

ALASKA LEGISLATIVE COMMITTEES, 1983-1984 86/2

2889

SRES.

SJR 32

MAJOR PROJECTS FUND

SJR 32 - SENATE VERSION

HJR 57 - HOUSE VERSION

PURPOSES:

PROJECTS OVER \$100 MILLION

70% FOR HYDRO (WHICH IS SO NARROWLY DEFINED TO MAKE ONLY WATANA QUALIFY. AFTER WATANA, THIS CATEGORY REVERTS TO "UNALLOCATED".)

10% FOR POWER COST ASSISTANCE TO MEET MEAN OF ANCHORAGE, FAIRBANKS, JUNEAU

20% UNALLOCATED

PROJECTS OVER \$100 MILLION

WATANA MUST BE FIRST

10% FOR POWER COST ASSISTANCE TO MEET MEAN OF JUNEAU, FAIRBANKS, ANCHORAGE

REVENUE SOURCE:

10% OF REVENUES EARNED AFTER JUNE 30, 1984

FROM CORPORATE INCOME TAX ON OIL AND GAS PRODUCERS, SEVERANCE TAX, OIL AND GAS PRODUCTION PROPERTY TAX, MINERAL LEASE RENTALS, ROYALTIES, ROYALTY SALE PROCEEDS, FEDERAL MINERAL REVENUE SHARING PAYMENTS, LEGISLATIVE APPROPRIATIONS, INTEREST EARNED, PROJECT REPAYMENT.

SAME 10% BUT

EXCLUDES CORPORATE INCOME TAX AND OIL AND GAS PROPERTY TAX. ACCORDING TO OMB, THIS RESULTS IN ABOUT \$50 MILLION LESS IN REVENUES ANNUALLY AVAILABLE TO THE MAJOR PROJECTS FUND.

PERMANENT FUND EXCLUDES CORPORATE INCOME TAX, OIL AND GAS PROPERTY TAX, AND SEVERANCE TAX.

PROJECT REQUIREMENTS:

2/3 LEGISLATIVE VOTE REQUIRED TO APPROPRIATE FROM FUND.

PROJECT MUST REPAY SUBSTANTIAL PORTION OF FUNDS SPENT ON IT.

SIMPLE MAJORITY VOTE REQUIRED.

PROJECT MUST REPAY ALL THE MONEY.

OTHER:

SB 522 - MANAGEMENT OF FUND

SB 523 - APPROPRIATION TO WATANA WITH ANNUAL DISBURSEMENTS (AWAITING ACCURATE FIGURES FROM APA.)

PROVISION THAT GOVERNOR MAY NOT VETO THE APPROPRIATION FOR WATANA.

GOVERNOR'S ORIGINAL BILL

PURPOSES:

PROJECTS OVER \$100 MILLION

REVENUE SOURCE:

10% OF REVENUES EARNED FROM
JUNE 30, 1985 TO JUNE 30, 1990

SAME AS SENATE VERSION

PROJECT REQUIREMENTS:

2/3 LEGISLATIVE VOTE REQUIRED TO
APPROPRIATE FROM FUND.

PROJECT MUST REPAY MONEY
EXPENDED FROM FUND.

THE APPROPRIATION, TOGETHER
WITH ANY OTHER COMMITTED FUNDS,
MUST COVER ENTIRE COST OF PROJECT.

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARL·SS STURGULEWSKI



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Senate Committee on Resources

MINUTES

May 11, 1984
3:08 pm

Beltz Room
Room 211, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chairman
Senator Ziegler, Vice-chairman
Senator Eliason
Senator Paul Fischer
Senator Vic Fischer
Senator Mulcahy
Senator Sturgulewski

CALENDAR

SB 522, An Act specifying how revenues dedicated to the major projects fund shall be expended.

SJR 32, Proposing an amendment to the Constitution of the State of Alaska creating a fund to finance the construction of capital projects.

HB 509, An Act relating to aviation fuel refiners

HB 509

Bob Rutschman, Chevron, USA, spoke in support of the bill.

Larry Vavra, Union Oil Company, spoke in support of HB 509.

Ray Plummer, Chevron, USA, spoke in support of the bill, and answered questions on the meaning of "mislabeled", and the liability of producers and suppliers if HB 509 were enacted.

SJR 32
SB 522

Pete McDowell, Director, Office of Management and Budget, spoke in support of both bills, which propose an amendment to the Constitution creating a major projects fund, and set up a corporation to manage and invest the fund's assets. He answered questions on revenue projections, the "major project" definition and review process, and the effect of SJR 32 on the proposed "four-dam pool" legislation.

The meeting adjourned at 4:32 pm.

OFFICE OF THE GOVERNOR

POUCH AM
JUNEAU, ALASKA 99811
PHONE: (907) 465-3568

OFFICE OF MANAGEMENT AND BUDGET

May 8, 1984

The Honorable Bettye Fahrenkamp
Chairman
Senate Resources Committee
Pouch V
Juneau, AK 99811

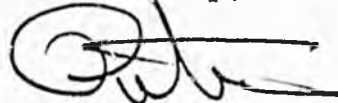
Bettye
Dear Senator Fahrenkamp:

The current draft of the resolution which we have proposed to create the Major Projects Fund sets aside 25 percent of the State's stream of non-tax petroleum revenue. This constitutional dedication of money is identical to the dedication found in Article IX, Section 15 of the constitution for the Permanent Fund.

It is the Governor's desire to have a substantial Fund. We recognize, however, that a sound and workable Fund might be achievable with a somewhat different dedication of revenue. Our initial proposal called for a dedication of 10 percent of all petroleum revenue. Other dedications are possible. The enclosed information shows several alternatives, as well as the composition of our anticipated revenue so the Committee may consider additional alternatives.

We hope this information is useful to you, and we look forward to action by your Committee on the Major Projects Fund proposal.

Sincerely,



Peter B. McDowell
Director

GH/dmc-84D-7

Enclosure

Major Projects Fund
Alternative Contribution Levels
(\$ millions, nominal)

	<u>25% of Non-Tax Petroleum Revenue</u>		<u>20% of Non-Tax Petroleum Revenue</u>		<u>15% of Non-Tax Petroleum Revenue</u>		<u>10% of Total Petroleum Revenue</u>	
	50th Percentile	30th Percentile	50th Percentile	30th Percentile	50th Percentile	30th Percentile	50th Percentile	30th Percentile
1986	387	360	310	288	232	216	364	342
87	427	397	342	318	256	238	407	383
88	472	435	378	348	283	261	416	388
89	532	480	426	384	319	288	464	426
90	550	455	440	364	330	273	479	399
91	502	407	402	326	301	244	431	359
92	492	395	394	316	295	237	418	348
93	505	407	404	326	303	244	428	359
94	502	402	402	322	301	241	424	353
95	487	392	390	314	292	235	416	347
96	482	390	386	312	289	234	408	340
97	490	395	392	316	294	237	414	345
98	492	397	394	318	295	238	415	347
99	490	387	392	310	294	232	410	338
2000	495	387	396	310	297	232	411	337

dmc/84I-94

Forecasts of Petroleum Tax Revenue
and Total Petroleum Revenue
(\$ Millions, Nominal)

	50th Percentile Severance Taxes (March 84)	30th Percentile Severance Taxes (March 84)	Corporate Petroleum Income Tax	Property Tax (Oil/Gas)	50th Percentile Total Petroleum Revenue	30th Percentile Total Petroleum Revenue
1986	1500	1390	370	226	3644	3424
87	1650	1530	448	259	4065	3825
88	1550	1420	469	257	4164	3884
89	1740	1570	494	277	4639	4259
90	1830	1410	482	280	4790	3990
91	1560	1220	455	285	4308	3588
92	1450	1140	449	309	4176	3476
93	1470	1170	456	337	4281	3591
94	1430	1120	453	352	4243	3533
95	1400	1090	447	364	4159	3469
96	1370	1060	446	339	4083	3403
97	1350	1040	448	388	4144	3454
98	1330	1030	450	405	4153	3473
99	1280	970	445	420	4103	3383
2000	1250	940	445	436	4109	3369

dmc/84I-94

Forecast of Non-Tax Petroleum Revenue*
(\$ Millions, Nominal)

	<u>50th Percentile Royalties (March 84)</u>	<u>30th Percentile Royalties (March 84)</u>	<u>Federal Mineral Revenue Sharing</u>	<u>50th Percentile Non-Tax Oil Revenue</u>	<u>30th Percentile Non-Tax Oil Revenue</u>
1986	1530	1420	18	1548	1438
87	1690	1570	18	1708	1588
88	1870	1720	18	1888	1738
89	2110	1900	18	2128	1918
90	2180	1800	18	2198	1818
91	1990	1610	18	2008	1628
92	1950	1560	18	1968	1578
93	2000	1610	18	2018	1628
94	1990	1590	18	2008	1608
95	1930	1550	18	1948	1568
96	1910	1540	18	1928	1558
97	1940	1560	18	1958	1576
98	1950	1570	18	1968	1588
99	1940	1530	18	1958	1548
2000	1960	1530	18	1978	1548

* Excludes mineral lease rentals (which are a minor source of income) and bonuses, for which long-range forecasts are not available.

dmc/84I-94

OMB
05/8/84

Set aside funds now or projects may never be completed

By BILL SHEFFIELD

By our count, 55,000 people moved to Alaska last year to set up residence. With them, this record influx of new Alaskans brought hopes for the present, dreams for the future and many demands for government services.

Unfortunately, of course, there's no way these new Alaskans could bring with them an appreciation of the state we knew before the discovery of oil at Prudhoe Bay. If they stick around long enough, however, they and all Alaskans will know what life after Prudhoe is like because in six short years North America's largest oil field is projected to be in a steep production decline.

That is one reason I've asked the legislature to present Alaska voters with a proposed constitutional amendment that would allow us to place a portion of our oil wealth into a fund for construction of future capital projects. It's called the Major Projects Fund, and I believe

it holds a key to Alaska's financial well-being.

Let me explain:

Even after Prudhoe Bay passes its peak production, Alaska will continue to receive substantial petroleum revenues for many years to come. But despite new discoveries, our best guess at this time is that large annual cash surpluses above operating budget needs will cease to be available during the 1990s.

Recognizing this problem, Alaskans voted in 1976 to create the Alaska Permanent Fund. Today, that fund amounts to more than \$5 billion, generating earnings for direct cash payments to residents and ensuring that some day — if we need it — money will be available to fund vital state services.

The revenue enjoyed by the State of Alaska from oil production at Prudhoe Bay has far exceeded the hopes and expectations of only 10 to 15 years ago. The \$900 million bonus received in 1969 seemed to provide a tremendous en-



dowment that in itself would be sufficient to fund state operations for about five years at budgetary levels prevailing at the time.

Yet the massive oil market price increases of the 1970s resulted in state revenues that are currently approaching \$4 billion per year. Quite suddenly, the State of Alaska has found itself on the receiving end of oil revenues that amount to about \$8,000 per year for every man, woman and child in the state.

But another major reason for the magnitude of these annual revenues is the unprecedented speed at which Prudhoe Bay oil is being removed and sold.

We need to remember that the bubble of wealth we currently enjoy is both huge by

any historical standard and also transitory. It presents us with a unique opportunity that is not likely to come again to this or any other state for a great many years. We now have the financial capability to provide major improvements for the economic foundation of our society, improvements that will serve us for generations to come. Thus far, however, we have not learned how to consolidate our resources in order to construct such projects, and the time for doing so is running out.

While many worthwhile programs and projects have been funded, I am concerned that the future will not judge favorably the manner in which we have spent our wealth. We should endeavor to build some improvements of a scale that reflects the magnitude of our opportunity. When future Alaskans ask what we did with the money, it would be satisfying to know that at least a few major, lasting improvements

will be included in the answer.

The Major Projects Fund I've proposed would accumulate approximately 10 percent of our revenues for the next six years. Based on current estimates, between \$2 billion and \$3 billion could be set aside in the fund.

What would we do with this money?

I have no firm answers to that question right now. The Susitna hydroelectric project, major expansion of the Alaska Railroad, construction of support facilities for mining, fishing, timber or agricultural projects all could qualify as logical investments of the Major Projects Fund.

While we don't know the specific projects yet, I do know that unless we begin setting aside money now for the construction of major state projects, most will never be built. This is guaranteed by the pattern of capital budget spending the state has embarked upon in the past six years.

I don't fault past administrations or current or former legislatures for rising to meet the pressures of local requests for public works spending. As we celebrate our 25th year of statehood, many Alaskans still lack such basic entitlements as adequate water and sewer systems, roads or other transportation facilities, schools, health clinics and adequate fire and police protection. Already in 1984, I've had the privilege of signing into law more than \$700 million in appropriations to satisfy some of those needs.

In summary, I believe it's critical for Alaska in time of plenty to look ahead to the years when our wealth won't be as great. If it was wise for voters to do this in 1976, it would be even wiser for us to do the same in 1984 by creating the Major Projects Fund.

Bill Sheffield is governor of Alaska.

SENATE RESOURCES COMMITTEE

GOVERNOR'S ORIGINAL

PURPOSES:

Construction of capital projects that exceed \$100 million.

Construction of capital projects that exceed \$100 million.

Equalization of power costs.

