a loan shall commence on the date of commercial operation of the project, or 10 years from the date the loan is granted, whichever is sooner. We have combined the provisions of the 1975 Act as amended in 1977 as shown in Exhibit A.

Presented by:

JAMES V. WILLIAMSON
PARTNER AND ASSISTANT MANAGER
WESTERN DESIGN OFFICE

R. W. BECK AND ASSOCIATES
ANALYTICAL AND CONSULTING ENGINEERS

200 TOWER BUILDING
SEATTLE, WA 98101
206.622-5000

Section 45.86.030 states that receipts from mineral rentals and royalties and from the Alaska mineral lease bonus permanent fund, shall be appropriated annually and deposited in the Water Resources Revolving Loan Fund. The mineral lease bonus permanent fund was ultimately enacted as the Alaska Permanent Fund, but the intent of the 1975 legislature was that monies from such a permanent fund would be appropriated annually and deposited in the Water Resources Revolving Loan Fund.

Appropriations to Water Resources Revolving Loan Fund

An appropriation bill to provide seed money to the Water Resources Revolving Loan Fund to various communities, in the amount of \$3,000,000, failed to pass in the 1975 legislature but was enacted in 1976. House Bill 700 listed the communities and their funding requirements as shown in Exhibit B, Sheet 1. The Governor reduced the \$3,000,000 amount to \$2,500,000. Sitka was the only community which took advantage of the amount provided for it of \$450,000, and commenced detailed investigation of its Green Lake Project in the summer of 1976. The other communities were reluctant to borrow money from the loan fund since the loan conditions stipulated by the administration were not especially attractive.

However, based on the proposed revisions to the implementing legislature in 1977, an appropriation bill (House Bill No. 357) was introduced in the amount of \$3,500,000 for various communities as listed in Sheet 2 of Exhibit B. The bill as actually passed is shown in Exhibit B, Sheet 3 and provides for a total of \$3,600,000 being appropriated from the general fund, but with only \$200,000 going to the Water Resources Revolving Loan Fund. The remainder of the funds were distributed as \$1,600,000 to the Department of Revenue for a loan to Sitka for its Green Lake Project, and \$1,800,000 to the power project revolving loan fund. The Governor reduced the amount in the power project revolving loan fund from \$1,800,000 to \$540,000, and deleted the \$200,000 amount in the Water Resources Revolving Loan Fund.

In September this year the Water Resources Revolving Loan Fund Committee approved loans to the communities shown in Exhibit B, Sheet 1, except Anchorage and Cordova, and in the amounts shown on that schedule except that Petersburg's loan is \$910,000 (\$100,000 additional). Hence, the entire \$2,500,000 in the original appropriation bill has now been committed. In addition, the Department of Revenue approved a \$1,600,000 loan to Sitka based on House Bill 357 for continuing work on the Green Lake Project in FY 78. These communities are now proceeding with detailed investigations including exploratory drilling and other field work as a basis for preparation of an application for an FPC License, and design of the project, as soon as possible.

IMPORTANCE OF LONG-TERM - LOW INTEREST FINANCING

Hydroelectric projects are capital intensive. Once the project is built the major part of the annual cost of the project is the debt service since operating costs are small. Hence although the overall cost of power from a hydroelectric project is often less than that from a diesel generating plant, the large amount of capital required by a small community is essentially impossible to obtain from conventional sources. Further, the impact of revenue bond financing with its related higher interest rate and shorter term results in a significant increase in cost of power from a hydroelectric project. This is demonstrated by a comparison made for the proposed Virginia Lake Project of the Thomas Bay Power Commission in the following table. This table shows the estimated cost of power from the Virginia Lake Project, based on conventional financing at 7%, 30-year term, as compared to 3%, 4%, and 5%, 50-year term financing from the Water Resources Revolving Loan Fund. The cost of power is also compared with that estimated for new diesel generation in the same time frame. This comparison has been made on the first year of operation, and also over the first 10 years of operation of the hydro project.

Financing Source	Interest Rate and Term	Estimated Cost of Power (Cents/kWh)			
		First Year (1984)		Average over First Ten Years (1984-1993)	
		Virginia Lk.	Diesel	Virginia Lk.	Diesel
Conventional	7%, 30-year	12.6	6.9		8.9
Water Resources Revolving Loan Fund	5%, 50-year	8.9		9.9	
	4%, 50-year	7.7		8.6	
	3%, 50-year	6.7		7.5	

As can be seen, the estimated cost of power with 7%, 30-year financing is almost twice the cost of power with 3%, 50-year term financing. Further, only with 3%, 50-year financing available from the Water Resources Revolving Loan Fund would the estimated cost of power from the Virginia Lake Project in the first year of operation be less than that of the alternative new diesel generation, assuming escalation of oil fuel at 7% annually. The average cost of power over the first 10 years of operation of the Virginia Lake Project is about equal to that for diesel generation if 4%, 50-year financing is available for the hydro. This demonstrates the importance of low interest, long-term financing to the small communities in Alaska.

FUTURE FUNDING REQUIREMENTS OF WATER RESOURCES REVOLVING LOAN FUND

A broad estimate has been made of the Revolving Loan Fund Requirements through 1985 for the communities which have already obtained loans as follows:

Sitka - Green Lake Project

Petersburg-Wrangell (Thomas Bay Power Commission) -
Virginia Lake Project or Thomas Bay Project -
Phase 1

Ketchikan - Swan Lake Project

Kodiak - Terror Lake Project

The purpose of this projection is to provide a basis for consideration by the Permanent Fund Committee in considering future requirements of the Water Resources Revolving Loan Fund. The list is not intended to be all inclusive; it simply enables a reasonable assumption of the order of magnitude of loans and their timing to be developed. We have prepared preliminary feasibility reports on the projects for Ketchikan, Petersburg-Wrangell and Sitka and hence there is a reasonable confidence factor in the estimated costs and schedules for these projects. The estimate for Kodiak has been based assuming the project developed for that City would have a similar cost and construction schedule as the Swan Lake Project at Ketchikan.

Typically, the early costs for a project (seed money) are small and increase in magnitude over the first three or four years of investigation, design and FPC licensing prior, to the major expenditure incurred during construction of the project. The schedule for Sitka's Green Lake Project and the estimated cash flow requirements are shown in Exhibit C. The lead time for this project is estimated to be about 6 years from initial investigations. Ketchikan's Swan Lake Project has an estimated lead time of about 7 years which is more typical of hydroelectric projects in Southeast Alaska. The proposed schedule for Swan Lake is shown in Exhibit D. Hence, it can be seen that since most of the communities involved already have power shortages, it is extremely important that the projects are not delayed by non-availability of financing. One of the critical items on the schedule is the preparation of an FPC License application and its processing which is estimated to take from 2 to 2-1/2 years under the best of conditions.

The estimated requirement from the Water Resources Revolving Loan Fund, including investments, less debt service repayment through 1985, is shown in Exhibit E. It can be seen that once the project goes on-line the debt service payment reduces the amount of the outstanding loans. By 1985 the estimated net cumulative amounts loaned from the Fund for the subject projects would be about \$200 million.

FUNDING REQUIREMENTS FOR FY79

A broad estimate has been made of the funding requirements for the four projects listed above and other communities which have shown prior interest, for FY79. A broad estimate of the requirements is about \$15,000,000 of which approximately \$10,500,000 would be required for Sitka's Green Lake Project as it enters into its first year of major construction. At the same time Sitka should obtain a commitment from the Water Resources Revolving Loan Fund for the full amount of the loan to finish construction of the project in the amount of \$44,450,000, which is in addition to the \$2,050,000 borrowed to date. It is understood that there are now no monies remaining in the Water Resources Revolving Loan Fund. Hence, the Fund will require a sizable appropriation in FY79. We believe the most logical source for this funding, and the commitment to Sitka for construction of its Green Lake Project, is the Alaska Permanent Fund.

