

SCOMM

#9: 177

Minutes

House Special Committee on  
the Alaska Permanent Fund

February 21, 1978 4:00 PM  
Room 123, Capitol

Chairman Gruening called the informal meeting to order.

Present were Committee members Rep. Hayes, Rep. Haugen, Rep. Gardiner and Rep. Meekins; committee staff; and Eric Yould, James Williamson, Mr. Ted Swick, Mr. Sam Plaia and others.

Mr. Swick brought an illustration of the use of the proposed "guarantee agreement" as embodied in HB 595 to the Committee. Discussion centered around this illustration. Possible additions to the bill could provide for entrance requirements, feasibility study (generation and economic) and a "laundry list" of facts that should exist before projects are guaranteed.

Mr. Eric Yould, Executive Director of the Alaska Power Authority, accompanied by Mr. Jim Curley and Mr. Argetsinger, suggested the Alaska Power Authority be the means to evaluate initial projects. The need is for front end planning funding and an entity to determine initial feasibility.

Mr. James Williamson of R. W. Beck and Associates informally listed projects which have shown a need for funding this year

<u>Project</u>	<u>Millions of \$</u>
Ketchikan	1.5
Craig	.100
Port Lyons (Kodiak)	.100
Seward	.100
Cordova	.450
Kenai	.200
Thomas Bay	.200
AEL&P (Haines & Juneau)	.250
Anchorage	3.5
	<hr/>
	7.100

The meeting adjourned at 6:00 PM.

*No take of this meeting*

*file copy*

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THEODORE P. SWICK  
FIRST VICE PRESIDENT  
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CABLE ADDRESS "WHITEWELD"

February 21, 1978

Mr. Clark Gruening, Chairman  
House Permanent Fund Committee  
Juneau, Alaska

Dear Mr. Gruening:

We are enclosing an illustration of the use of the proposed "guarantee agreement" as embodied in Alaska House Bill 595. This document will serve to supplement our oral discussions with your committee.

Respectfully submitted,

*Theodore P. Swick*  
Theodore P. Swick

TS:cc  
enc:

Section I

The Effect On Power Costs By  
Use of "Guarantee" Through Alaska House Bill 595

In order to illustrate the effect of Alaska House Bill 595 in reducing power costs, we have chosen a specific project. The City and Borough of Sitka, Alaska has received an evaluation report from R. W. Beck and Associates which examines a proposed dam at Green Lake. This hydroelectric facility is expected to have an installed capacity of 16,500KW and is estimated to cost approximately \$46,000,000, according to the Beck report.

We are of the opinion that under current market conditions, a serially maturing bond issue with a final maturity in 50 years and "guaranteed" by the Board of Trustees of the Alaska Permanent Fund could be sold at an interest rate of 5 3/4%. Without such "guarantee", it might cost Sitka approximately a 7 1/2% interest rate to sell similarly maturing bonds in the national market place.

The following table describes the cost effects in both instances. The figures of total construction cost are taken from the Beck report and we have altered the total bond issues to reflect a 5 3/4% and 7 1/2% interest rate:

	<u>"Guarantee"</u>	<u>No "Guarantee"</u>
	5 3/4%	7 1/2%
Direct Construction Cost	\$27,425,000	\$27,425,000
Contingencies (15%)	4,114,000	4,114,000
	<u>31,539,000</u>	<u>31,539,000</u>
Engineering & Administration	3,942,000	3,942,000
Total Construction Cost	<u>35,481,000</u>	<u>35,481,000</u>
Interest During Construction	<u>3,568,450</u>	<u>4,654,500</u>
Total Investment Cost	39,049,450	40,135,500

	<u>"Guarantee"</u>	<u>No "Guarantee"</u>
	<u>5 3/4%</u>	<u>7 1/2%</u>
Escalation (7%/year)	<u>5,591,000</u>	<u>5,591,000</u>
Total Investment Cost	44,640,450	45,726,500
Reserve Fund (1 years interest)	<u>2,734,550</u>	<u>3,713,500</u>
Bond Issue	\$47,375,000	\$49,440,000
Cost Per KW Installed (16,500KW)	\$ 2,871	\$ 2,996
Annual Debt Service (46 years)	2,949,402	3,846,110
Total 46 Year Cost	\$135,672,490	\$176,921,060
"Guarantee Savings"	\$ 41,248,570	

It is obvious that the use of the guarantee creates a substantial savings, allowing the total costs over a 46 year period to be reduced by 23%.