FUNDS:

25% of revenue earned from 7/1/85 through 11/30/90.

10% of revenue earned from 6/30/85 through 6/30/90.

Sources: mineral lease rentals
royalties
royalty sale proceeds
federal mineral revenue-sharing payments
state bonuses
legislative appropriation
interest earned by fund
revenue dedicated from project earnings

Sources: mineral lease rentals
royalties
royalty sale proceeds
federal mineral revenue-sharing payments and bonuses
interest earned from fund
revenue dedicated from project earnings
corporate income tax on oil and gas producers
severance tax
oil and gas production
property tax

To be invested per general fund.

To be invested per Permanent Fund.

USES:

50% hydro (defined as capital construction costs and rate stabilization).

5% for equalization of power costs to be distributed as provide by law.

PROJECT REQUIREMENTS:

Financing plan approved by governor and legislature.
Expenditure authorized by appropriation bill passed by legislature.
Project expected to earn revenue to repay fund, other money used to finance, and operation and maintenance costs (useful life).
Project owned by state.

Expenditure approved by 2/3 vote of legislature.
Project will earn enough money to repay money expended on project.

OTHER:

If this Constitutional amendment is adopted, in 1990 Lieutenant Governor will place on ballot a proposition to continue the dedication of revenues.

(NOTE: Both versions amend Constitution to allow dedication of project earnings, and to exempt major project fund appropriations from the spending limit. Amendments will go before voters at next general election.)

Alaska State Legislature

BEITYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
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Senate

Committee on Resources

SCS CSHF 589 (Fin) am
RELATING TO THE ALASKA POWER AUTHORITY; AUTHORIZING THE CONSTRUCTION OF THE WATANA AND BRADLEY LAKE HYDROELECTRIC PROJECTS.

Sec. 1 Combines the Lake Tyee, Swan Lake, Solomon Gulch and Ferrer Lake hydroelectric projects into one power project for the purpose of the wholesale power rate calculation. Eliminates the restriction on industrial power rates.

Sec. 2 Specifies that in determining wholesale power rates for the 4-dam pool projects the facilities will share the debt service. Operating and maintenance costs will be determined separately. Repeals the Susitna "equity clause".

Sec. 3 Allows the APA to contractually limit the amount of debt service payable by power purchasers as a consequence of the later addition of new projects to the energy program.

Sec. 4 Conforming amendment per repeal of Susitna "equity clause".

Sec. 5 Conforming amendment per elimination of restriction on industrial power rates.

Sec. 6 Repeals the provision that construction contracts for Susitna are contingent upon legislative approval of the project's preliminary report, and the mandate that contracts be entered into within one year after report approval.

Sec. 7 Signing of construction contracts would be contingent on legislative approval of power projects.

Sec. 8 Authorizes the Bradley Lake project at a construction cost of \$300 million in July 1983 dollars.

Sec. 9 Authorizes the Watana project at a construction cost of \$3.75 billion in January 1983 dollars.

Sec. 10 Immediate effective date.

CHANGES FROM HOUSE-PASSED VERSION:

Amends current statute governing construction contracts for Susitna. Contracts could be entered into upon legislative approval of the Sustina project, rather than upon legislative approval of the preliminary report.

Revises the construction cost for Bradley Lake and Watana, per information from the Alaska Power Authority.

Susitna "equity clause" is repealed in the body of the bill (Section 2) rather than in a separate repealer.

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 **SCS** CS FOR HOUSE BILL NO. 589 (Finance) am
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Power Authority
7 authorizing the construction of the Watana and
8 Bradley Lake hydroelectric projects; and providing
9 for an effective date."

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

11 * Section 1. AS 44.83.398(a) is amended to read:

12 (a) The authority shall sell power produced from power projects
13 acquired or constructed under the energy program for Alaska. For
14 purposes of this section, Lake Tyee, Swan Lake, Solomon Gulch, and
15 Terror Lake hydroelectric facilities are considered to be one power
16 project. This power project is referred to as the initial project [A
17 UTILITY THAT PURCHASES POWER PRODUCED BY A POWER PROJECT OF THE AU-
18 THORITY SHALL AGREE WITH THE AUTHORITY

19 (1) TO GIVE PREFERENCE IN THE SALE OF POWER AT RETAIL TO
20 ALL CLASSES OF CONSUMERS OF POWER EXCEPT INDUSTRIAL CONSUMERS;

21 (2) TO CHARGE INDUSTRIAL CONSUMERS OF POWER A RATE DE-
22 TERMINED BY THE AUTHORITY IN ACCORDANCE WITH (d) OF THIS SECTION].

23 * Sec. 2. AS 44.83.398(b) is amended to read:

24 (b) The authority shall establish a wholesale power rate struc-
25 ture applicable to sales of power to the [ITS] customers [AT THE
26 EUSPAR] of a power project as follows:

27 (1) The authority shall establish and maintain a separate
28 wholesale power rate applicable to each power project that it has
29 acquired or constructed under the energy program for Alaska, other

1 than a project described in (f) of this section. The wholesale power
2 rate established by the authority for the initial project shall be a
3 rate calculated under this paragraph except that the portion of the
4 rate applicable to (A) and (C) of this paragraph shall be adjusted for
5 the hydroelectric facilities in the initial project as set out in (3)
6 of this subsection. The wholesale power rate shall be computed by the
7 authority annually, or more frequently as may be necessary, and shall
8 equal the rate that the authority estimates is necessary to produce
9 revenue that is sufficient to pay

10 (A) operation, maintenance, and equipment replacement
11 costs of the power project;

12 (B) the power project's proportionate share of the
13 debt service on state loans and bonds for all power projects in
14 the ~~energy~~ program for Alaska, determined in accordance with (g)
15 of this section;

16 (C) safety inspections and investigations of the power
17 project by the authority.

18 (2) If, by July 1, 1991, the legislature has not appropri-
19 ated at least \$5,000,000,000 to the fund, in addition to appropria-
20 tions to the fund of interest earned on money in the fund, the author-
21 ity shall, beginning on that date, establish and maintain a separate
22 wholesale power rate applicable to each power project that is acquired
23 or constructed under the energy program for Alaska. The wholesale
24 power rate shall be computed by the authority annually, or more fre-
25 quently as may be necessary, and shall be the greater of

26 (A) 10 percent of the amount the authority has in-
27 vested in the power project, including loans and grants made by
28 the state; or

29 (B) the rate that the authority estimates is necessary

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to produce revenue sufficient to pay

(i) operation, maintenance, and equipment replacement costs of the power project;

(ii) the power project's proportionate share of debt service on state loans and bonds for all power projects in the energy program for Alaska, determined in accordance with (g) of this section; and

(iii) safety inspections and investigations of the power project by the authority.]

(3) For the purposes of determining amounts to be allocated to each hydroelectric facility in the initial project under (1)(A) and (1)(C) of this subsection, the authority shall determine for each hydroelectric facility its individual operation, maintenance, equipment replacement, safety inspection, and investigation costs.

* Sec. 3. AS 44.83.398(e) is amended to read:

(e) After determining the wholesale power rate for a power project under the provisions of this section, the authority may adjust the rate or change the rate provisions to insure that the revenue derived from that power project and the aggregate revenues of the authority will be adequate to comply with the rate covenants and other agreements contained in any trust indenture or trust agreement entered into by the authority for the security of the holders of bonds issued to finance power projects in the energy program [ENERGY PROGRAM] for Alaska. The authority may agree with a purchaser of power to limit rate increases caused by debt service payable by the authority on subsequent projects.

* Sec. 4. AS 44.83.398(g) is amended to read:

(g) For the purposes of (b)(1)(E) [AND (b)(2)(B)(ii)] of this section, a power project's proportionate share of debt service on

1 state loans and bonds for all power projects in the energy program for
2 Alaska is equal to the state's investment in the power project divided
3 by the state's investment in all power projects in the energy program
4 for Alaska and multiplied by the debt service on state loans and bonds
5 for all power projects in the energy program for Alaska. In this
6 subsection

7 (1) "state's investment in the power project" includes all
8 state money invested in a power project, including loans, grants, and
9 proceeds from bonds, less the principal repayments on the project's
10 proportionate share of debt service on state loans and bonds;

11 (2) "state's investment in all power projects in the energy
12 program for Alaska" includes all state money invested in the power
13 projects, other than interties, in the energy program for Alaska,
14 including loans, grants, and proceeds from bonds, less the principal
15 repayments on bonds and state loans issued for the power projects.

16 * Sec. 5 AS 44.83.398(d) is repealed.

17 * Sec. 6 AS 44.83.330 is repealed.

18 * Sec. 7 AS 44.83.325 is amended to read: The authority may not
19 enter into contracts under AS 44.83.300 - AS 44.83.360 other than those
20 contracts necessary to complete (1) feasibility studies, (2) the prelim-
21 inary reports required by AS 44.83.320, or (3) construction of the
22 Anchorage-Fairbanks Intertie, until the Legislature [approves by law the
23 preliminary report required under AS 44.83.320(b).] enacts a law
24 approving the project in accordance with AS 44.83.185(c).
25

26 * Sec. 8 The Bradley Lake hydroelectric project is authorized for
27 construction under AS 44.83.185(c) and 44.83.384(c) at a construction
cost of \$300,000,000 in July 1983 dollars.

* Sec. 9 The Watana Dam project in the Susitna River hydro-electric project is authorized for construction under AS 44.83.185(c) at a construction cost of \$3,750,000,000 in January 1983 dollars.

* Sec. 10 This Act takes effect immediately in accordance with AS 01.10.070(c).

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
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Senate

Committee on Resources

SCS CS HB 684 (Res)

AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY.

Sec. 1 \$49 million for rate stabilization for the 4-dam pool.

Sec. 2 \$200 million to the APA power development fund for financing Watana.

Sec. 3 \$10 million for power cost assistance.

Sec. 4 Appropriations in sections 1 and 2 do not lapse.

Sec. 5 Section 1 takes effect when 4-dam pool communities sign power sales agreements.

Sec. 6 Sections 2 and 3 take effect immediately.

CHANGES FROM HOUSE PASSED VERSION:

Deletes the \$1.4 billion appropriation for Watana and Bradley Lake, which was to be deposited in monthly installments by June 1991, and appropriates \$200 million for Watana.

The appropriation to Watana is immediate; House version required that power sales agreements be signed first.

Senator Vic Fischer

Alaska State Legislature
1024 W. 6th Avenue, Suite 204C
Anchorage, Alaska 99501 (907) 278-3654
During Session • Pouch V • Juneau, Alaska 99811 (907) 465-4954



April 12, 1984

TO: Senator Bettye Fahrenkamp
Chair, Senate Resources Committee

FROM: Senator Vic Fischer *Vic Fischer*

RE: Major Projects Fund

I will be out of town tomorrow, so will be unable to attend the Resources meeting at which you will be discussing the major projects fund legislation.

As you know, I do not support a major projects fund that would constitutionally dedicate a portion of our revenues. I have mentioned before that I would be willing to consider a statutory fund.

Attached find a work draft of such a statutory fund, showing one way that it might be done, and a work draft of an appropriation bill to accompany it. Please bring it to the committee's attention for discussion if you wish.

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
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Senate

Committee on Resources

April 1, 1984

CSSJR 32 (Res) PROPOSING AN AMENDMENT TO THE CONSTITUTION OF THE STATE OF ALASKA CREATING A FUND TO PROVIDE A SOURCE OF FINANCING FOR CAPITAL PROJECTS AND TO PROVIDE ASSISTANCE TO EQUALIZE POWER COSTS.

PURPOSE: Construction of capital projects that exceed \$100 million. Equalize power costs.

FUNDS: 10% of state revenue earned after June 30, 1984
Sources: corporate income tax on oil and gas producers
severance tax
oil and gas production property tax
mineral lease rentals
royalties
royalty sale proceeds
federal mineral revenue-sharing payments
legislative appropriations
interest earned on fund
revenue dedicated from project earnings
To be invested per general fund.

USES: 50% of annual revenue for hydro (defined as capital construction costs and rate stabilization)
5% for equalization of power costs to be distributed as provided by law

EXPENDITURE: Financing plan approved by governor and legislature. Expenditure authorized by 2/3 vote of each house. Project is estimated to repay fund during project's useful life. Project is state-owned.

OTHER: Amends Constitution to allow dedication of project earnings. Amends Constitution to exempt major project fund appropriations from the spending limit. Amendments go before voters at next general election.

DRAFT

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IN THE SENATE

BY THE RESOURCES COMMITTEE

CS FOR SENATE JOINT RESOLUTION NO. 32 (RESOURCES)

Proposing an amendment to the Constitution of the State of Alaska creating a fund to provide a source of financing for capital projects and to provide assistance to equalize power costs.

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

* Section 1. Article IX, Constitution of the State of Alaska, is amended by adding a new section to read:

SECTION 17. MAJOR PROJECTS FUND. (a) There is created in the state treasury a major projects fund. The purpose of the major projects fund is to finance the construction of capital projects that exceed \$100,000,000 in cost, and to provide money to equalize power costs of consumers. The unexpended balance of the fund shall be invested in the manner specified in section 16 of this article for the general fund. The major projects fund consists of

(1) an annual deposit of ten percent of state revenue earned after June 30, 1984 from the following sources:

- (A) corporate income tax on oil and gas producers;
- (B) severance tax;
- (C) oil and gas production property tax;
- (D) mineral lease rentals;
- (E) royalties;
- (F) royalty sale proceeds; and
- (G) federal mineral revenue-sharing payments and

1 bonuses;

2 (2) appropriations made by the legislature;

3 (3) interest earned each fiscal year from investment of
4 money in the major projects fund; and

5 (4) revenue dedicated to the fund in accordance with (d) of
6 this section.