8/22/77

EXHIBIT A

1 HOUSE BILL 171, 1975 AS AMENDED BY HB 356, 1977

2 (Combined Acts)

3 STATE OF ALASKA

4 AN ACT

5 Relating to creation of a water resources revolving loan fund.

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

7
8
9 Sec. 45.86.010. FUND ESTABLISHED. There is established as a
10 separate fund the water resources revolving loan fund. Loans from this
11 fund are to be used to develop and conserve in the public interest the
12 water resources of Alaska.

13
14 Sec. 45.86.020. FUND UTILIZATION. (a) Loans from the fund shall
15 be for a term not to exceed 50 years, and the rate of interest shall be
16 not less than three nor more than five per cent per year on the unpaid
17 balance. The repayment schedule shall be as determined by the depart-
18 ment. Repayment of a loan shall commence at the date of commercial
19 operation of the project or 10 years from the date the loan is granted,
20 whichever is sooner.

21
22 (b) The loans may be used for capital construction projects, for
23 hydroelectric generation and potable water supply including surface
24 storage and groundwater sources and transmission of water from surface
25 storage to the existing distribution system, and development of hydro-
26 electric generating facilities including transmission of power to the
27 load center. Loans may be made to applicants for new or existing proj-
28 ects including feasibility and preconstruction engineering studies,
29

1 expenses incurred in securing necessary permits and licenses, design of
2 the project and construction of capital improvements. Existing hydro-
3 electric and water supply projects may be expanded or rehabilitated with
4 loan funds under this chapter if the rehabilitation and expansion is a
5 capital improvement project.
6

7 (c) Loans shall be repaid to the fund by the borrower from reve-
8 nue derived from the sale of electric power or water.
9

10 Sec. 45.86.030. LOAN FUND SOURCE. Receipts from mineral rentals
11 and royalties and from the Alaska mineral lease bonus permanent fund,
12 shall be appropriated annually and deposited in the water resources re-
13 volving loan fund.
14

15 Sec. 45.86.040. ADMINISTRATION OF LOANS. (a) Administration of the
16 water resources revolving loan fund shall be performed by the Department
17 of Commerce which is empowered to adopt procuedres and promulgate the regu-
18 lations necessary to carry out the provisions of this chapter.
19

20 (b) There is created within the department the Water Resources
21 Revolving Loan Fund Committee chaired by the commissioner or his deputy,
22 and including as members the director of the division of energy and
23 power development and the director of the division of business loans.
24 The committee shall review all applications referred to it for approval
25 by the department.
26
27
28
29

1 (c) The department shall establish a priority list for the approval
2 of project applications based upon a determination of which projects
3 will better serve the interests of the state. An applicant may appeal
4 the level of priority assigned to his application by requesting a re-
5 view of the list of priorities by the committee. The committee, upon
6 sufficient notice and a public hearing, may change an assigned priority.
7 Applications not approved due to a lack of funds will retain the
8 priority assigned and may be held for reconsideration.
9

10 Sec. 45.86.050. ELIGIBILITY FOR PROJECT LOANS. A public utility
11 is an eligible borrower for a project loan under this chapter if
12

13 (1) it is a public utility as defined in AS 42.05.701.(2)(A),
14 and (C);

15 (2) the utility can demonstrate in its loan application that
16 the project is economically and technically feasible and, taking into
17 account the low interest on loans under this chapter, is the most eco-
18 nomical means of furnishing the proposed service.

19 Sec. 45.86.060. DEFINITIONS. In this chapter,

20 (1) "commissioner" means the commissioner of the Department
21 of Commerce and Economic Development;

22 (2) "department" means the Department of Commerce and Econo-
23 mic Development.
24
25
26
27
28
29

ALASKA WATER RESOURCES PROJECTS

REV. 1/30/76

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS
FY 1976 and FY 1977

CITY	PROJECT NAME	SCHEDULED IN-SERVICE DATE	FUNDING REQUIREMENTS (\$)	
			FY 1976	FY 1977
PETERSBURG	BLIND SLOUGH EXPANSION	JAN. 1979	130,000	680,000
PETERSBURG - WRANGELL	THOMAS BAY	JAN. 1983	20,000	280,000
SITKA	GREEN LAKE	JULY 1981	50,000	400,000
KETCHIKAN	SWAN LAKE OR LAKE GRACE	JULY 1982	30,000	390,000
KODIAK	TERROR LAKE	JULY 1982	30,000	390,000
ANCHORAGE	MUNICIPAL WATER	.	--	230,000
CORDOVA	POWER CREEK	JULY 1982	10,000	270,000
TOTAL			\$ 270,000	\$ 2,640,000
USE			<u>\$ 300,000</u>	<u>\$ 2,700,000</u>

DRAFT

Rev. 3/3/77

APPROPRIATION TO WATER RESOURCES REVOLVING LOAN FUND
FISCAL YEAR 1978

SUMMARY OF ESTIMATED PRIORITY FUNDING REQUIREMENTS

<u>COMMUNITY - OWNER</u>	<u>PROJECT NAME</u>	<u>SCHEDULED IN-SERVICE DATE</u>	<u>FUNDING REQUIREMENTS (\$)</u>
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KODIAK - KODIAK ELECTRIC ASSOCIATION	TERROR LAKE HYDRO	JULY 1983	190,000
ANCHORAGE - MUNICIPALITY	MUNICIPAL WATER SUPPLY		200,000
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KENAI - BOROUGH	MUNICIPAL WATER SUPPLY		150,000
JUNEAU - ALASKA ELECTRIC LIGHT AND POWER COMPANY	AUTOMATING ANNEX CREEK HYDRO		480,000
CRAIG - KLAWOCK - HYDABURG MUNICIPALITIES	BLACK BEAR LAKE HYDRO		30,000
	SUBTOTAL		3,730,000
	LESS LEFTOVER FY 1977		230,000
	TOTAL		3,500,000

EXHIBIT B
2 of 3

Original sponsors: Gardiner, Duncan,
Eliason, et al

Offered: 4/27/77
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 357 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

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9 * Section 1. The sum of \$3,600,000 is appropriated from the general fund
10 in the following manner:

11 (1) \$1,600,000 to the Department of Revenue for a loan to the
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13 activity for the Green Lake hydroelectric project; the terms and con-
14 ditions of the loan are to be determined by the commissioner of revenue
15 in consultation with the commissioner of public works;

16 (2) \$1,800,000 to the power project revolving loan fund
17 established by AS 44.56.170 to carry out the purposes of that loan
18 program;

19 (3) \$200,000 to the water resources revolving loan fund with-
20 in the Department of Commerce and Economic Development to carry out the
21 purposes of the water resources loan program.

22 * Sec. 2. This Act takes effect immediately in accordance with
23 AS 01.10.070(c).
24
25
26
27
28
29

ANNUAL FUNDING REQUIREMENTS, F.Y. (\$ 1,000)	450 *	1,600
CUMULATIVE FUNDING REQUIREMENTS (\$ 1,000)	450	2,050
PHASE		
I APPRAISAL REPORT	(COMPLETED -1974)	
		COMPLETED
II EVALUATION REPORT		
III FPC LICENSE		APPLY FOR LICEN
A. APPLICATION PREPARATION		
B. APPLICATION PROCESSING		
IV DESIGN AND CONTRACT DOCUMENTS		
A. FIELD INVESTIGATIONS		BID
B. ACCESS ROAD		
C. MAJOR PROJECT FEATURES		
V CONSTRUCTION		AWARD
A. ACCESS ROAD		
B. MAJOR PROJECT FEATURES		
MOBILIZATION AND DEMOBILIZATION		
RESERVOIR CLEARING		
DIVERSION FACILITIES		
POWERHOUSE EXCAVATION		
POWER TUNNEL EXCAVATION		
DAM EXCAVATION AND GROUTING		
DAM CONCRETE		
DAM JOINT GROUTING		
OUTLET WORKS		
POWER TUNNEL CONCRETE		
POWERHOUSE CONCRETE		
MECHANICAL		
ELECTRICAL		
START - UP		
DIVERSION CLOSURE		
RESERVOIR FILLING		
TRANSMISSION LINE		
	1976	1977
		1978

10,430	12,140	17,420	4,460
12,480	24,620	42,040	46,500

EXHIBIT C

NOTE

STUDIES FUNDED IN 1976-77
F.Y. * INITIATED IN SEPTEMBER
1976.