The House Bill 595 does not have as its purpose the subsidization of power costs in Alaska. Its intent is to use the income from the Permanent Funds to assist in getting a lower interest rate for the municipality than it would otherwise be able to achieve on its own. Sufficient safety features can be incorporated into the procedures by which the Legislature jointly determines the recipient of the "guarantee." Such procedures can give reasonable assurance to the legislative bodies that the income from the Permanent Fund will in fact be rarely, if ever, used to pay for a shortfall in revenues of projects with the "guarantee." Section II following covers these matters.

## Section II

### Suggested Procedures For Joint Legislative Approval of Guarantee

The following is an outline of possible procedures which could be used to assist the joint legislature in determining whether it should pass a concurrent resolution authorizing the Board of Trustees of the Permanent Fund to enter into a guarantee of the debt service related to a specific project.

The legislature will need to examine the following documents:

- 1) A feasibility study prepared by a nationally recognized engineering consulting firm which will outline in reasonable detail its investigations and recommendations leading to its evaluation of the proposed project, including an examination of alternative generation methods. Such report should include construction cost estimates, estimates as to operation and maintenance costs of the project, estimated time for construction and recommendations for capitalizing contingencies and debt service reserves.
- 2) An economic feasibility study by a nationally recognized engineering firm (can be the same firm as in 1) above) which will forecast future load growth demands, annual gross revenues, annual operation and maintenance expenses, net revenues and estimated coverage of debt service. Such a report should also estimate the useful life of the project.

After the legislature's examination of these documents, it will have sufficient data with which to determine whether such a "guarantee" of the issuer's debt should be given. In reaching such a conclusion, consideration may also be given to the project's merits based upon economic need, geographic location, social benefit and impact on locality.

Having determined to instruct the Board of Trustees to give a guarantee to the specific project completes the legislature's involvement.

The Board of Trustees in its administrative procedures will require that all licenses necessary for the project will be granted before it executes its guarantee agreement. The Trustees may also examine the proposed bond resolution in order to assure that a covenant to maintain rate charges in an amount sufficient to meet annual debt service and other requirements has been clearly defined. Finally, they may also require an agreement (perhaps contained in the bond resolution) that any expenditure of its income from the Permanent Fund to make up any revenue shortfall shall be repaid on a schedule to be determined in light of the circumstances at the the time.

1 IN THE HOUSE

BY THE SPECIAL COMMITTEE ON  
THE ALASKA PERMANENT FUND

2 HOUSE BILL NO. 595

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to income of the Alaska permanent  
7 fund; and providing for an effective date."

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

9 \* Section 1. AS 37 is amended by adding new sections to read:

10 Sec. 37.13.190. PERMANENT FUND INCOME. Income from investment of  
11 the permanent fund becomes part of the permanent fund and shall be  
12 deposited in the permanent fund annually. The income may be used to  
13 provide for guarantees of indebtedness issued by governmental agencies  
14 of the state for power projects.

15 Sec. 37.13.200. GUARANTEES OF INDEBTEDNESS. The Board of Trustees  
16 of the Alaska Permanent Fund Corporation is authorized to enter into  
17 agreements with any public authority of this state or any municipality  
18 or other governmental agency of the state, providing for a guarantee of  
19 the payment when due, whether at maturity or by sinking fund redemption  
20 but not by acceleration of maturity, of the principal of and interest on  
21 bonds, notes or other indebtedness issued to finance projects for con-  
22 struction of electric generating and related transmission facilities,  
23 this guarantee to be payable solely from the income derived from the  
24 Alaska permanent fund established by sec. 10 of this chapter (other than  
25 income derived from the Alaska enterprise development fund established  
26 by AS 44.55.010). The agreements shall contain such terms, provisions,  
27 and covenants in furtherance of the purposes of secs. 190 - 230 of this  
28 chapter as the board of trustees determines.

29 Sec. 37.13.210. LIMITATION ON INDEBTEDNESS. No bonds, notes or