7 (b) 50% of the annual revenue paid into the major
8 projects fund is reserved for hydroelectric energy development.
9 "Hydroelectric energy development" means construction of
hydroelectric capital projects and stabilization of rates
for hydro projects in the state.

10 (c) Money shall not be expended from the major projects fund for
11 a capital project unless

12 (1) a plan for financing the project has been approved by
13 the governor and the legislature that identifies the source of all
14 money necessary to complete construction of the project;

15 (2) the expenditure is authorized by the affirmative vote
16 of two-thirds of the membership of each house of the legislature;

17 (3) the capital project is estimated to earn enough revenue
18 during the useful life of the project to repay the money appropriated
19 from the major projects fund and other money used to finance the
20 project; and

21 (4) the capital project is owned by the state.

22 (d) The legislature may dedicate by law to the major projects
23 fund revenue earned by a capital project financed by the major
24 projects fund to repay the amount expended from the fund to finance
25 the project during the life of the project.

26 (e) Five percent of the annual revenue paid into the fund is
27 reserved to provide assistance to equalize power costs to consumers in
28 the state. Money reserved under this subsection shall be appropriated
29 from the fund by an affirmative vote of a majority of the members of

1 each house of the legislature and shall be distributed as provided by
2 law.

3 (f) The legislature may appropriate revenue dedicated under this
4 section to meet a state of disaster declared by the governor as
5 prescribed by law.

6 * Sec. 2. Article IX, sec. 7, Constitution of the State of Alaska is
7 amended to read:

8 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
9 license shall not be dedicated to any special purpose, except as
10 provided in sections [SECTION] 15 and 17 of this article or when
11 required by the federal government for state participation in federal
12 programs. This provision shall not prohibit the continuance of any
13 dedication for special purposes existing upon the date of ratification
14 of this section by the people of Alaska.

15 * Sec. 3. Article IX, sec. 16, Constitution of the State of Alaska is
16 amended to read:

17 SECTION 16. APPROPRIATION LIMIT. Except for appropriations for
18 Alaska permanent fund dividends, appropriations from the major
19 projects fund established by section 17 of this article,
20 appropriations of revenue bond proceeds, appropriations required to
21 pay the principal and interest on general obligation bonds, and
22 appropriations of money received from a non-state source in trust for
23 a specific purpose, including revenues of a public enterprise or
24 public corporation of the state that issues revenue bonds,
25 appropriations from the treasury made for a fiscal year shall not
26 exceed \$2,500,000,000 by more than the cumulative change, derived from
27 federal indices as prescribed by law, in population and inflation
28 since July 1, 1981. Within this limit, at least one-third shall be
29 reserved for capital projects and loan appropriations. The

1 legislature may exceed this limit in bills for appropriations to the
2 Alaska permanent fund and in bills for appropriations for capital
3 projects, whether of bond proceeds or otherwise, if each bill is
4 approved by the governor, or passed by affirmative vote of
5 three-fourths of the membership of the legislature over a veto or item
6 veto, or becomes law without signature, and is also approved by the
7 voters as prescribed by law. Each bill for appropriations for capital
8 projects in excess of the limit shall be confined to capital projects
9 of the same type, and the voters shall, as provided by law, be
10 informed of the cost of operations and maintenance of the capital
11 projects. No other appropriation in excess of this limit may be made
12 except to meet a state of disaster declared by the governor as
13 prescribed by law. The governor shall cause any unexpended and
14 unappropriated balance to be invested so as to yield competitive
15 market rates to the treasury.

16 * Sec. 5. The amendments proposed by this resolution shall be placed
17 before the voters of the state at the next general election in conformity
18 with art. XIII, sec. 1, Constitution of the State of Alaska, and the
19 election laws of the state.
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Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
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Senate

Committee on Resources SJR 32 (4/24/84 Law Draft)

Proposes an amendment to the Constitution that would go before the voters at the next general election:

Dedication of 25% of mineral lease rentals, royalties, royalty sale proceeds, federal revenue mineral sharing payments, and bonuses received by the state (OMB anticipates \$350 million a year), for financing self-liquidating investments in large capital projects (projects must generate revenues to repay fund).

Dedications would begin July 1, 1985; end June 30, 1991.

Places appropriations from the major projects fund outside the spending limit.

Provides for a proposition extending the dedication another 10 years to be placed on the ballot in 1990.

BILL (4/24/84 Law Draft)

Establishes a Major Projects Fund consisting of constitutionally dedicated funds (to be paid monthly), other appropriations, interest accrued, and repayments.

Establishes a Major Projects Fund Corporation to manage and invest the fund's assets.

The Board, appointed by the Governor, would:

- 1) consist of 5 public members and 1 executive branch member,
- 2) serve four year staggered terms,
- 3) receive per diem and travel allowances,
- 4) be authorized to employ staff and determine staff's salaries
- 5) recommend to the Governor and Legislature investments from the fund and submit a plan of finance for each project. All projects would require approval of the Board, the Governor, and the Legislature.

Effective date tied to effective date of the Constitutional amendment.

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE JOINT RESOLUTION NO. 32 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska creating a
7 fund to provide a source of financing
8 for capital projects.

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

10 * Section 1. Article IX, Constitution of the State of Alaska, is amend-
11 ed by adding a new section to read:

12 SECTION 17. ALASKA MAJOR PROJECTS FUND. Beginning July 1, 1985
13 and ending June 30, 1991, at least twenty-five percent of all mineral
14 lease rentals, royalties, royalty sale proceeds, federal mineral
15 revenue sharing payments and bonuses received by the State shall be
16 placed in a major projects fund which shall be used for the financing
17 of self-liquidating investments in large capital projects that are
18 owned by the state. An appropriation made from the fund must be repaid
19 from revenues generated by the project financed. Management of the
20 fund and disposition of income from the fund shall be governed by law.

21 * Sec. 2. Article IX, sec. 7, Constitution of the State of Alaska is
22 amended to read:

23 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or
24 license shall not be dedicated to any special purpose, except as
25 provided in sections [SECTION] 15 and 17 of this article or when
26 required by the federal government for state participation in federal
27 programs. This provision shall not prohibit the continuance of any
28 dedication for special purposes existing upon the date of ratification
29 of this section by the people of Alaska.

1 * Sec. 3. Article IX, sec. 16, Constitution of the State of Alaska is
2 amended to read:

3 SECTION 16. APPROPRIATION LIMIT. Except for appropriations for
4 Alaska permanent fund dividends, appropriations from the major proj-
5 ects fund established by section 17 of this article, appropriations of
6 revenue bond proceeds, appropriations required to pay the principal
7 and interest on general obligation bonds, and appropriations of money
8 received from a non-State source in trust for a specific purpose,
9 including revenues of a public enterprise or public corporation of the
10 State that issues revenue bonds, appropriations from the treasury made
11 for a fiscal year shall not exceed \$2,500,000,000 by more than the
12 cumulative change, derived from federal indices as prescribed by law,
13 in population and inflation since July 1, 1981. Within this limit, at
14 least one-third shall be reserved for capital projects and loan appro-
15 priations. The legislature may exceed this limit in bills for appro-
16 priations to the Alaska permanent fund and in bills for appropriations
17 for capital projects, whether of bond proceeds or otherwise, if each
18 bill is approved by the governor, or passed by affirmative vote of
19 three-fourths of the membership of the legislature over a veto or item
20 veto, or becomes law without signature, and is also approved by the
21 voters as prescribed by law. Each bill for appropriations for capital
22 projects in excess of the limit shall be confined to capital projects
23 of the same type, and the voters shall, as provided by law, be in-
24 formed of the cost of operations and maintenance of the capital proj-
25 ects. No other appropriation in excess of this limit may be made
26 except to meet a state of disaster declared by the governor as pre-
27 scribed by law. The governor shall cause any unexpended and unappro-
28 priated balance to be invested so as to yield competitive market rates
29 to the treasury.

1 * Sec. 4. Article XV, Constitution of the State of Alaska is amended by
2 adding a new section to read:

3 SECTION 29. EXTENSION OF CONTRIBUTION TO MAJOR PROJECTS FUND.

4 If the 1984 amendment creating the major projects fund (Article IX, section
5 17) is adopted, the lieutenant governor shall cause a ballot title and
6 proposition for an amendment substantially similar to the amendment set out
7 below for Article IX, section 17, to be placed on the ballot at the general
8 election in 1990. If a majority of those voting on the proposition in 1990
9 approves the amendment, it shall be adopted. If a majority of those voting
10 on the proposition in 1990 disapproves the amendment, the Alaska major
11 projects fund shall continue to exist although the dedication of revenue to
12 the fund under Article IX, section 17 shall cease as of June 30, 1991.

13 Article IX, sec. 17, Constitution of the State of Alaska is amended to
14 read:

15 SECTION 17. ALASKA MAJOR PROJECTS FUND. Beginning July 1, 1985
16 and ending June 30, 2001, [1991] at least twenty-five percent of all
17 mineral lease rentals, royalties, royalty sale proceeds, federal
18 mineral revenue sharing payments and bonuses received by the state
19 shall be placed in a major projects fund which shall be used for the
20 financing of self-liquidating investments in large capital projects
21 that are owned by the state. An appropriation made from the fund must
22 be repaid from revenues generated by the project financed. Management
23 of the fund and disposition of income from the shall be governed by
24 law.

25 * Sec. 5. The amendments proposed by this resolution shall be placed
26 before the voters of the state at the next general election in conformity
27 with art. XIII, sec. 1, Constitution of the State of Alaska, and the
28 election laws of the state.
29

1 IN THE SENATE

BY THE RESOURCES
COMMITTEE

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 522

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska major projects fund,
7 the Alaska Major Projects Fund Corporation, and to
8 legislative oversight of the fund; and providing for
9 an effective date."

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

11 * Section 1. AS 37 is amended by adding a new chapter to read:

12 CHAPTER 17. ALASKA MAJOR PROJECTS FUND.

13 Sec. 37.17.010. ALASKA MAJOR PROJECTS FUND. (a) Under Art. IX,
14 sec. 17 of the state constitution, there is established as a separate
15 fund the Alaska major projects fund. The fund consists of

16 (1) 25 percent of all mineral lease rentals, royalties,
17 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
18 (g), federal mineral revenue sharing payments received by the state
19 from mineral leases, and bonuses received by the state from mineral
20 leases issued after the effective date of this Act; and

21 (2) any other money appropriated to or otherwise allocated
22 by law to the fund;

23 (3) income from investment of the fund balance prior to
24 appropriation; and

25 (4) repayment of principal and payment of interest, if any,
26 on investments made with money appropriated from the fund.

27 (b) Payments due the fund under (a)(1) of this section shall be
28 made to the fund once each month.

29 Sec. 37.17.020. FINDINGS. The people of the state, by

1 constitutional amendment, have required the placement of at least 25
2 percent of all mineral lease rentals, royalties, royalty sale pro-
3 ceeds, and federal mineral revenue sharing payments and bonuses re-
4 ceived by the state into a major projects fund. The legislature finds
5 that a mechanism is needed to strengthen and enlarge Alaska's economic
6 infrastructure to benefit all present and future generations of
7 Alaskans. It is the intent of the legislature that the fund be used
8 to make self-liquidating investments in large capital projects owned
9 by the state to accomplish this purpose.

10 Sec. 37.17.030. PURPOSE. It is the purpose of this chapter to
11 provide for the management and investment of the assets of the Alaska
12 major projects fund by the Alaska Major Projects Fund Corporation in a
13 manner consistent with the findings in AS 37.17.020.

14 Sec. 37.17.040. ALASKA MAJOR PROJECTS FUND CORPORATION. There
15 is established the Alaska Major Projects Fund Corporation. The corpo-
16 ration is a public corporation and government instrumentality in the
17 Department of Revenue managed by the board of directors.

18 Sec. 37.17.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF
19 DIRECTORS. (a) The Board of Directors of the Alaska Major Projects
20 Fund Corporation consists of six members. Five of the members shall
21 be appointed by the governor from the public and may not hold any
22 other state or federal office, position or employment, either elective
23 or appointive, except as a member of the armed forces of either the
24 United States or of this state. The sixth member shall be appointed
25 by the governor from the executive branch.

26 (b) All of the members of the board shall have recognized compe-
27 tence and wide experience in engineering or in finance, investments,
28 or other business management-related fields.

29 (c) The governor shall appoint a chairman from among the members

1 of the board.

2 Sec. 37.17.060. TERM OF OFFICE. The public members of the board
3 shall be appointed for terms of four years, and they may be reappoint-
4 ed. The terms of the public members shall be staggered.

5 Sec. 37.17.070. REMOVAL AND VACANCIES. (a) The governor may
6 remove a member of the board from office for cause. A removal by the
7 governor shall be in writing and shall state the reason for the re-
8 moval.