LEGEND

MAJOR EFFORT
CONTINUING EFFORT

LICENSE

RECEIVE LICENSE

BID

AWARD CONTRACT

AWARD CONTRACT

ON-LINE
SEPT. 1981

R. W. BECK and ASSOCIATES

ENGINEERS AND CONSULTANTS

Columbia, Missouri
Indianapolis, Indiana

Seattle, Washington
Denver, Colorado
Phoenix, Arizona

Orlando, Florida
Woburn, Massachusetts

CITY AND BOROUGH OF SITKA
ALASKA

GREEN LAKE PROJECT
DESIGN AND CONSTRUCTION
SCHEDULE

DATE:
JUNE 1977

DRAWN:
DBS

APPROVED:
DBS

PG
10

DESIGN AND CONSTRUCTION
SCHEDULE

KETCHIKAN, ALASKA

KETCHIKAN PUBLIC UTILITIES

South, Washington	Phoenix, Arizona	Indianapolis, Indiana
Dallas, Colorado	Orlando, Florida	Columbus, Nebraska
Washington, D.C.	Washington, D.C.	Washington, D.C.

R. W. BECK and ASSOCIATES
ENGINEERS AND CONSULTANTS

Project In-Service

AWARD

рјом
рјом

Receive License

Continuing Effort

Major Ettore

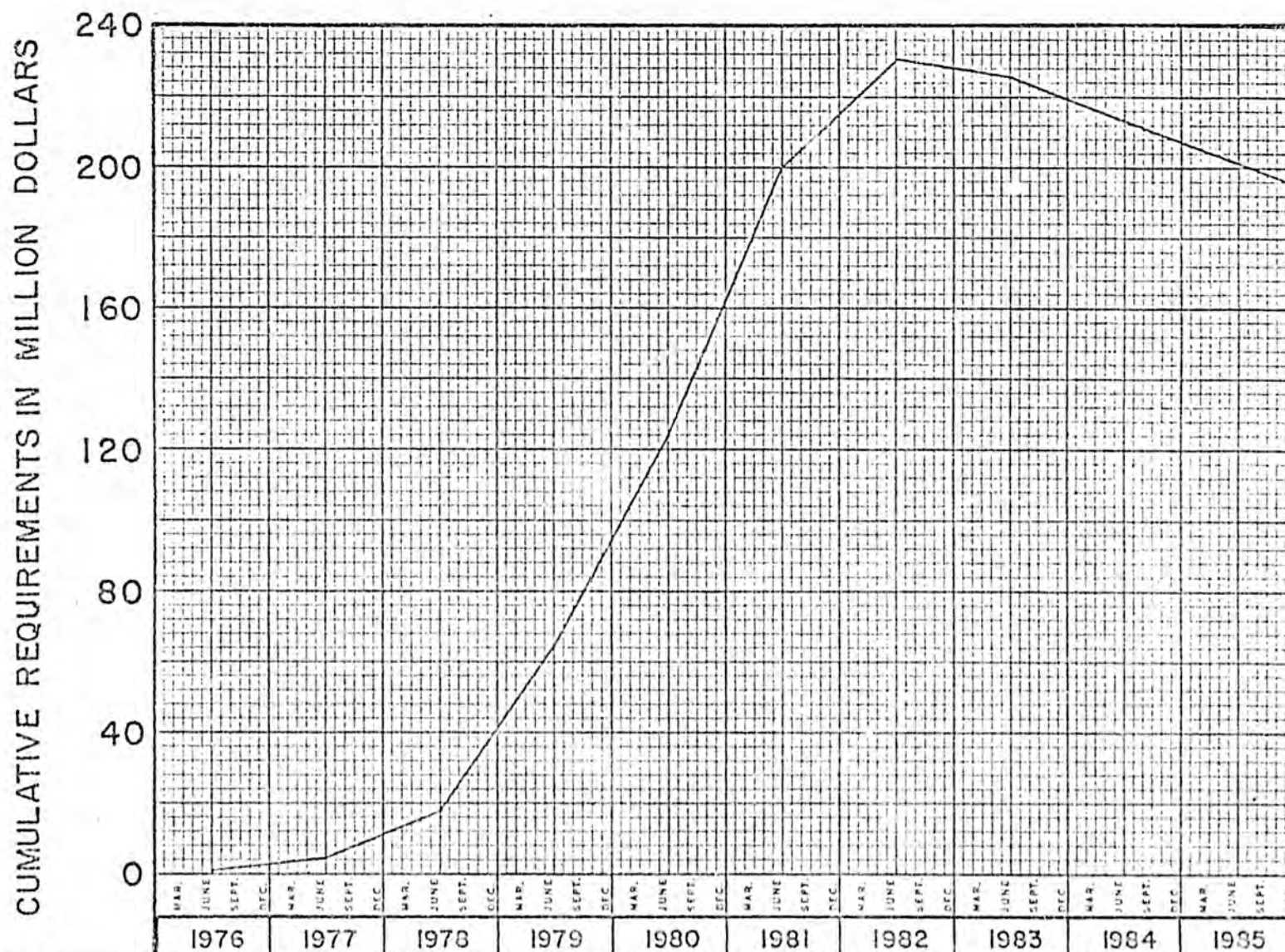
LEGEND

EXHIBIT D

[illegible]

WATER RESOURCES REVOLVING LOAN FUND BROAD ESTIMATE OF FUND REQUIREMENTS⁽¹⁾

EXHIBIT E



	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
ANNUAL REQUIREMENTS (\$1000)	450	3,650	14,130	46,530	58,970	77,660	31,560	5,800		
NET CUMULATIVE REQUIREMENTS	450	4,100	18,180	64,960	123,880	201,490	230,410	226,010	213,580	201,140

(1.) For hydroelectric projects for which some loans have already been made including: Sitka - Green Lake, Ketchikan - Swan Lake, Petersburg - Wrangell - Virginia Lake, and Kodiak - Terror Lake.

RWB

RWB
2/14/78

The Southeastern Conference
Meeting in Juneau
February 15, 1978

FINANCING OF WATER RESOURCES PROJECTS IN ALASKA

GENERAL

Since 1975 there has been a renewed interest in activity in the development of water resources in the State. Investigations of a number of projects, particularly hydroelectric, have proceeded and several of these projects are in the Federal Energy Regulatory Commission Licensing stage. Financing to date has been through the Water Resources Revolving Loan Fund (HB 171-1975 and amended in 1977). During the last two years the legislature has provided for appropriations to the Loan Fund for seed money for these projects.

At the annual convention in Sitka of the Southeastern Conference in October 1977, Jim Williamson of R. W. Beck and Associates, Inc. discussed the role of the Alaska Permanent Fund in funding the Water Resources Revolving Loan Fund (WRRLF) (copy of paper attached). He discussed the background to the WRRLF, the importance of long term-low interest financing to hydroelectric development, funding requirements of hydroelectric projects now in the final investigations stages (Sitka, Petersburg-Wrangell, Ketchikan, and Kodiak), and the estimated funding requirements for FY79.

The following updates the information presented at the October convention and describes the possible financing methods and estimated financing requirements, both on a short term and long term basis, for water resources projects in the State.

SHORT TERM SITUATION (FY 79)

POSSIBLE FINANCING METHODS

As discussed later it is considered that the most reasonable method of providing the long term financing requirements for water resources developments in the State is through the auspices of the Alaska Permanent Fund. However, because it appears that the mechanism for administration of the Permanent Fund will not be resolved for some time, to meet the urgent needs of the communities involved, interim short (FY79) financing is needed. From FY80 onwards it is assumed that arrangements will be made for continued financing for development of the water resources through the Permanent Fund.

There are a number of potential methods for providing funds to meet the short term needs of the communities which are developing their water resources projects. Basic ones are listed below.

1. Loans from General Fund to
Water Resources Revolving Loan Fund

There are two principle courses of action in this regard, by an appropriation bill or a line item in the legislative budget. In general this has been made available in the past two years through the medium of an appropriation bill administered through the WRRLF.

2. Loans from General Fund
to the State Power Authority

Again the two alternatives for funding are the appropriation bill, or a line item in the budget.

3. Loans from General Fund
to an Individual Community

This method was used to provide Sitka's needs last year and is simply a variation of the above two methods.

4. Loans from the Renewable
Resources Development Fund

This is a potential source, at least for part of the FY79 needs for hydroelectric development, if excess monies are available.

Of these methods an appropriation bill for the total amount required by the various communities for investigations in FY79, appears to be the most practical, either via the Water Resources Revolving Loan Fund as in the past, or through the State Power Authority. The Water Resources Revolving Loan Fund has the advantage that loans from this fund will be low interest - long term, and repayment will be deferred until the project goes into commercial operation, as stated in the Act. A typical appropriation bill is enclosed as Exhibit A. If a separate loan was given to Sitka, the appropriation to the Water Resources Revolving Loan Fund for the Municipality of Sitka would be spelled out in the amount of \$10,500,000 as a separate line item.

ESTIMATED FUNDING REQUIREMENTS FOR FY79

An estimate has been made of the funding requirements for communities which are committed to project development for FY79. These communities are being contacted individually to determine their requirements so that a more definite amount can be developed for inclusion in the appropriation bill. At this time a broad estimate requirement is between \$3,000,000 and \$4,000,000 for communities

other than Sitka. Sitka will require \$10,500,000 for its Green Lake Project as it enters into its first year of major construction. Sitka may, however, obtain a commitment from the Administration for the full amount of the loan to finish construction of the Project in the amount of \$44,450,000, which is in addition to the \$2,050,000 borrowed to date. One suggestion is to introduce two appropriation bills, one for Sitka's FY79 needs of \$10,500,000, and the other for the needs of the other communities in the exact amount to be determined, but in the range of \$3,000,000 to \$4,000,000.

Interim funding of projects should be low interest, long term, with repayment of principal and interest to commence on the date of commercial operation of the project, or ten years from the date the loan is granted, whichever is sooner, in accordance with the Water Resources Revolving Loan Fund Act. Current loans are at 5% interest. It is intended that the seed money loans would be rolled-over into the construction loan for the project, and then repaid under the conditions of one loan including interest accumulated through investigations, design and construction, and commencing at the date of commercial operation.

LONG TERM SITUATION

POSSIBLE FINANCING METHODS

The principal potential financing methods to meet the long term needs of water resources development in Alaska are considered to be as follows.

1. Permanent Fund Source

a. Direct Dedication from Permanent Fund

Repayment to the Permanent Fund can be made on a procedure identical to amortization of revenue bonds on a long term basis (40 to 50 years). Loans could be administered through:

(1) Water Resources Revolving Loan Fund under the Business Loans Division of the Department of Commerce and Economic Development,

(2) State Power Authority

(3) Renewable Resources Development Fund administered by an agency such as the Alaska Renewable Resources Corporation as in the House proposal.

(4) Some newly designated entity such as the Alaska Enterprise Investment Corporation, Development Bank Corporation, etc.

This procedure is consistent with the policy statement of the Southeastern Conference at its annual convention in October 1977, supporting the setting aside of an adequate percentage of the Permanent Fund to be used solely for construction of hydroelectric energy and potable water sources. As discussed later, to meet the estimated requirements over the next six or seven years, it would require direct dedication of about 10% of all oil revenues to financing of the State's water resources, (except major developments such as Susitna), if their needs were to be met from this source.

b. Outside Loans Guaranteed
by Permanent Fund

In this case the Permanent Fund would be invested outside the State in high yield securities, and would provide backing for loans for water resources construction. It appears most convenient to consider that these loans would be administered through either (1) the State Bond Bank or, (2) the State Power Authority.

c. Loans from the Renewable
Resources Development Fund

Monies available from the RRDF are expected to be limited in amount (dedication of 5% of oil revenues), but could provide some of the funds necessary for water resources development as well as fisheries and lumber. The method of administering these loans has not been determined but one concept is through the proposed Alaska Enterprise Investment Corporation.

2. General Fund Source

This source has been used for the front end monies which have been acquired for development to date. It is possible that the State could appropriate monies annually for water resources construction as the Federal government does. However, with the other demands on the State budget, this is not considered to be a reliable source of funding major expenditures for a community development and could well result in disastrous delays in project construction.

Of the above methods, the direct dedication from the Permanent Fund to development of water resources in Alaska is considered to be the most desirable and practical. This is in the best interest of the State since it utilizes revenues from exhaustible mineral resources to develop renewable water resources.

3. Conditions of Loans

Hydroelectric projects are capital intensive. Once the project is built, the major part of the annual cost of the project is the debt service since operating costs are small. Hence although the overall cost of power from a hydroelectric project is often less than that from a diesel generating plant, the impact of revenue bond financing with its related higher interest rate and shorter term results in a significant increase in the cost of power from the project. It is very important that low interest - long term financing be available to the small communities in Alaska.

Rather than consider a subsidy in the interest rate, one possible means of achieving its feasibility with less hardship on the community is to utilize a variable interest rate in the loan conditions. In this manner, conditions of the loan could be arranged so that the initial interest on the loan could be in the 3, 4 or 5% range, which would increase over the period of the 40 to 50 year financing term, to result in an overall average rate of interest commensurate with going rates for high grade investments. This procedure could certainly be applied by the State in direct financing through the Permanent Fund, and might be possible as a condition of outside loans guaranteed by the Permanent Fund. It is almost essential if the communities are going to develop hydroelectric projects rather than oil fired generation, and thus keep electric rates within reason.

ESTIMATED REQUIREMENTS THROUGH 1985

A broad estimate has been made of the funding requirements through 1985 as shown in Exhibit B. Estimated requirements are broken into two parts: those for communities for which loans have been made under the Water Resources Revolving Loan Fund Act, (Sitka, Ketchikan, Petersburg-Wrangell and Kodiak) and additional requirements estimated based on past and current discussions with communities relating to hydroelectric and water supply projects.

The purpose of this projection is to provide a basis for consideration by the Permanent Fund Committee in considering future requirements for water resources development. Typically, the early costs for a project (seed money) are small and increase in magnitude over the first three or four years of investigation, design and FERC licensing, prior to the major expenditure incurred during construction of the project. Exhibit B shows the estimated requirements for water resources development including investments, less debt service repayment, through 1985. It also shows that to meet these requirements from the Permanent Fund, assuming a 30% contribution of oil revenues, it would require a dedication of one-third of

this amount (10% of all oil revenues). This is twice the amount now dedicated to the RRDF.

The estimated range of monies available is based on the predictions in Charts 3 and 4 of the final report by the House Special Committee on the Alaska Permanent Fund, and in essence represents the intermediate and highest predictions. Hence it appears that every effort should be made to attempt to have 10% of all mineral lease, royalties, royalty sales proceeds, federal mineral revenue sharing payments and bonuses, received by the State of Alaska, dedicated exclusively to the development of water resources projects. It is also possible that some amount of the RRDF could be contributed strictly to water resources and thus reduce the 10% requirement on the Permanent Fund by a like amount.