9 (b) A vacancy on the board shall be promptly filled by appoint-
10 ment by the governor. An appointee to a vacancy shall hold office for
11 the balance of the term for which his predecessor on the board was
12 appointed.

13 (c) A vacancy on the board does not impair the authority of a
14 quorum of the board to exercise all the powers and perform all the
15 duties of the board.

16 Sec. 37.17.080. QUORUM. Four members of the board constitute a
17 quorum for the transaction of business and the exercise of the powers
18 and duties of the board.

19 Sec. 37.17.090. COMPENSATION OF BOARD MEMBERS. Members of the
20 board are entitled to per diem and travel allowances as provided by
21 law for members of state boards and commissions under AS 39.20.180.

22 Sec. 37.17.100. STAFF. The board may employ and determine the
23 salary of staff as necessary. An employee may not be a member of the
24 board. Employees of the board are in the exempt service under
25 AS 39.25.

26 Sec. 37.17.110. CONFLICTS OF INTEREST. (a) Members of the
27 board are subject to the provisions of AS 39.50.
28
29

1 (b) Except as provided in this section, a board member or execu-
2 tive officer of the corporation may not participate in a decision of
3 the corporation in which that person or a member of that person's
4 immediate family has a direct or indirect financial interest unless
5 the financial interest is a remote financial interest and participa-
6 tion is approved under (b) of this section.

7 (c) A board member or executive officer may participate in a
8 decision if that person or a member of that person's immediate family
9 has a remote interest, the fact and extent of the interest is dis-
10 closed to the board in a public meeting and is noted in the minutes of
11 the board before any participation by the member or in the decision,
12 and thereafter in a public meeting the board by vote authorizes or
13 approves the participation. If the person whose participation is
14 under consideration is a board member, that person may not vote under
15 this subsection. For purposes of this subsection, "remote interest"
16 means an interest that in good faith is defined as remote by rules
17 adopted by the corporation.

18 (d) A board member or executive officer is not considered to be
19 financially interested in a decision when the decision could not
20 affect that person in a manner different from its effect on the public
21 or community.

22 (e) Within 120 days of the first meeting of the board, the board
23 shall adopt and may subsequently amend rules implementing this sec-
24 tion, providing additional conflict of interest and ethical rules it
25 considers appropriate, and providing for the removal by the board of a
26 board member or executive officer who intentionally violates a prohi-
27 bition contained in this section.

28 Sec. 37.17.120. POWERS OF THE CORPORATION. In furtherance of
29 its corporate purposes, the corporation may

- 1 (1) sue and be sued;
- 2 (2) have a seal and alter it at pleasure;
- 3 (3) make and alter bylaws for its organization and internal
4 management;
- 5 (4) adopt regulations governing the exercise of its corpo-
6 rate powers;
- 7 (5) accept gifts or grants from a federal agency, from an
8 agency or instrumentality of the state, from a municipality or an
9 agency or instrumentality of a municipality, or from any other source;
- 10 (6) enter into contracts or agreements with a federal
11 agency, with an agency or instrumentality of the state, with a munic-
12 ipality or an agency or instrumentality of a municipality, or with a
13 private organization or other entity regarding the exercise of a power
14 under this chapter; and
- 15 (7) do all things necessary or convenient to carry out its
16 corporate purposes and exercise the powers granted in this chapter.

17 Sec. 37.17.130. INVESTMENT RESPONSIBILITIES OF THE BOARD.

18 (a) The board shall recommend to the governor and the legislature
19 investments from the major projects fund. The board shall approve and
20 submit to the governor and the legislature a plan of finance for a
21 proposed project. The necessary elements for a completed plan of
22 finance shall be established by the board by regulation. In every
23 case, the plan of finance must include a detailed statement of project
24 costs and a statement of the terms and conditions for, and schedule of
25 repayment of the major projects fund investment.

26 (b) Money shall not be expended from the major projects fund for
27 a capital project unless the plan of finance has been approved by the
28 board, the governor, and the legislature.

29 (c) In accordance with policies set by the board, the

1 unappropriated balance of the fund shall be invested by the Department
2 of Revenue in the manner specified for the general fund in Article IX,
3 section 16.

4 (d) The board shall submit long-range and quarterly investment
5 reports to the Legislative Budget and Audit Committee.

6 (e) The corporation may not borrow funds or guarantee the
7 obligations of others.

8 Sec. 37.17.140. BUDGET AND APPROPRIATIONS. (a) The corporation
9 may invest money from the fund only in accordance with an appro-
10 priation by the legislature. The corporation is subject to the Execu-
11 tive Budget Act, AS 37.07, except as provided in (b) of this section.

12 (b) The budget of the corporation shall include the projects and
13 amounts of proposed investments and all funds received by the corpo-
14 ration whether through allocations made by this chapter, appro-
15 priation, or otherwise. The total amount of the corporation's operat-
16 ing budget shall be specified separately in its budget.

17 Sec. 37.17.150. APPROPRIATION IN EVENT OF DISASTER. Notwith-
18 standing the other provisions of this chapter, the legislature may
19 appropriate money from the major projects fund to meet a state of
20 disaster declared by the governor as prescribed by law.

21 Sec. 37.17.190. REPORTS AND PUBLICATIONS. By September 30 of
22 each year, the board shall publish a report of the corporation for
23 distribution to the governor, legislature, and the public. The report
24 shall be written in easily understandable language. The report must
25 include financial statements audited by independent outside auditors,
26 a statement of the amount of money received by the fund from each
27 investment during the period covered, a description of corporation
28 investment activity during the period covered by the report, a compar-
29 ison of the corporation performance with the intended goals contained

1 in AS 37.17.020, and any other information the board believes would be
2 of interest to the governor, the legislature, and the public. The
3 annual income statement and balance sheet of the corporation shall be
4 published in at least one newspaper in each judicial district.

5 Sec. 37.17.200. TAX EXEMPTION. The corporation is exempt from
6 all taxes and assessments in the state. All security instruments
7 issued by the corporation, their transfer, and their income are exempt
8 from all taxes and assessments in the state.

9 Sec. 37.17.210. POLITICAL ACTIVITIES. The resources of the
10 corporation may not be used to finance or influence political activ-
11 ities.

12 Sec. 37.17.220. PUBLIC ACCESS TO INFORMATION. (a) Information
13 in the possession of the corporation is a public record, except that
14 information which discloses the particulars of the business or affairs
15 of a private enterprise is confidential and is not a public record.
16 Confidential information may be disclosed only for the purposes of an
17 official law enforcement investigation or when its production is
18 required in a court proceeding.

19 (b) The restrictions of (a) of this section do not prohibit the
20 publication of statistics presented in a manner that prevents the
21 identification of particular reports, items, persons, or enterprises.

22 Sec. 37.17.230. DEFINITIONS. In this chapter,

23 (1) "board" means the Board of Directors of the Alaska
24 Major Projects Fund Corporation ;

25 (2) "corporation" means the Alaska Major Projects Fund
26 Corporation;

27 (3) "fund" means the Alaska capital major projects fund;

28 (4) "project" means a facility owned by the state that and
29 is able to generate enough revenue to pay for its debt service, the

1 fund investment, and the cost of maintenance and operations.

2 (5) "project costs"

3 (A) means all or part of the aggregate costs de-
4 termined by the corporation to be necessary to finance the con-
5 struction or acquisition of a project, including without limita-
6 tion the cost of acquiring real or tangible personal property,
7 and, in connection with real property, the cost of constructing
8 buildings and improvements, the cost of constructing means of
9 access to and from the project, the cost of constructing ex-
10 tensions of utility systems to the site of the project;

11 (B) includes, without limitation, the cost of financ-
12 ing the project; costs related to the determination of the fea-
13 sibility, planning, design or engineering of the project and, to
14 the extent determined necessary by the corporation, administra-
15 tive expenses, the cost of machinery or equipment to be used in
16 the operation of the project and expenses of installation, re-
17 placement or rehabilitation, and all other costs, charges, fees
18 ad expenses which may be determined by the corporation to be
19 necessary to finance the construction or acquisition.

20 * Sec. 3. AS 24.20.206(7) is amended to read:

21 (7) provide for [AN] annual post audits [AUDIT] and annual
22 operational and performance evaluations [EVALUATION] of the Alaska
23 Permanent Fund Corporation investments and investment programs and of
24 the investments of the Alaska Major Projects Fund Corporation;

25 * Sec. 4. AS 39.25.110 is amended by adding a new paragraph to read:

26 (26) members of the board of directors and employees of the
27 Alaska Major Projects Fund Corporation, AS 37.50.

28 * Sec. 5. AS 39.50.200(b) is amended by adding a new paragraph to read:

29 (46) Board of Directors and executive officer of the Alaska

1 Major Projects Fund Corporation, AS 37.50.

2 * Sec. 6. AS 44.25.020 is amended by adding a new paragraph to read:

3 (6) calculate and pay to the Alaska Major Projects Fund
4 Corporation, AS 37.50, amounts payable to the corporation under
5 AS 37.50.010(a)(1).

6 * Sec. 7. APPOINTMENT OF FIRST DIRECTORS OF CORPORATION. (a) The
7 governor shall appoint the first directors of the Alaska Major Projects
8 Fund Corporation within 60 days after the effective date of this Act.

9 (b) The terms of the directors of the Alaska Major Projects Fund
10 Corporation first appointed by the governor shall be staggered as
11 follows:

- 12 (1) one member shall be appointed for a term of one year;
13 (2) one member shall be appointed for a term of two years;
14 (3) one member shall be appointed for a term of three

15 years; and

16 (4) two members shall be appointed for a term of four
17 years.

18 * Sec. 8. FIRST MEETING OF THE BOARD OF DIRECTORS. The first meeting
19 of the board of directors of the Alaska Major Projects Fund Corporation
20 shall be held within 30 days of the appointment of all members of the
21 board.

22 * Sec. 9. This Act takes effect on the effective date of a constitu-
23 tional amendment establishing the Alaska major projects fund and directing
24 the payment of mineral resource revenues into it.