A BILL

FOR AN ACT ENTITLED:

"An act making a special appropriation to the Water Resources Revolving Loan Fund; and providing for an effective date."

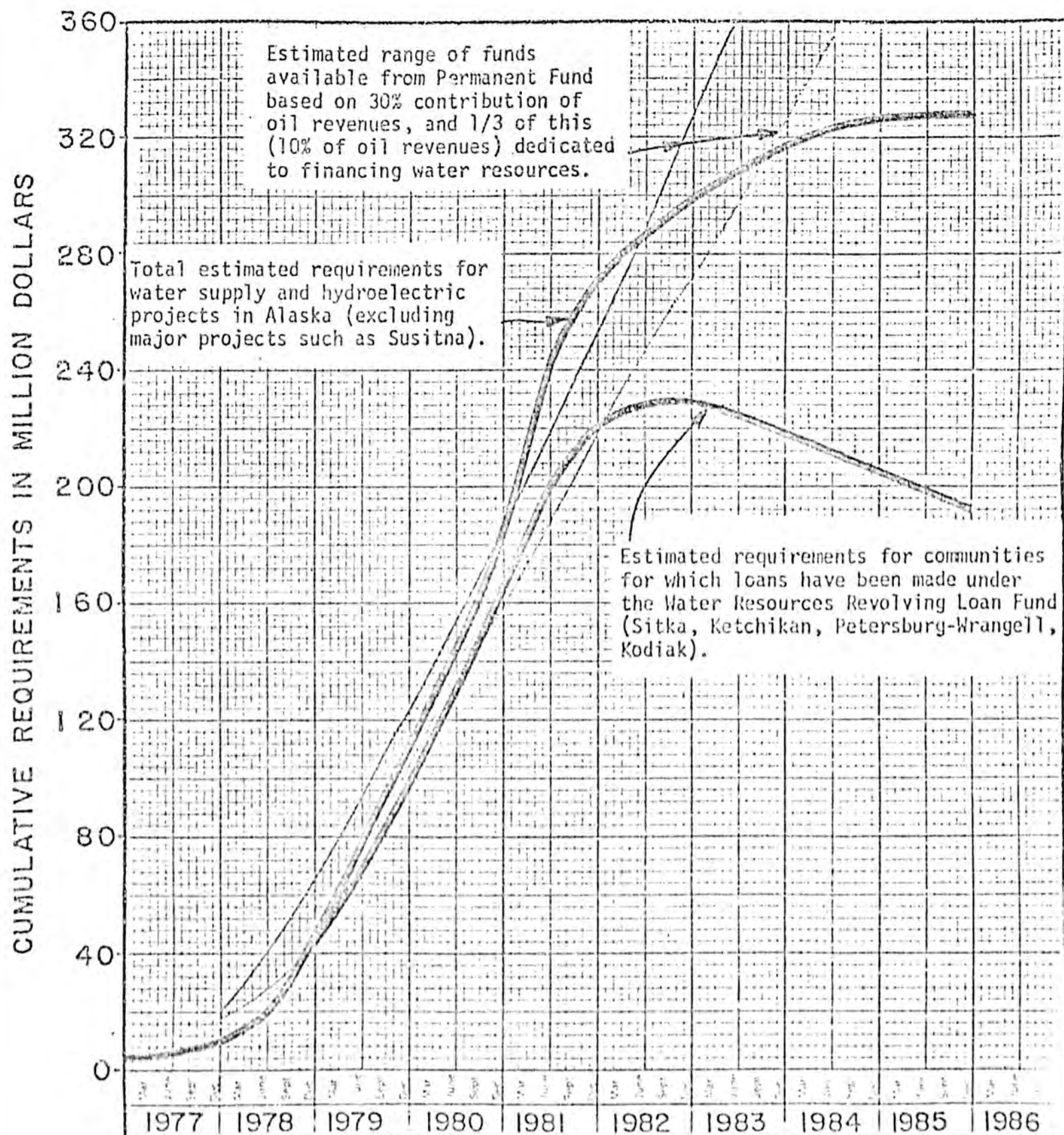
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

Section 1. The sum of \$_____ is appropriated from the general fund to the water resources revolving loan fund.

Section 2. This act takes effect July 1, 1979.

DEVELOPMENT OF ALASKA'S WATER RESOURCES

BROAD ESTIMATE OF FUNDING REQUIREMENTS



*Revised to put
in comm Substi*

M E M O R A N D U M

TO: Rep. Clark Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

FROM: Mike Doogan

DATE: February 13, 1978

SUBJECT: White, Weld suggestions on HB 596 II

At your direction I have prepared this memorandum on the technical and grammatical changes in HB 596 suggested by committee consultants from White, Weld in their communication of January 30, 1978.

1. Page 1, line 16: add comma after "borrowing".
2. Page 1, line 19: add comma after "borrowing".
3. Page 2, line 1: add comma after "borrowing".
4. Page 2, line 7: add comma after "investment".
5. Page 2, lines 24-25: delete "reappointed or".
6. Page 3, line 20: replace "functions over" with "of".
7. Page 3, line 21: add comma after "borrowing".
8. Page 3, line 24: add comma after "documents".
9. Page 4, lines 1-2: change to read: "hold public hearings relating to the confirmation of the Alaska Permanent Fund Board of Trustees..."
10. Page 4, line 17: add comma after "reports".
11. Page 4, line 19: change "limit" to "limits".
12. Page 4, lines 22-24: change to read: "report to the legislature its recommendations relating to the confirmation of suggested appointees to the Alaska Permanent Fund Corporation Board of Trustees."
13. Page 4, line 28: add comma after "borrowing".
14. Page 5, line 2: add comma after "borrowing".
15. Page 5, line 5: add comma after "borrowing".

16. Page 5, lines 10-12: change to read "in conjunction with the finance committee of each house recommend annually to the legislature an investment policy for the general surplus and an application for the dispersible income from the Alaska permanent fund."
17. Page 8, line 12: change to read: "who shall exercise all powers and receive the honoraria and per diem and travel allowances of a permanent trustee.."
18. Page 8, lines 25-26: change to read: "in finance, investments or other business/management related fields. No two persons...".
19. Page 8, line 27: add period at end of sentence.
20. Page 9, lines 9-11: change to read: "The executive director and all other employees of the corporation are in the exempt service under AS 39.25".
21. Page 9, line 16: change to read: "... he shall immediately disclose such interest...".
22. Page 10, lines 3-4: change to read: "The board shall seek to maintain a reasonable diversification among corporation investments...".
23. Page 10, line 11: change "fund" to "corporation".
24. Page 10, line 14: change "its" to "corporation".
25. Page 10, line 18: change "stock and corporate obligations" to "securities".
26. Page 10, lines 20-24: change to read: "No portion of the assets of the corporation may be used in the purchase of stock of any corporation which is not paying cash dividends on such stock at the time of purchase or in the purchase of interest bearing securities of any corporation which has been in default on any interest bearing security at any time within five years before such purchase."
27. Page 10, line 28: change "stocks" to "stock".
28. Page 10, line 28: change "the purchase" to "such purchase".
29. Page 10, line 29: delete "market".
30. Rewrite of page 11 (attachment 1).
31. Page 12, line 5: change to read: "evaluations of the corporation and its investment programs".