TABLE 3. REVENUE PROJECTION AND EXPENDITURE TRENDS - 84 DOLLARS

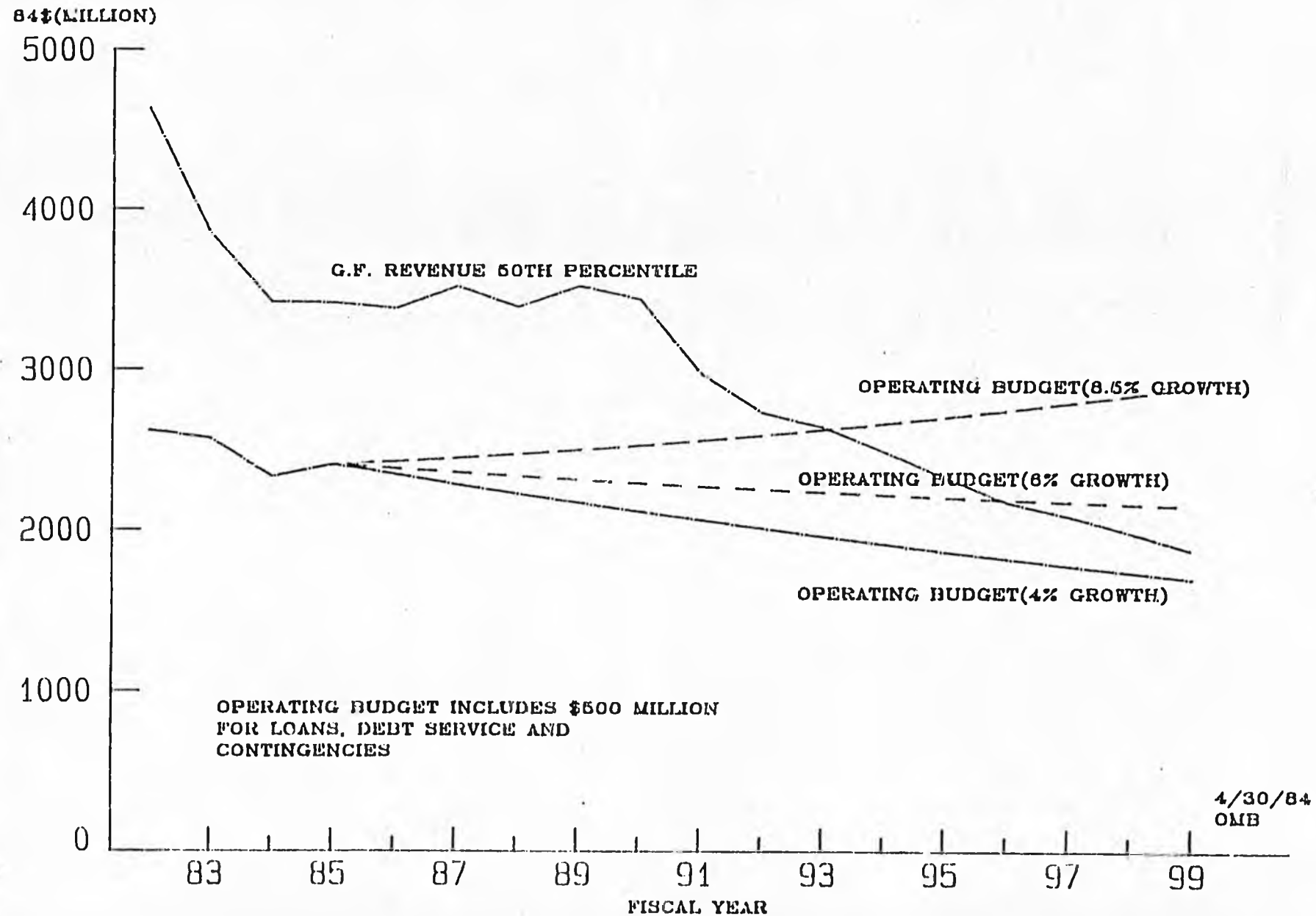
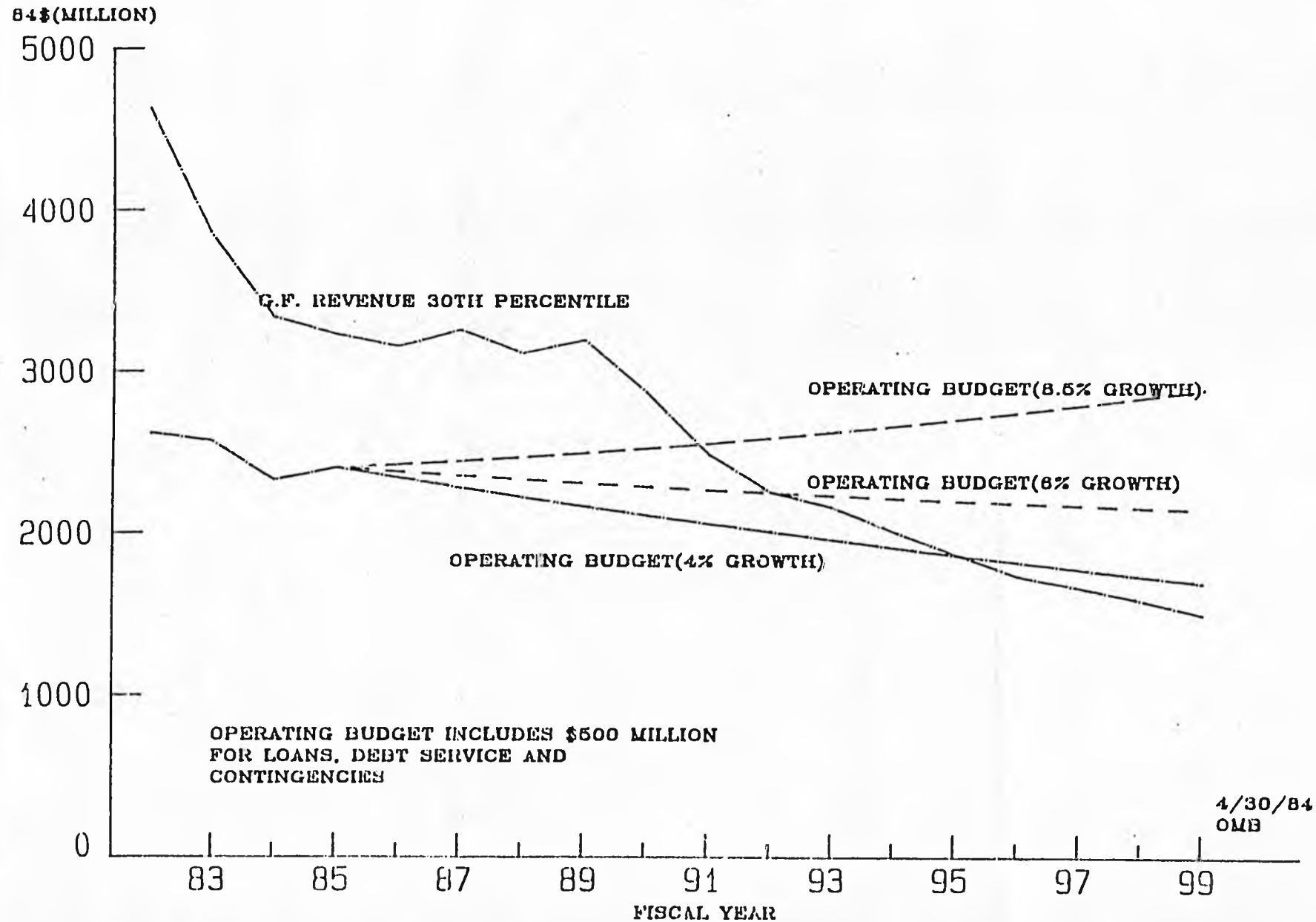


TABLE 4. REVENUE PROJECTION AND EXPENDITURE TRENDS - 84 DOLLARS



Senator Gilman
3-9-84

Amendment to include Bradley Lake in
proposed CS for SJR 32

p. 2, subsection (b) revise the last two sentences of (b) to read:

The two largest hydroelectric projects for which applications for a license to construct have been submitted to the Federal Energy Regulatory Commission by June 30, 1984 shall be the first projects funded under this subsection. Upon completion of the largest project which qualifies under this subsection, any future monies accruing to the hydroelectric portion of the major projects fund shall revert to the unallocated account in subsection (d).

p.3, subsection (g) change the word "project" to "projects".

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI



POUCH V
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Senate

Committee on Resources

MINUTES

March 9, 1984
3:08 pm

Beltz Room
Room 211, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chairman
Senator Ziegler, Vice Chair
Senator Eliason
Senator Vic Fischer
Senator Mulcahy

CALENDAR

SB 375, An Act relating to land disposal and management.

SB 222, An Act relating to the organization of DNR, substituting references in the Alaska statutes to the Department and the Commissioner for the references to the Division of Lands and the Director of the Division of Lands.

SJR 32, Proposing an amendment to the Constitution of the State of Alaska creating a fund to finance the construction of capital projects and to provide equity for power cost assistance.

SB 423, An Act relating to the Alaska Power Authority.

SB 522, An Act specifying how revenues dedicated to the major projects fund shall be expended; and providing for an effective date.

SB 523, An Act making appropriations from the Major Projects Fund; and providing for an effective date.

SB 222

Sandra Schubert, Aide to Senator Fahrenkamp, explained that SB 222, which was prepared by the Revisor of Statutes, reflects changes in drafting style. The second Committee Substitute includes changes made to conform with the passage of SB 41, which awarded the University of Alaska ownership and management of certain state lands, and the changes proposed in SB 375, the lands bill.

Senator Mulcahy moved to adopt the second CS SB 222, and move it from committee with individual recommendations. There was no objection.

SB 375

Senator Eliason proposed an amendment to SB 375 that would change the effective date on the quitclaim section of the bill. He moved to adopt the amendment. There was no objection.

Senator Mulcahy moved CS SB 375 from committee with individual recommendations. There was no objection.

SJR 32

SB 422

SB 522

SB 523

Senator Gilman proposed that SJR 32 contain a provision for construction of the Bradley Lake hydroelectric project.

Dave Hutchens, Alaska Rural Electric Cooperative Association, proposed authorizing and funding the Bradley Lake project, and addressed problems associated with a delayed effective date on the repeal of the Susitna "blackmail" clause.

George Matz, Special Assistant, Department of Commerce and Economic Development, presented testimony on the status of negotiations with the four dam pool communities on signing power sales agreements.

Sterling Gallagher, John Nureen and Company, reviewed the problems associated with "roll-over" of APA's short term debt, citing pending Congressional legislation, higher future interest rates, and the assurances bonders would need to be willing to roll the debt.

Senator Halford urged that the language to be inserted in the Constitution be simplified.

Mike Scott, Aide to Senator Ferguson, explained how the power cost assistance provision in the resolution would provide rural Alaska with some benefits of the energy program and thereby gain equity statewide.

Gordon Harrison, Office of Management and Budget, submitted a proposed Committee Substitute to SJR 32. He suggested that funds be dedicated for a limited number of years and that the power cost assistance language be clarified. He expressed concern that with Constitutional authorization of the Susitna project, there would be no avenue of retreat.

The meeting adjourned at 4:37 pm.

BILL KENT ADDRESS
MONDAY, JAN 16, 1984
ANCHORAGE, AK

RE: KENTCO STUDY TO
SUSITNA FINANCE COMMITTEE INC.

Mr. President, members of the chamber and guests, I thank you for inviting me here today to present my company's findings regarding the subject of financing power in the Railbelt. When I was approached by a committee of the chamber to discuss doing this work, I was unsure exactly what were the motives behind the effort. Some people said the energy committee was in favor of Susitna and they were right! Some said the committee wanted to answer the unanswered questions of affordability and financeability regarding Susitna; and they were right! Some said the object was to have an unbiased opinion from the private sector about the supply and demand of Railbelt power for the rest of the century and, they too were right. To us, the important thing was that our mandate was to be totally objective, and that we be allowed to investigate the facts from which we could draw conclusions and develop a plan of finance. We accepted the job on that basis.

I consider this undertaking by the chamber to be a remarkable display of public concern for the basic issue of Railbelt power production, and cannot imagine a clearer statement of private sector support for the need to make a decision in a timely, cost effective manner. Every single person involved in this study can take personal pride in what has been accomplished.

The report was not prepared for any particular audience but rather was meant to answer the basic issues of:

one - Can power from a generating source as costly as the Susitna project be afforded within the State?

two - If the project can be afforded is it possible to design a workable plan of finance? Can the money be raised? This will require that the investors and financial markets be convinced that the utilities will purchase the power at a price which will return enough money to the investors and lenders to satisfy their rate of return requirements. In fact, this commitment most likely will have to be made prior to the financing being conducted.

and three - For the utilities to be willing to purchase power from a future source, they must be convinced the source is the cheapest means of producing that power.

A lot of very professional work has been done by some excellent firms with regard to power planning in the Railbelt. In no way did we attempt to duplicate this work. Rather, we drew on it extensively for the data we needed.

Gas fired generating plants provide 78 percent of the total Railbelt power today and coal provides most of the rest. These sources are expected to remain the only practical means of meeting future power needs, other than by hydro. It is because the proven reserves of gas in Cook Inlet are expected to be unavailable at today's prices after the current contract terms are completed in the mid-1990's ¹⁹⁹⁵ that the decision regarding Susitna takes on such urgency. If the decision to proceed is made today, the first phase of the Susitna Project could not come on line until just about the time that the low priced gas would be unavailable.

Our first task was to find a clear basis for comparison of the three practical options for generating power in the Railbelt, namely, coal, gas and hydro. Only then could we be certain that the hydro option was lowest cost and the one that the utilities would be most likely to accept.

We developed that basis for comparison, and examined the costs of the three alternatives. All of this is laid out in the report. One important feature of our approach was that we analyzed the two dams of the Susitna Project separately, that is, the Watana Dam and the Devil's Canyon Dam.

For a variety of technical reasons, the Watana Dam must be built first, Devil's Canyon second. In analyzing Watana first, the following important points should be kept in mind:

one - Watana is more than twice as expensive as Devil's Canyon as it carries much of the infrastructure costs of Devil's Canyon and will be the most difficult to justify and finance.

two - The output of Watana is estimated to be fully utilized when it is completed while the output of Devil's Canyon will depend on growth rates for demand into the next century.

and three - If Watana can be shown to be the lowest cost means of generating power, then Devil's Canyon, at half the cost for the same megawatt output as Watana, will be almost certain to be economically viable.

Next we selected the year 1996 as a date for Watana to come on stream. 1996 was chosen for three reasons:

* First it is a likely target date for Watana to be completed.

* Second it is the year after the current very low cost Cook Inlet gas contracts with the utilities have expired.

* and third, it is the year when the output of Watana is estimated to be fully utilized.

We then needed to establish a time period over which to calculate the costs that will accrue to all three alternatives and the cash flow needed to meet those costs.

Hydroelectric dams have a useful life of 50 to 100 years, gas plants last about 25 years and coal plants about 30 years.

Since again hydro is the longest lived option, we used a 50 year timeframe knowing that we could determine the same costs for the thermal alternatives over this same time period. We are well aware that the dam should have a useful life closer to 100 years but have used this more conservative life to correspond to that used in the FERC license application. Having done all of the above, we compared Watana to gas generation and coal generation. To eliminate having to estimate rates of inflation we conducted the analysis all in 1983 constant dollars.

And finally we used a present value analysis which brings all costs back to today's equivalent, weighting near term costs more heavily than those farther out into the future.

The costs we have analyzed are the major ones of capital, fuel and operations and maintenance. There are a number of costs common to all three alternatives that we have ignored since, being common, they would not affect the relative positions of the alternatives.

It is important to understand the difference between what we have done in our comparative cost analysis and what was done in the studies conducted in the past by several excellent firms under contract to the APA. Those firms were interested in the precise methods, costs, and timing of providing all the power needed by the Railbelt between now and the year 2045. Our goals were very different. We wanted to analyze first whether Watana's output would be cheaper when it comes on stream in 1996, and remain so for the next 50 years, than an equivalent amount of power generated by coal or gas fired plants over the same time period.

Second we wanted to look at the power that could be produced by Devil's Canyon and see if it too was the lowest cost means of production. Clearly there is a need for a two step decision regarding future Railbelt power generation. Only by analyzing Watana and its alternatives alone can the first of these be made. The second decision pertaining to meeting power needs over and above Watana will come later.

Using the present value analysis just described, the cost of producing a firm block of power, over 50 years, by means of coal, gas or Watana would be 3.631 billion 1983 dollars if generated by the Watana dam, 4.431 billion if generated by coal plants and 4.709 billion if generated by gas. Stated another way, it would cost over 20 percent more to generate this amount of Railbelt power if coal plants are used and almost 30 percent more if gas plants are used.

We believe the decision is how to produce this power not whether to. The demand for power in the Railbelt has grown 11 percent compounded annually since 1960. The forecasting models have been conservative in their calculations that demand will grow at only 2.7 percent annually through 1996 and this is the number we have used. Given such demand, it should be recognized that the consumers will want and be ready to pay for the power. They either will have to pay the lower cost of 3.6 billion if Watana is built or some higher amount, such as 4.7 billion if the present method of using gas is maintained.

One side issue should be addressed. If gas is not used for generating electricity after 1996 but is confined to being used for home heating, the added value to consumers, in the same terms we have been discussing, would be another 1.1 billion dollars.

Clearly, the Watana Dam is the most cost efficient way to produce the amount of power estimated to be needed by the Railbelt in 1996.

Devil's Canyon, with half the cost, can produce the next 3500 (^{billion} gigawatts) of power at a price to the consumers which is well below any thermal alternative, unless one expects the very long term trend of energy prices to decline markedly in real terms or the cost of money, again in real terms, to be very much higher than it has been in the past. Keep in mind however that any decision with regard to Devil's Canyon need not be made until sometime in the future when the demand is more assured and the costs of all the alternatives can be re-examined.

In all of our analysis the future price of oil has played a central role. It influences demand through the expenditure of state revenues and it influences the costs of the thermal alternatives by helping to establish their fuel costs. For this reason we hired a highly respected firm, Petroleum Industry Research Associates, to prepare a comprehensive oil forecast through the year 2000. Their work concludes that the price of oil will fall, in real terms, from the present 29 dollars a barrel to 26 dollars a barrel in 1990. Between 1990 and 2000 it can be expected to grow two percent per year when it will have reached almost 32 dollars.

Having concluded that Watana and Devil's Canyon will produce the lowest cost power for the Railbelt and therefore should be acceptable to the utilities, we addressed the problem of could the dams be financed and how. Let's take Watana first.

Taking into account the cost of construction, the cost of interest during the period of construction and 200 million dollars estimated to be needed by the utilities to pay off their debt associated with the thermal plants which are being superseded by the dam, we arrive at a total debt need equivalent to \$2.9 billion dollars in 1983 terms.

We next looked at the revenues from the sale of power to the utilities over the life of the dam. Investigations led us to believe that the consumers would be willing to pay some small premium in the very early years over the retail price of alternative power. We set this premium at 10 percent and the wholesale price per kilowatt hour at 5.9 cents in 1983 dollars.

We calculated a level debt service for the total debt of the project and concluded that the costs of the annual debt service would exceed the revenues, but only for the first ten years of operation. After that revenues would be higher than annual costs by an increasing amount and the dam would be financially viable.

The job was to bring those early year costs down to where the revenues could cover them in every year the dam was in operation.

To do this we determined that either an equity investment would be required or an annual subsidy to the rates or, a combination of both.

There are two sources for this equity investment, the state or private investors. We ruled out private investment for two reasons: private investors would want a certain amount of ownership control that would be unacceptable and they would require a rate of return higher than the project could afford. The state on the other hand could be more flexible and would remain in control of the project.

On the debt side we determined there are two practical options for raising this large amount of debt. Until now municipal or tax exempt debt has been assumed to be the lowest cost and perhaps the only viable source of debt financing.

In the course of our investigations however, we looked at the possibility of using debt guaranteed by the Federal government through the Rural Electric Administration.

The advantages of using REA guaranteed debt are:

- * Being U.S. government guaranteed, the rate will be the lowest of any taxable debt instrument

- * REA would require no ownership interest in the dam

- * Revenues from the dam would not have to be greater than what would be needed to meet the debt service,

- * REA would accept state subsidies to make up any early year shortfall between revenues and costs, thereby allowing the state to stretch out its investment twelve years beyond what would be required if municipal debt were utilized, and.

- * REA guaranteed debt is not an obligation of the State of Alaska, and therefore could help preserve Alaska's high credit rating.

It should be mentioned that REA will only finance the debt related to the power the REA utilities utilize.

Municipal debt, on the other hand, would carry a small interest rate advantage, but that advantage is offset by more stringent revenue requirements. Also, municipal debt would need any equity investment to be made at the time of construction rather than stretched out in the form of subsidies.

In addition, there are tax-exemption eligibility problems associated with using municipal debt that would have to be solved. As now constituted, the Susitna Project would not be eligible for tax exempt status.

We developed a preferred plan of finance which used a majority of REA-guaranteed debt, and a smaller portion of municipal, tax-exempt debt. This plan allowed a minimum need for state investment, spread the need for state appropriations over a larger number of years, and did not present a tax exemption problem. Using this plan the state can invest \$800 million in 1983 dollars at the time of construction and spread another \$778 million dollars over an additional 12 years. This suggests a need to start appropriating from 178 to 226 million dollars annually starting with this legislative session.

It is interesting to note that under the REA option which we have chosen, the state will begin receiving an ~~annual~~ return on its investment in the eleventh year after startup of 30 million dollars. This climbs ^{to} to over 900 million when the debt is repaid. As such the state investment in the project would have some striking similarities to the ideas put forth recently for a Capital Investment Fund.

We developed an alternative finance plan using exclusively tax-exempt debt, but this is a less desirable plan because it requires a greater amount of state equity investment, *NAMELY* 1.884 billion dollars over 8 years versus the 1.578 billion spread over 20 years in our preferred plan.

There are means of reducing debt costs by using various financing techniques. They all should be looked at when the financing is to be done and employed if appropriate. Our report went into all of these. However, the effect on the total cost of debt will be small.

We also developed a plan of finance for the second dam, Devil's Canyon. We used the same reasoning and concluded that the economics of Devil's Canyon are so attractive that no state investment would be required, that the total investment would be debt financed and that the debt again should be split between REA guaranteed debt and municipal debt.

In summary, we concluded that power in the Railbelt for the remainder of this decade can be supplied more cheaply using Susitna hydroelectric power than by continuing to use gas or coal fired plants.

And, we concluded that both Watana and Devil's Canyon can be financed and can be afforded in the light of expected state revenues.

ALASKA CLIPPING
SERVICE
Anchorage Daily
News
Anchorage, AK
FEB 10 1977

30 Lawmakers see chance for governor's projects fund

By JOHN LINDBACK
Daily News reporter

JUNEAU — Gov. Bill Sheffield's proposal to create a special state fund for financing major construction projects is gaining renewed attention from House and Senate leaders.

House Resources Committee Chairman John Ringstad, R-Fairbanks, and Senate Resources Committee Chairman Bettye Fahrenkamp, D-Fairbanks, said Thursday they are studying options that would combine the governor's special projects fund with a fund backed by supporters of the Susitna hydroelectric project.

"I think we've got a good shot at some sort of a special projects fund. I'm hopeful that Susitna could be part of it," Ringstad said.

When Sheffield first proposed setting aside \$300 million this year for major projects, it met immediate resistance from the legislature.

Some lawmakers argued that a constitutionally dedicated fund, as Sheffield proposed, would have to go to the voters before they would be willing to set aside money.

But this week legislators said new problems with hydroelectric project financing in Alaska could play a role in boosting the governor's chances of getting what he wants.

Ringstad and Fahrenkamp said the governor's office will be involved in trying to work out a proposed solution for consideration by the legislature this session that could:

- Send the governor's proposal for creation of a major projects fund to the state ballot for consideration by voters;
- Include in legislation creating the fund assurances of state support for the Railbelt's future "energy needs;"
- Repeal the so-called Susitna blackmail

clause, which looms as a major stumbling block for the Alaska Power Authority in its attempts to secure power sales contracts with utilities served by state-financed hydroelectric projects near Petersburg, Wrangell, Valdez and Kodiak.

Such a plan would allow repeal of the clause but still give Railbelt legislators the "political security" of knowing the state is still committed to hydroelectric development in their area, Ringstad said.

Southcentral legislators supported the Susitna clause to make sure their region of the state received its share of state appropriations for hydroelectric developments.

The governor introduced bills this week that would repeal the clause and thus clear away the stumbling block for the power sales contracts. The communities are reluctant to sign the contracts because if the state grants turn to

loans, their power rates could dramatically increase.

The clause says that \$5 billion must be appropriated for the Susitna project by 1991, or millions of dollars in direct state grants that financed other hydroelectric projects around the state would turn into loans.

Fahrenkamp said she couldn't support repeal of the clause unless she is given some type of assurance that the state's commitment to financial support of the Railbelt's energy needs remains intact.

Sheffield's major projects fund bill proposes that it be limited to projects exceeding \$100 million. The Watuna dam, the first of two dams proposed for the Susitna project, is estimated to cost about \$3.5 billion in 1983 dollars.

Hydro project funding plan gains support

by Andy Ryan
Times Juneau Bureau

Juneau — House and Senate leaders say they've reached "conceptual agreement" on a plan that would help refinance \$200 million in short-term Alaska Power Authority debt, while setting up a fund to pay for construction of the Susitna hydroelectric project.

One version of the complicated plan, introduced in a House committee this morning, would do away with the so-called "Susitna blackmail clause" upon approval by state voters of a constitutional amendment establishing a state major projects fund.

The top priority of the fund, under the plan, would be to help pay for the proposed \$3.9 billion Watana Dam in the Susitna project.

The Susitna blackmail clause — which lawmakers now call the "Susitna equity clause" — requires that \$5 billion be invested in the Susitna hydro project by 1991. If the money is not invested in Susitna, state grants of \$280 million for four dams in Southeast Alaska must be repaid as interest-bearing loans.

The Susitna clause is seen as a major roadblock in efforts to refinance some \$200 million in short-term debt for the four Southeast dams, which begins coming due in May. If the debts cannot be refinanced, the state faces the unpleasant option of either paying for them in cash, or defaulting on the loans.

House Speaker Joe Hayes, R-Anchorage, and Senate President Jay Kerttula, D-Palmer, said Thursday they are in rough agreement on a plan that would eliminate the Susitna clause in return for the establishment of a major projects fund dedicated to



SEN. JAY KERTTULA
Agrees on plan

building Susitna.

A state major projects fund, to finance construction projects costing more than \$100 million, was first proposed by Gov. Bill Sheffield in January. The governor's proposal would amend the state constitution to require that 10 percent of the state's revenues be deposited in such a fund, beginning this year and ending in 1990.

Hayes said that a resolution establishing such a fund — with its first use the building of the Watana Dam — will pass out of the House Resources Committee early next week.

The speaker said the proposed fund would also be used for "a wide gamut of other projects," including energy subsidies to rural Alaska communities.

See Hydro, page A-14



Alice Puster of The Times

E SONS

This year. The Mackeys will all be on the starting line on Avenue at E Street 9 a.m. Saturday for the start of the annual, 1,049-mile run along the historic trail from Anchorage to Nome. Sports, page C-1

ill' in stealing

by doing it when he was being watched, then a cat and mouse game with employees.

Of course, you know, it's no surprise to me several times in Minneapolis you know, my God, one time I got caught for stealing a goddamn softball you know, a thing that I thought was nothing, but yet it was a big deal. I'd had that store stealing stuff for years.

One day a lady store detective caught me in stealing that softball, you know. I was caught with it and I just

me, I started leaving the store and then, you know, she said that I'm the store detective, do you have anything that you haven't paid for? Well, odd as it may seem, yes madam I have a softball and I give it to her and it made me feel good and I was caught."

In 1977, Hansen was sentenced to 18 months in prison. See Thefts, page A-14

Officer 'cracked under strain'

by David Postman
Times Writer

Many such statements are contained in a series of documents...



Havelock decides to run for Sen. Ted Stevens' seat

Imports continues

Lawrence said lifting the export ban will be even more difficult next year following Senate passage of a new law this year in an overwhelming vote.

Alaskans opted against a referendum vote on their most serious proposal, to permit the export of up to 200,000 barrels a day of Alaska oil. They feared the re-

sults of such a vote could come back to haunt them when the issue next surfaces.

The Senate then voted to extend the current oil export ban for six more years. The House version of the same bill, the Export Administration Act, calls for a four-year ban.

Oil bank is ready

Continued from page A-1

After what the Organization of Petroleum Exporting Countries called the "oil weapon," it has enough to replace 90

days of imports at 1983's daily rate of 4.2 million barrels a day from all sources, according to Department of Energy estimates.

But many of those sources are nowhere near the volatile Persian Gulf, where Iran has repeatedly threatened to close the 50-mile-wide Strait of Hormuz, the bottleneck between the gulf and the Arabian Sea.

Cases

That he knew he was about to kill this man just for the pleasure of doing so."

The psychiatrist continued: "I experienced tunnel vision, the man in the center of a tunnel with everything else fading out." Then the officer drove out of it" and drove to the storage port "where he was looking out over the water, feeling dazed and frightening almost lost con-

port commissioned by the court board from Dr. A. Cassel, another Anchorage psychiatrist, confirmed the diagnosis of post-traumatic stress syndrome. Cassel wrote, "I stress that the stress was a result of his work as a patrol of-

both Cassel's and the reports might have been former policeman a result of payments from the California psychologist's

The community felt like it was a surprise; had they realized all along . . . that there were problems they would have been a little more prepared for the double-shifting."