32. Page 12, line 7: change "board" to "corporation".
33. Page 12, lines 10-11: change "permanent fund" to "corporation".
34. Page 12, line 12: change "permanent fund" to "corporation" twice.
35. Page 12, lines 13-14: change "the fund" to "corporation".
36. Page 12, line 16: change "fund portfolio" to "corporation's security portfolio".
37. Page 12, line 19: change "permanent fund" to "corporation".
38. Page 12, line 23: change to read: "The corporation may also publish other reports the board considers desirable...".
39. Page 13, line 6: change "officers and staff" to "employees".
40. Page 13, line 23: change "has legal existence" to "has a legal existence".
41. Page 13, line 28: change "permenent fund" to Alaska permanent fund".
42. Page 14, lines 4-16: see attachment 2.
43. Page 14, line 19: delete comma following "enterprises".
44. Page 14, line 25: change "branch of state government appointed by" to "branch of state government and appointed by".
45. Page 14, line 29: change to read: "recognized competence and wide experience in investment and finance."
46. Page 14, lines 1-2: change "and other officers" to "and other such officers".
47. Page 15, line 3: change "appointed" to "public".
48. Page 15, line 12: change "Members" to "appointed members".
49. Page 16, line 25: add comma after "consider".
50. Page 16, line 26: add comma after "committee".
51. Page 17, line 15: change "members" to "other persons".
52. Page 17, line 19: change to read "and other business/management related fields".

53. Page 17, line 21: change "members" to "other members".
54. Page 18, line 22: add comma after "personal".
55. Page 18, line 23: add comma after "federal".
56. Page 18, line 23: add comma after "convenient".
57. Page 19, lines 9-11: change to read "deposit surplus funds with the Alaska Permanent Fund Corporation for investment in such obligations as it may determine;".
58. Page 19, line 28: delete comma after "Alaskans".
59. Page 21, line 11: add comma after "social".
60. Page 23, line 8: add comma after "social".
61. Page 23, line 10: add comma after "legislature".
62. Page 23, line 11: change "it" to "the board".
63. Page 23, line 15: change "board of trustees" to "investment committee".
64. Page 23, line 19: change "officers" to "employees".
65. Page 23, lines 22-23: change to read: "The members of the policy board, members of the investment committee and other employees of the corporation...".
66. Page 24, line 15: add comma after "partnership".

Page 11, change to:

exceed 30 per cent of [the] corporation['s] assets at cost.

(h) The board shall establish and from time to time as necessary modify guidelines for the investment of [the] corporation['s] assets.

[Before] Upon the adoption or modification of any guidelines, such guidelines or modifications shall be reported to the Investment Oversight Committee for review and comment.

Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities[,] not offset by gains on the sales of securities during that year[,] shall be computed; [with] a portion of such net losses is to be deducted each fiscal year from [the] interest and dividend income and the resulting amount of interest and dividend income added to the permanent assets of the [fund] corporation. Losses taken on the sales of [bonds] interest bearing securities shall be [accumulated] recovered over a period equal to the average remaining life of the [bonds] interest bearing securities sold, and losses taken on the sales of stocks shall be [accumulated] recovered within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the [principal] permanent assets of the [fund] corporation.

Sec. 37.13.150. INCOME. The interest and dividends received in a year are the income of the [fund] corporation for that year. [The] Dispersable income [available for disbursement] shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current

ATTACHMENT 1 (continued)

1 return, in which the latest fiscal year will replace the oldest
2 year. [The] Dispersible income [available for dispersment] will
3 be the lesser of the latest fiscal year's income, or the average
4 annual current income for the past five fiscal years of the
5 [fund] corporation at cost, and after adjustment for any
6 capital losses charged to that fiscal year as required in Sec. 140
7 of this chapter.

8 Sec. 37.13.160. BOARD BUDGET. The [board's] corporation's
9 operating budget is
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ATTACHMENT 2

Page 14 line 4, change to:

Sec. 44.55.020. FINDINGS. The legislature finds that

(1) there is a shortage of capital available on reasonable terms for financially sound, small and medium scale (A) productive private enterprises and (B) community development projects in the state;

(2) the corporation working with private financial institutions to supplement but not supplant their services can help to alleviate this shortage:

(3) investment in financially sound, small and medium scale (A) productive private enterprises and (B) community development projects in the state, for which sufficient capital is not available from other sources on reasonable terms, is of benefit to the citizens of the state.

TO: Rep. Clark Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

FROM: Mike Doogan

DATE: February 13, 1978

SUBJECT: White, Weld suggestions on HB596 and other matters

At your direction I have prepared this memorandum on the policy changes in HB596 suggested by committee consultants from White, Weld in their communication of January 30, 1978.

1. Page 6, lines 27-29: Amend to read: "it should be used as a savings vehicle with the dispersible income of the corporation managed to allow for its use as needed for purposes designated by law." It also is suggested that this finding be omitted. The effect of this change would be to make this finding apply to the earnings rather than the principal of the fund.

2. Page 7, lines 1-4: Amend to read: "It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets—Allocated to the Alaska Permanent Fund Corporation—in a manner consistent with the findings established in sec. 20 of this chapter." The effect of this amendment would be to make the purpose clause apply strictly to the Alaska Permanent Fund Corporation. As it is currently written, it is unclear, at least to this writer, if this purpose section applies solely to the APFC or to the permanent fund as a whole (that is, including the Alaska Enterprise Investment Fund).

3. A note on Sec. 37.13.070 (Page 7, line 23 to Page 8, line 17) reads: "It should be made possible for an interim trustee to be named to fill a 'vacancy' caused by the 'suspension' of a trustee to insure the possibility of a quorum at all times." This raises the question of whether a suspension does cause a vacancy, or if a vacancy is caused only by a removal or some voluntary action of a trustee. It also relates to the question of whether the committee wants the legislature to concur in all removals or to just disapprove the ones it doesn't agree with.

4. Page 9, lines 9-11: Amend to read: "Employees of the corporation, including the executive director, may not be trustees." This change would prevent other corporation employees from sitting on the board of trustees.

5. Page 9, lines 20-29: Amend to read: "In making investments the board shall exercise the judgement and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it." (This deletes all other language in Sec. 37.13.130(a).) The effect of this change is to remove the trustees from all other "prudent man" restrictions not specified in Sec. 37.13.130 and from the restrictions found on Page 9, lines 27-29.

6. Page 10, line 14: Amend to read: "Subject to (a) and (b) of this section..." This change requires the trustees to consult subsection (b) which reads: "The corporation assets may only be used for income-producing investments."

7. Page 12, line 25 to Page 13, line 4: Delete. This would eliminate a repetition of the bill's conflict of interest provisions, also found on Page 9, lines 12-19.

8. Page 18, lines 1-2: Amend to read: "The committee has sole responsibility to approve all investment proposals regarding productive private enterprises and community development projects in the state, and review all investments in investment grade securities." The effect of this change would be to clarify the AEIC investment committee's authority over "surplus cash management" which, under Page 17, lines 10-11 is left to the corporation president and under Page 19, lines 9-11 may be handled by the APFC. This "surplus cash management" does seem to this writer to need clarification, especially if it is the committee's intent that "surplus cash management" must be done by the APFC. However, I must point out that the effect of the suggested amendment may be to make the investment committee the first agency of review for proposals made to other agencies and not to the AEIC.

9. Page 19, lines 16-18: Amend to read: "In making investments, the committee and staff shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence..." The effect of this change is to remove the "prudent person" rule and replace it with a "prudent investor" for the AEIC.

adopted
10. Page 21, line 28 to Page 22, line 14: Delete. This would eliminate the capital reserve account held by the AEIC as security for the money it borrows. Consultants argue that the amount and terms of such security will vary and that those the AEIC borrows from are likely to require much more stringent security arrangements than those contained in this section.

11. A note on Sec. 44.55.140 (Page 22, lines 15-27) reads: "Should corporation pursue projects or analyze applications for financing?" The question applies to several subsections of this section, which seem to make the AEIC an active rather than a passive entity.

This ends the White, Weld suggestions. Following are two other matters:

12. There is no residency requirement for members of the AEIC policy board or investment committee. *See Bernier*

13. (Page 10, lines 8-9) To eliminate conflict with HB 595, this section must be amended. *See next pg. "Amend to 596"*

Amendment to HB596

adopted Sec. 37.13.130(e) The corporation may not borrow funds or guarantee, from the principal of the fund, the obligations of others.