Members of the group say that the school district doesn't have enough information to award the contract and that unanticipated repair work could

A spokesman for the district's construction management firm acknowledged Wednesday that not every item to be repaired has been identified.

Bill Echols of Heery Program Management said that engineers had cut about 70 openings in the walls throughout the building to get a sampling of how much repair work needs to be done.

Hydro project plan

Continued from page A-1

Meanwhile, an amendment linking the repeal of the Susitna clause to approval by voters of the proposed major projects fund was introduced in the House Labor and Commerce Committee today by Rep. John Cowdery, R-Anchorage.

One member of the Commerce Committee, Rep. Ron Wendte, D-Ketchikan, said Cowdery's proposal jeopardizes the state's credit since it would not permit the repeal of the Susitna clause until voters decide

the question this November.

But Wendte said short-term bonds on the four Southeast dams, which begin to come due in May, cannot be refinanced as long as the Susitna clause is in place.

"To try to delay everything until November will place the state in serious financial jeopardy . . . It either will mean defaulting on those loans or funding the retirement of those loans. Right now the proposals under consideration do not call for funding the retirement of that debt.

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1984 MODELS

DOWN

By HAL SPENCER
The Associated Press

Alaskans would "buy a pig in a poke" if they decided to have an elected rather than appointed attorney general without first defining the functions of that office, former state attorney general John Havelock asserted Friday.

He was among a handful of people who testified at a House State Affairs Committee teleconference hearing on a measure setting up a statewide vote on whether to amend the Alaska Constitution to make the attorney general's post an elective position.

Havelock and another former attorney general, Avrum Gross of Juneau, both said the proposition is less simple than it seems.

But the bill's prime sponsor, Rep. Jerry Ward, R-Anchorage, disagreed. "I'm sure you can get 14 attorneys in some room, and I'm sure you can muddle this up, just like the capital move, so nobody can understand it."

Ward's bill (HB456) would seek an advisory vote from the public asking "Shall the Legislature of the State of Alaska propose a constitutional amend-

Continued on Page 14

By DEBBIE REINWAND ROSE
The Juneau Empire

The meeting place can be called a capitol or a legislative hall, but if the Legislature is relocated, it's a capital move, said a majority of Alaskans testifying at hearings Saturday on a bill to move lawmakers to Anchorage.

At a teleconference hearing of the House State Affairs Committee, a handful of citizens from Bethel to Ketchikan came forward to tell their elected officials that a bill introduced by Rep. Mike Szymanski, D-Anchorage, is capital-move legislation, despite assurances from committee chairman Rep. Mitch Abood, R-Anchorage, that it is not.

"A bill to move the Legislature is a capital move. ... It is a political move and not a practical move," said Sitka Mayor John Dapcevic. "This would make the Alaska Legislature the laughingstock of the country."

Rather than continue to debate a 20-year-old issue, Dapcevic asked House members to "get to work ... we've got some serious problems ahead in this state, for example the loss of the pulp mill and the F.A.A. in Sitka, the possibility that Mt. Edgecumbe school won't open."

Bethel City Council member John Binkley agreed, saying the "people's vote was clear" in November, 1982, when a majority voted against the proposed capital

move. "They made capital to rem Binkley. "It would spend the money of the legislative Anchorage, it is move." Committee member, R-Anchorage and said moving Anchorage would "They have three for each branch" said. In addition to Szymanski bill, I

Sturgulewski: Major projects fund in trouble

By KIRK McALLISTER
The Juneau Empire

A proposal by Gov. Bill Sheffield to set up a major projects fund, that would finance capital projects around the state, may have trouble passing the Senate this session, according to Sen. Arliss Sturgulewski, R-Anchorage.

Speaking this morning to the Alaska Business Roundtable, Sturgulewski said the governor's plan for a "permanent fund" for major projects could be passed along for state residents to vote on but she doubted the measure would be funded by the Senate.

As proposed by Sheffield, the major projects fund would be set up by constitutional amendment and financed by depositing 10 percent of the state's revenue into the account. The fund would provide money for projects around the state costing more than \$100 million. Examples of projects the fund could finance include Susitna Dam, the Knik Arm Crossing, Bradley Lake Dam and the Red Dog



Sen. Arliss Sturgulewski

mine.

"One problem that rural legislators have with the fund is that most of the projects

that would be financed with it are in Southcentral Alaska," she said. "It raises the equity question with other parts of the state. It will be surprising if this bill goes through."

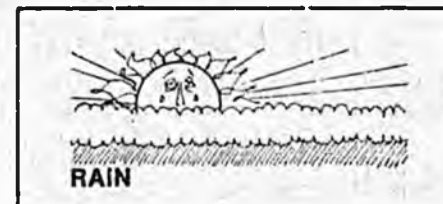
Despite the decline in oil revenues that is expected in the late 1980s, Sturgulewski said there is still "tremendous pent-up demand for capital projects," in every area of the state.

This "rush to spend every last dollar," has serious implications for this year's session, she said. "The pressure to dip into the rainy day account or the undistributed money in the permanent fund is strong."

One issue that will have to be addressed this session is what to do about the \$185 million in short-term loans that is coming due in May for Alaska Power Authority hydro projects in Southeast, she said.

On other subjects, Sturgulewski said budget requests for \$260 million in loan programs appear to have strong support in the Senate and will probably be fully fun-

Continued on Page 14



Rain showers diminishing tonight. A few mixed rain and snow showers Tuesday. South winds gusting to 30 mph becoming light and variable tonight. High today: low 40s. Low tonight and high Tuesday: low to mid 30s. Outlook for Wednesday: A few snow showers. High Sunday: 35. Low last night: 32. 24-hour precipitation: .20. Heating degree days for Sunday: 32. Record high: 47 in 1977. Record low: -8 in 1966. Sunset: 4:33. Sunrise: 7:51.

VALLEY WOODSMOKE INFORMATION
For information call 586-8008.

AVALANCHE REPORT
For information call 586-SNOW.

EAGLECREST REPORT
No new snow, but it was snowing on top this morning. Temperature at the bottom: 36 degrees. Snow pack at bottom: 27 inches. Temperature at top: 32 degrees. Wind 10-20 mph. Packed snow conditions at the bottom; heavy snow at the top. The road has been sanded, but is icy in spots. Good snow tires are advised.

TUESDAY'S TIDES		
High	4:08 a.m.	15.3 ft.
Low	10:14 a.m.	2.8 ft.
High	4:11 p.m.	13.9 ft.
Low	10:18 p.m.	2.2 ft.

Resi Gold

By CHRISTOPHER
The Juneau Empire

The construction of a major project in Juneau came one as interested workshops to help which is slated Creek Development

Since Alaska's wealth of the sea, adrenalin into the portance of the resource, local aqu

By doing so, it lead to wiser use Alaska Aquarium Kerns.

At a press conference Alaska Aquarium preliminary plans it is envisioned, relating to marine While construct an aquarium is on John Nightingale consulting firm B.

Juneau Empire 2/6/84

HOUSTON — The second satellite deployed by the space shuttle Challenger misfired Monday morning and strayed off course in an orbit too low for it to relay communications.

It apparently met the same fate as the first satellite launched three days ago.

the first satellite, the Westar 6, was lost after its launch on Friday.

Space officials said the failures would not alter plans for two astronauts, Capt. Bruce McCandless of the Navy and Lt. Robert L. Stewart of the

tions satellite disappeared seconds after its rocket began firing.

Communication with such satellites is usually established within an hour or so after the rocket fires to boost the satellite to its 22,300-mile-high or-

Command reported finding an object that appeared to be a satellite. Its orbit ranged from 172 miles to 747 miles. Moments later, antennas picked up radio signals from the object. It was the Palapa. Because the Palapa's

Anch Daily News 2-7-84
Power authority offers rate subsidy to utilities

By DON HUNTER
 Daily News reporter

A \$35 million state grant will be needed to further subsidize hydroelectric rates for utilities in the so-called Four-Dam Pool, under a plan unveiled by the Alaska Power Authority on Monday.

But representatives for the utilities are not yet completely satisfied with the deal, and the mayor of Petersburg says the southeastern community cannot agree within the two-week time limit APA Executive Director Larry Crawford says is necessary.

"I've said all along it's got to go before the voters" in Petersburg, said Mayor Don Koenigs. Additionally, Koenigs

says independent financial analysts should review the deal and the whole proposal needs to be considered more carefully.

However, Dave Nease, general manager of the Kodiak Electric Association, was more optimistic. "We've certainly come a long way," he said. "I can really see where they've been listening to us, (but) there are a few things we need to discuss and clarify."

Kodiak and Petersburg are at opposite ends of the proposed rate stabilization fund, which, with bond sale proceeds in addition to the state grant, would total about \$64

See Back Page, POWER

weather



Cloudy today, partly cloudy and colder tonight and Wednesday.

North winds to 10 mph. Highs today 15 to 20, lows tonight 0 to 5. Outlook for Thursday, clear and cold.

High Monday.....18
 Low Monday morning.....12
 9 p.m. temperature.....16
 Humidity.....71%
 Barometer.....29.33-
 Normal high Feb. 6.....24
 Normal low Feb. 6.....9
 Record high Feb. 6 (1935).....47
 Record low Feb. 6 (1921).....-30

MOUNTAIN WEATHER,
 AVALANCHE ADVISORY
 271-4500

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- Opinion.....
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- Today in Anchorage.....
- Troubleshooter.....

FOR HOME DELIVERY
 CALL 563-6666
 6 a.m. to 5 p.m.

Lemon goes back to Buick

By K.C. MOON
 Daily News reporter

Since he bought his Buick Century new in 1982, Dennis Stovall has been cursing the car, trying to find some way to get rid of it.

Window cranks fell off in his hand. Transmission failures left him stranded. Windshield wipers quit during heavy rains. Warning lights flickered as the engine sputtered and grumbled.

Now, in what Stovall says is a monumental victory for consumers, Buick must buy back the car.

The buy-back is the result of the first Alaska arbitration of consumer complaints



See Back Page, CAR

Dennis Stovall stands with the Buick that he'll be selling back to its makers.

ther world," says Reggie Joule, a noted Inupiat athlete and Kotzebue coordinator for the region's Iitqusiat, or Spirit, program.

Joule lived in Kotzebue as a child, but says he learned little of the Inupiat's traditional hunting and survival skills — "I might as well have grown up in Los Angeles."

Iitqusiat means "The Real Peoples' Way of Life." The program was started about three years ago and was designed to foster self-esteem and pride, emphasizing such principles as sharing, love of children and "hunter's success," or the ability to achieve a goal.

"The whole concept is to make people feel good about who they are," he said.

Roland Booth, the 45-year-old pastor of the Religious Society of Friends church, Kotzebue's largest, says he supports the Spirit program.

"All the value systems we are trying to teach are all biblically oriented. If a person gets active in the community, in the end it may get people back to church."

But Schulz, former president of the Kotzebue Christian Conference, says the program is humanism, pure and simple, and has contributed to the suicide rate. Says Schulz:

"Some of their leaders have boldly said, 'We don't want the church. We tried the church. We want something else.' There has been a great increase in the suicide rate. I personally see a great connection. People cannot say we don't want God anymore and walk away smiling."

But, says Joule:

"The suicide rate has gone up, but that reinforces the need for something like a Spirit program."

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Over the weekend, Stovall received a letter stating he had won his case. All arbitrators agreed with Stovall's contention that he "did not get the

time, but I finally got what I wanted."

Stovall showed copies of about 50 letters he had written to the dealership and Buick customer relations offices in an effort to get the car fixed.

In the two years of ownership, the car had been almost

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"Unfortunately, (Stovall) had problems with it, but in my opinion it's completely safe."

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"I know a lot of people who had worse cars than mine and couldn't do anything about it."

The arbitration program set up for Alaskans by the Seattle Better Business Bureau still is being developed. Wendy Bennington, who manages automobile arbitrations for the office,

Power authority proposes subsidy for utilities in dam pool

Continued from Page A-1

million.

Kodiak, with the highest electric demand, could expect to draw up to \$23 million from the fund to underwrite electric costs over the next seven years. Petersburg, with less demand and more modest electric costs thanks to a two-megawatt hydro plant already in place, would get only a \$3.7-million share of the rate fund.

Earlier, Crawford told the utility representatives that the deal, with possible minor adjustments, is as good as the state can offer.

For the utilities, Crawford said, the plan would guarantee:

- Rates for hydroelectric power — traditionally highest in early years of plant operation — will not exceed the costs the utilities would have paid to generate electricity with diesel power. To back up the promise, the APA would create the \$64 million rate fund to subsidize electric rates to the Four-Dam communities. The \$35 million of state money would be a grant, said Crawford, "not a loan... (although) a lot of people would like to see it made a loan that would be paid back."

- The utilities would have a voice in preparation of annual state operating budgets for the

hydroelectric projects.

- The original utilities in the Four-Dam Pool would be insulated from additional debt service costs as other projects — possibly including the multi-billion Susitna dams — are added. The Four-Dam utilities would pay no additional debt service for the first five years the deal was in effect, and increases would be limited to a cumulative 30 percent over any five-year period thereafter.