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 14, 1978

SUBJECT: Residency qualifications - Alaska Enterprise
Investment Corporation - HB 596

TO: Special Committee on the Alaska Permanent Fund

FROM: Billy G. Berrier
Director
Division of Legal Services

You have requested amendments to make the three-year residency requirement which under the bill applies to members of the Board of Trustees of the Alaska Permanent Fund also apply to members of the Alaska Enterprise Investment Corporation Policy Board and Investment Committee. I have assumed this requirement should not apply to the appointee from the executive branch. The following suggested amendments would accomplish that.

- Adopted 4-1-1978*
1. Page 14, line 29, following "finance." add: "No public member may be appointed to the board who has not been a resident of the state for at least three years."
(POLICY BOARD - Sec. 44.55.040)
 2. Page 17, line 19, following "fields." add: "No member may be appointed to the committee who has not been a resident of the state for at least three years."
(INVESTMENT COMMITTEE - Sec. 45.55.080)

BGB:jpd

Page 10 line 5

^{add to C}
(~~F~~) Nothing in this section shall be interpreted to preclude in-state investments that have a risk level and expected yield which are comparable to alternative investment opportunities.

(+ Legisl. intent letter)
not to preclude in-state



M E M O R A N D U M

To: Subcommittee on the Renewable Resources Development
Fund of the House Special Committee on the Alaska
Permanent Fund.

From: Tom Singer
Administrative Assistant

Subject: HB 682 Nonrenewable Resource Revenues

Date: 2/9/78

SUGGESTED CHANGES

1. Page 1, lines 23-24 and 27: The phrases "high unemployment and unstable economy" and "sporadic and non-stable development" might be rephrased. The legislature might more properly find that Alaska's economy and unemployment are seasonal in nature, particularly those portions of the economy and employment relating to renewable resources.
2. Page 2, line 1, delete "reductions in" and substitute "insufficiency of".
3. Page 2, line 5, following the word "state" add "and a lack of scientific information concerning the resources;".
4. Page 2, line 24, following the word "achieve" delete "their most appropriate use" and substitute "an appropriate use of the resources."
5. Page 2, line 26, following the word "state" add "which will constitute an appropriate use of the resources;".
6. Page 3, lines 7-9: These lines (subsection b of 37.12.050) substantially limit the amount of money available for investments and grants as provided in the rest of HB 682. Also, line 8, following the word "source", add "except income received under AS 37.11.070 from investment fund income".
7. Page 3, lines 23-24; Page 4, lines 5-6: The Committee might want to consider an alternate approach to the matter of legislative approval of removal of a trustee. Such an alternate approach would make removal legal if not specifically disapproved by a majority of the legislature in joint session.
8. Page 4, lines 19-20: The matter of durational residency is complex and in continual litigation. If the committee finds that it wants to retain durational residency for trustees, then it might consider adding the usual boilerplate section saying that if any portion of the bill is found unconstitutional then the rest of the bill still stands.

9. Page 5, line 14: This limits trustees and employees from "board activity" if they have an investment. Should this be changed to "all activity" so that, for instance, an employee cannot do any work preliminary to board action?

10. Page 6, lines 15-17: What does "in order to facilitate investment by the board in specific projects which do not warrant direct supervision by the corporation" mean? If the corporation is to be responsible to the public for its investments, it can be assumed that some supervision will be required for all investments.

11. Page 6, line 19, delete "have income producing potential" and substitute "are economically viable".

12. Page 6, lines 20-23, delete all material and substitute:

(13) provide grants to state agencies, municipalities, or non-profit corporations only for projects for the rehabilitation, enhancement, and development of a common property resource or which have potentially broad application to the public;

The Committee may want to substitute the word "and" for "or" in the fourth line of this section to limit grants to those which achieve both conditions. With "or", a grant can be made for projects "which have potentially broad application to the public", a rather broad power.

13. Page 6, line 24, delete "to implement this chapter" and substitute "governing the exercise of its corporate powers".

14. Page 6, lines 25 and 26, delete all material and substitute:

(15) deposit funds, or invest surplus funds through the permanent fund (AS 37.13) in such obligations as the board of trustees of the Alaska Renewable Resources Corporation may determine;

15. Page 6, line 25, page 12, line 29 and page 13, line 1:

(a) "permanent fund" should read "Alaska Permanent Fund Corporation".

(b) These sections seem to be in conflict. The first gives cash management authority to the APFC, the second to the commissioner of revenue. Shouldn't these sections be made consistent?

16. Page 8, lines 5-7, delete all material and substitute:

(C) sufficient capital is not available from other sources on reasonable terms;

17. Page 8, lines 24 and 25 delete all material.

18. Page 8, line 28, following the word "utilized" delete "when other mechanisms are not feasible and when the benefits of the grant will accrue to the general public" and substitute "as authorized by Sec. 37.12.150 (13)."

19. Page 9, line 2, add:

(3) require investments made by the corporation to be secured by means determined to be appropriate by the board.

20. Page 9, line 5, following the word "invest" add "or otherwise provide financial assistance of".

21. Page 9, line 9, following the word "than" delete "25" and substitute "49".

22. Page 9, line 13, following the word "of" delete "10" and substitute "30".

23. Page 10, line 4, delete "grant" and substitute "provide".

24. Page 10, line 8, the Committee may want to consider adding a durational requirement (three years) because the state has an overriding interest in distributing the benefits of this program to Alaskans who have been here longer than 30 days.

25. Page 10, lines 9 and 10, delete "it is owned by a majority who are residents of the state" and substitute "the majority interest is beneficially owned by residents of the state and a majority of the owners are residents of the state."

26. Page 10, line 24, following the word "chapter" add "detailed infrastructure requirements required by or complementary with corporation investment activity."

27. Page 11, lines 5 and 6, delete "directly appropriated by the legislature only as authorized" and substitute "appropriated".

28. Page 11, line 10, delete "a certified public accountant" and substitute "an independent outside auditor".

29. Page 11, line 19, add:

Sec. 37.12.230. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state. (from HB 596)

Sec. 37.12.240. EMPLOYMENT PRACTICES. (a) In the performance of contracts let by a recipient of financial assistance under this chapter for construction, repair, preliminary surveys, engineering studies, consulting, maintenance work or any other retention of services necessary to complete any project for which the assistance was made, 95 per cent residents shall be employed where they are available and qualified. If 10 or fewer persons are employed under the contract, then 90 per cent residents shall be employed where they are available and qualified.

(b) The commissioner of commerce and economic development shall incorporate into all lending instruments issued under this chapter the provisions of (a) of this section and a provision calling for immediate foreclosure of the loan for violation of the provisions of (a) of this section.

(c) In addition to immediate foreclosure of his loan, as provided in (b) of this section, a borrower who violates the provisions of (a) of this section is ineligible for any loan under this chapter for 10 years following the violation.

(d) Municipalities and state agencies and departments when contracting for services concerning any aspects of administration and financing of the fund shall comply with AS 36.10. (from SB 429)

Sec. 37.12.250. TECHNICAL ASSISTANCE. Before a project is approved for financial assistance, the corporation shall perform a study to determine its economic and technical feasibility. If the project is subsequently approved for financial assistance, the corporation shall provide such technical assistance as is considered necessary and desirable by the board. The cost of the study and assistance provided under this section shall be borne by the corporation. (from SB 429)

OR

Sec. 37.12.250. TECHNICAL ASSISTANCE. (a) The corporation may provide financing for pre-investment activities including feasibility studies, when, in its opinion, the proposed investment is of high priority and the financing is not available from other sources on reasonable terms and conditions. Amounts so advanced may form a part of a later investment, if the enterprise or project is financed by the corporation.

(b) The corporation may provide for technical and management advice and assistance to proposed and actual investments as it considers necessary in the circumstances. (from HB 298)

Sec. 27.13.260. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises. (from HB 596)

30. Page 11, lines 23 and 24, delete all material.
31. Page 12, line 15, following the word "fund" add "or the Alaska Renewable Resources Corporation".
32. Page 12, line 27, following the word "fund" add "or the Alaska Renewable Resources Corporation".
33. Page 13, line 5, following the word "shall" add "be allocated to the Alaska Renewable Resources Corporation".
34. Page 13, line 19, delete "1982" and substitute "1988".

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

Rep. Gardiner presented an amendment ("Page 11, line 5") & moved that it be adopted in concept. There was no objection & Mr. Bernier was directed to draft it.

The Committee's ~~Schedule for this week~~ will stay to meet after Session each day this week. There is a tentative meeting w/ White World set up for Tues. Feb. 21.

The meeting adjourned at 10:05

Bob Loescher - J.Ak

John Halloway

Chuck Folley

Mr. Casner

Terral Campbell

Sterling Ball

> Bill Maerig

~~Miss Hayer~~

Don Bouy - Adl - Sup Pub Utd Ket

Williamson

Long -

Bob Cross

Ed Zastal

Art Morgan

Jim Edroso

Art Perry

Bill Corbous

Mr. Robert W. Loecher of SeAk Corp. brought with him a copy of a "Prelim Feasibility Study on 'Hydroelectric Potential' (in SE). The study (funded by REA) consolidated areas with good potential for projects. He cited the need for funds to continue into engineering phases. His suggestions for financing were long term low interest loans for plants & transmission lines and deferred payments during the first 3-5 years to allow for feasibility.

Mr. Bill Corbus ^{Mgr.} of AEL & P cited Bureau's unique situation in having sufficient power supply and urged the Committee's help in resolving the other SE Comm's problems. He suggested adding a sec in 595 allowing for use of funds to upgrade existing facilities as well as for constn of new and making rural elec. coop and private util. eligible to receive loans.

Mr. Bill Maerig of the Patsky Elec. Util. suggested the Committee look at the increased return in taxes & jobs generated by funding electric util. If the Principal of the PF were used to invest in long term low interest rate loans for small projects then the increased return would benefit the state as a whole with increased stability & jobs as well as increased tax base.

House Spec. Comm. on
The Alk Perm Fund.

Room 124 Capitol Bldg
Feb 14, 1978 7:00 PM

Chairman Gruening called the meeting to order and welcomed those present. Committee members attending were: Rep. Miles, Rep. Hargis, Rep. Gardiner, Rep. Hayes. Rep. Hargis introduced members of the audience to the Committee:

list - most of whom were concerned with informing the committee of the needs for electric utility funding.

Mr. Don Bowie, Asst. Util Mgr. in Ketchikan indicated that financing for power projects could best be assisted by either long term low interest loans or a State guarantee of bonds.

Mr. Jim Williamson, of R.W. Beck & ASS, presented two papers to the Committee: "Role of the Alk Perm Fund in Funding the Water Resources Revolving Loan Fund" and "Financing of Water Resource Projects in Alaska." Both of which were developed for the Southeastern Conference. His suggested methods for financing were direct dedication of funds from the PF to water resources or outside loans guaranteed by the State (Perm Fund).

In conclusion of the testimony on funding of Pub Util. Chas Gruening indicated a strong personal commitment to finding a way to fund these projects.

The Committee recessed at 8:40 PM and reconvened at 9:00 PM for a work session on HB 596.

Mr. Doogan's

Memos on the technical & grammatical corrections suggested by White Weld was given to Mr. Berrier to incorporate into a comm. substitute bill he is drafting.

~~Mr. Doogan's memo on policy changes suggested by White Weld was taken up.~~

Chas Gruening asked that Comm members having suggested language for setting an upper limit before legis approval (Enterprise fund) be submitted by the end of the week. Rep. Hayes indicates he would have a suggestion to submit.

Mr. Doogan stated that the amt set will reflect & define "small & med scale projects" in the context of this bill.

Mr. Doogan's memo on policy changes suggested by White Weld was taken up.

→ Item 2 was moved by Rep. Miles and adopted unanimously.

Item 3: Chm Guen moved to clarify whether a susp. creates a vacancy.

Item 4: Chm Guen moved and it was adopted unanimously. ^{This amendment ~~was~~ adopted}

Item 6: Rep. Hayes moved for adoption and there was no objection so it was adopted.

Item 8: Mr. Bernier was directed to ~~resolve this item~~ ^{resolve this} ~~on this side~~ a liaison between the APFC & AEIC and a letter of intent to accompany B96 was suggested ^{on this side} by Gardiner.

Item 10: Rep. Hayes moves & it was adopted w/o objection.

Item 11: It was decided no change was needed here.

Item 12: Mr. Bernier's memo of 2/14 was presented & items 1 & 2 were moved by Chm. Guening. The motion was adopted 4-1.

Item 13: "Amendment to 596" was presented and Chm. Guening moved for adoption. There was no objection & it was adopted.

Robert W Loescher Sea & Corp.

Prelim. Feasibility Study
"Hydroelectric Potential" (in SE.)
he will give copy

Study = w/ PFA consolidated areas
for projects - no funds for engineering
studies much less actually developing these

need - long term low interest rates
for plants & transmission lines
deferred payments during 1st 25 yrs
to allow feasibility

Bill Corbano - ^{ing} AEL & P

Juneau - unique w/ sufficient power
urge ^{you} to help other SE comm.

Sea &
1.56¢ per
KWh
3% over 50 yrs

595 add. Sec. ~~2~~ \$ can be used in add^{tion} to
new facil. to upgrade old.
Rural coop? private utility
be eligible to receive

Bill M^{urray} - Elec. Util. Peterobg.

REA int rate ^{2.8 mil} 0% and 5%

consider return in term of industry (tax base)
& increased return from growth -
Benefits are great

use principal ^{JPF} to invest in long-term low int.
rate loans for small projects →
increased return (tax base)

100% of the
for 5m. 60000

Look beyond benefit of small project
to benefit to ST as a whole

Need stability in power to grow
Principal invested in power projects from ST.

7 call Williamson re: White Weld coming

Chm. Guernsey indicated a strong ~~total~~
commitment to finding a way to get
these projects funded.

Recess. 8:40

9:00

Mr. Berrier 3-4 substantive

> set upper limit ^{before approval (Enterprise)} Hayes in writing 7/8 rest of comm
Green - 10 mil.

amt will reflect & define "small & med scale" projects

2. Policy memo
Mules moved - adopt. unan.

3. Policy memo -
Owen moved to clarify whether ~~sup~~
creates a vacancy. ADOPTED?

Berrier 8/9/ if he hasn't acted by end of session & removed

4. Owen - move no object. (Doogan Policy memo)

5. Berrier strongly objects - may not be constituted
WV says - redundant.
not moved -

6. Ber - desirable
Hayes mvd. adopts

7. _____ already done

8. ^{assures} reason betw Enterprise & Investment Comm.
Berrier resolve (letter of intent?) back,
→ give review to Investment Comm. for what to
do w/ surplus.

9. (Blay memo) already taken care of

10. These terms will be set after borrowing.
So not needed here.
Hayes mtd. no obj adopted

11. No change.

Berrier - Whitehead comment
P. 10 l. 29
use ^{value} at mtg at time of investment → no
following high flyer.

no change —

> Berrier "draft" ^{Res. requirement" put in} (record.) 2-14-78
1st 2nd Gruen mtd. ^{miles, Gard, Haugen Gen.} 4-1 adopted

~~Hayes mtd. amendment - no.~~
~~5 for mustmt~~
~~3 for policy bd.~~

— Amendment. to HB 396

Gruen mtd. no objec.

— Amendment. to 396 Gardiner
Berrier draft.

Gardiner mtd. concept adopted unan.