Crawford has asked for a response from the utilities by Feb. 15, and plans to ask for final approval from the APA board of directors on Feb. 22. The Four-Dam financing package requires extensive legislative action as well as the \$35 million appropriation, and Crawford says lawmakers must have a proposal in hand soon.

Crawford said the deal with the rest of the Four-Dam Pool utilities can still go forward without Petersburg's participation.

"We'll have to make it work," he said. "I'm going to propose that we keep the deal together the way it's proposed" and resume deliberations with Petersburg later. However, he warned that the power authority is unlikely to be as willing to compromise later.

At stake in the talks, according to Crawford, is the statewide energy program's reputation among major lending institutions.

The Four-Dam projects — Swan Lake, Terror Lake, Solomon Gulch and Lake Tyee — cumulatively cost about \$465 million. They were financed by a mixture of state grants and about \$200 million in short-term loans that begin to become payable in May. Crawford wants to market revenue bonds to convert the short-term, high-interest debt to long-term bonds.

Unless the bonds are sold, the legislature will either have to appropriate up to \$200 million to pay off the short-term loans, ask for delays in paying off the loans, or default. None are considered appealing alternatives, and default — with carryover effects on bond ratings throughout Alaska — appears the least likely.

To market the Four-Dam bonds, however, the APA needs power supply contracts with the utilities serving the communities of Petersburg, Wrangell, Ketchikan, Kodiak, Valdez and Glennallen.

The utilities, critical of the APA's performance in planning and building the projects, have argued that hydroelectric power would cost them substantially more than their

present diesel-fired generation for the next several years. The rate fund was proposed to satisfy that concern.

The utilities also point out that state officials originally planned to completely finance the hydro projects through state grants, with no carryover debt.

Some utility officials also question the APA's assumptions about future electric demand in their communities.

The power authority's track record of predictions for the four hydro projects does not inspire confidence, utility spokesmen said. The approximately 5,000 residents of Petersburg and Wrangell, for example, will need only about one-third the power the Lake Tyee project is capable of producing, and projections released Monday show that level of demand will not increase markedly at least through 1995.

But, they said, only two years ago the APA decided to double the capacity of the Tyee project from 10 megawatts — now deemed sufficient at least through the turn of the century — to 20 megawatts. The project, originally estimated to cost about \$45 million, is now approaching \$130 million with commercial operation expected to begin this year.

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STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-2600

February 17, 1984

The Honorable Bettye Fahrenkamp, Chairman
Senate Resource Committee
Alaska State Senate
Pouch V
Juneau, AK 99811

Re: SJR 32

Dear Senator Fahrenkamp:

You have asked this office to answer a number of questions regarding the proposed major projects fund in SJR 32 and its potential use for funding the Susitna hydroelectric project. The following are your questions and our responses to them.

Question 1 -- Would the project be part of the Energy Program for Alaska, to be administered by the Alaska Power Authority? If so, what would be the effect of exempting the Susitna project from the Energy Program?

Answer -- The question of whether Susitna is part of the energy program for Alaska (program) depends on whether the legislature authorizes it as a project in the program, and whether money is appropriated to the project development fund in the program to pay for capital costs of the project.

If Susitna is exempted from the program, it would presumably be operated by the authority but the payback formula for debt service and money from the major projects fund would be outside of the shared debt service provisions in AS 44.83.398. There is a provision in AS 44.83.090 for power sales contracts between the authority and utilities outside of the energy program for Alaska. There is nothing in that section referring to payback of the state's capital investment as part of the cost of power under the contract, but an amendment providing for payback could be added.

There is currently a significant question concerning the authority's ability to get tax exempt financing for Susitna if it enters into power sales contracts with investor owned utilities. A bill will soon be introduced which would allow the

authority to make direct service charges to retail consumers in an effort to avoid these financing problems. The direct service rate charged would be based on the wholesale power rate in AS 44.83.389 for projects in the program. For other projects the provisions of AS 44.83.090 would apply.

Question 2 -- AS 44.83.392 requires that excess appropriations at the end of a construction project lapse into the general fund. Would this prohibit a return of excess funds to the major projects fund? If so, please suggest statutory language that would allow excess funds to lapse to the major projects fund

Answer -- If appropriations were made from the major projects fund to the power development fund (AS 44.83.382), then the provisions of AS 44.83.392 would appear to prohibit the return of excess funds to the major projects fund. AS 44.83.392 could be amended as follows:

If at the end of construction of a power project appropriations for the power project exceed the amount required for construction of it, the excess lapses into the general fund. However, any excess derived from money appropriated to the fund from the major projects fund established by Art. IX, sec. 17 of the Alaska Constitution lapses into the major projects fund.

Question 3 -- AS 44.83.398(b) intimates that once the debt service on a power project has been paid, the wholesale power rate can reflect only operating and maintenance costs. Is this a correct interpretation? If so, how can we assure the State's right to cash flow from the project after payment of all other expenses?

Answer -- While there is no specific provision in AS 44.83.398(b) for return of the state's capital investment in a project in the program, the state does continue to receive cash flow from a project after payment of debt service is completed as long as new projects have been added to the program. This is because a project's "proportionate share of debt service" is not simply the amount of debt actually attributable to that project. Proportionate share of debt service is defined in AS 44.83.398(g). The following equation sets it out very simply:

state's investment in the project		debt serv-
<u>state's investment in all projects</u>	X	ice on
in the energy program for Alaska		state
		bonds/
		loans in
		program

*How much
would this
be?*

The numerator above, the "state's investment in a power project," includes all state money invested in a project, including loans, grants and proceeds from bonds, less principal repayments on the project's proportionate share of debt service on state loans and bonds. The denominator, the "state's investment in all power projects in the energy program for Alaska" is all state investments described above for all power projects in the program except investments in interties, less principal repayments on bonds and state loans issued for the power projects.

This means that even when the debt attributable to a project has been paid off, it continues to have a proportionate share of debt service based upon the remaining amount of the state's investment in the project. In this way the state does continue to get a payback from the project after debt service on the project has been paid off. However, if there is a desire for concurrent payback of debt service and capital contributions, amendment to the wholesale power rate formula is necessary.

Question 4 -- AS 44.83.398(c) requires that money received from the sale of power be placed in the general fund except for money it has pledged to secure bonds. SJR 32 requires that a project must earn enough during its life to repay the major projects fund. Would the terms of the Constitutional amendment supersede the statute, or would an amendment to the statute be necessary? If an amendment is necessary, please suggest appropriate language.

Answer -- An amendment to the statute would be preferable.

(c) The authority shall transmit all the money that it receives under (a) of this section [TO THE COMMISSIONER OF REVENUE FOR DEPOSIT IN THE STATE GENERAL FUND], except for money it has pledged or otherwise covenanted to secure bonds[.], to the commissioner of revenue for deposit, as appropriate, in either
(1) the state general fund; or

(2) in the major projects fund established by Art. IX, sec. 17 of the Alaska Constitution if capital appropriations for a power project were appropriated from the major projects fund.

Question 5 -- Under SJR 32, the major projects fund must be repaid during the "life" of the project. Would this mean economic life (say, 50 years for a hydro project) or physical life (75-100 years)?

Answer -- While the "economic life" of a hydro project is about 50 years, it can continue to produce power for quite a few years after that. "Life of the project" should mean the period of time during which the project is capable of producing revenue to pay back the state, or the "operational life" of the project.

Question 6 -- AS 44.83.384(b) requires that any project within the energy program be economically feasible and provide the lowest reasonable power cost to utility customers. The cost of power from the Susitna project to customers would be partially dependent on whether the State wants its investment back right away or after a grace period. Since projects in the current energy program are not required to make any principal repayment on the amount invested by the state, is a statutory framework needed to allow the State to receive a return on its investment?

Answer -- See the responses to questions 3 - 5. While there are no explicit provisions in AS 44.83.398 for repayment of the state's capital investment, the wholesale power rate formula does, in effect, provide for repayment of the state's capital investment in the project - after debt service has been paid off -- if there have been additional projects added to the system. Amendment would be necessary if payback on the investment is to be made concurrently with payback on the debt service of the project or if the payback requirement is to be made explicit. X. Concurrent payback would probably affect the economic feasibility of a project since that is inextricably tied to wholesale power rates for the project.

Question 7 -- Do you see any other statutory blocks that would prohibit the use of major project fund monies for the Susitna project?

Answer -- Not right at the moment.

The Honorable Bettye Fahrenkamp
Chairman, Senate Resource Committee

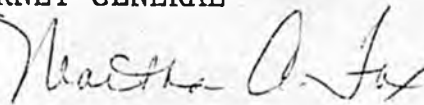
February 17, 1984
Page 5

We hope this adequately answers the questions you
raise.

Sincerely yours,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By:



Martha A. Fox
Assistant Attorney General

NCG:MAF:eja

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU ALASKA 99801
707-265-3500

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 17, 1984

SUBJECT: Implementation of Major Projects Fund
(SJR 32)

TO: Senator Bettye Fahrenkamp
Chairman, Senate Resources Committee

FROM: *He* Linn H. Asper
Legislative Counsel

You have asked several questions about the implementation of the proposed major projects fund (SJR 32), if that fund is established by amendment to the Alaska State Constitution.

see A.G. 714

First, you have asked what statutory framework would be necessary to allow repayment of money appropriated from the major projects fund. As currently drafted, section 17(c) of the constitutional amendment indicates that the legislature shall "dedicate by law" sufficient project revenue to repay the money expended from the major projects fund. To "dedicate by law" presumably means that legislature must enact a statute that requires project revenues to be paid into the major projects fund. This could be done by enacting a repayment schedule at the same time a project is approved. The repayment schedule can be flexible, since no restrictions on repayment are contained in the proposed constitutional amendment other than that the major projects fund must be repaid "during the life of the project". This means, for example, that repayment could be delayed until after other project debt or debt service is repaid, as long as the major projects fund is repaid within the life of the project. There is currently no requirement that the money from the major projects fund be repaid with interest and thus no debt service is due from a project to the major projects fund.

Second, you have asked what statutory language is necessary to allow excess appropriations from the major projects fund to lapse into that fund. To accomplish this purpose the

FEB 17 1984

legislature can either amend the proposed constitutional language to require that excess appropriations lapse into the major projects fund, or can put a lapse clause in the appropriation bill that must be passed to finance a project.

see AG #2

Third, you have asked what statutory framework is required to allow the state to receive a return on its equity investment in a power project once the debt service is paid off. By this question I understand you to mean that you are interested in mechanism that would defer payments to the major project fund until any debt service incurred in financing the project is paid. As I noted above, there is no precise requirement on how the major projects fund is to be repaid. The legislature could provide by statute for deferral of repayment to the major projects fund until other debt has been discharged. The only danger with this approach is that unforeseen circumstances might reduce the project revenues needed to repay both the major projects fund and other project debt, in which case the major projects fund would not be repaid if its repayment is deferred.

where are we on Susitna?

Finally you have asked for an outline of the process required for "a final decision" on construction of the Watana Dam in the Susitna project. AS 44.83.330 requires that a construction contract be entered within one year of approval of the preliminary report on the project. A final decision approving construction therefore requires a statute approving the preliminary report and necessary supporting legislation to approve a plan of finance under AS 44.83.360. A final decision disapproving the project would have to be in the form of a special law enactment stating that the project is disapproved.

LHA:ojb
J3/110

HOUSE RESOURCES
STANDING COMMITTEE
March 5, 1984
3:05 p.m.

DRAFT

Members present: Rep. Ringstad, Co-chairman
Rep. Shultz, Co-chairman
Rep. Larson
Rep. Bussell
Rep. Goll
Rep. Vaska
Rep. Liska
Rep. Cowdery
Rep. Uehling

Members absent: none

COMMITTEE CALENDAR

SJR 42 "Relating to the establishment of an environmental Protection Agency regional office in Alaska."
HJR 57 "Proposing an amendment to the Constitution of the State of Alaska creating a fund to finance the construction of capital projects."
HB 589 "An Act relating to the Alaska Power Authority; and providing for an effective date."
HB 684 "An Act making a special appropriation to the Alaska Power Authority; and providing for an effective date."

WITNESS REGISTER

Don Kubley
Kubley Consultants
6210 Glacier Hwy.
Juneau, Alaska 99801
789-4849

Position statement: Represents variety of interests; supports SJR 42.

Larry Crawford
Executive Director
Alaska Power Authority
334 West 5th Avenue
Anchorage, Alaska
276-0001

Position statement: Supported original versions of HJR 57, HB 589, HB 684; opposed to proposed CSs.

Don Grimes (Anch LIO)

First Southwest Bank
Dallas, Texas

No telephone given

Position statement: Gave technical details generally opposed to CSs.

Lewis Greenbaum (Anch LIO)

Boyes Pitt

Chicago, Illinois

No telephone given

Position statement: Gave technical details generally opposed to CSs.

Rep. Ron Wendte

Pouch V

Juneau, Alaska 99811

465-4944

Position statement: Opposed to proposed committee substitutes.

Gordon Harrison

Office of Management & Budget

Division of Strategic Planning

Pouch A

Juneau, Alaska 99811

465-3568

Position statement: Presented pertinent projected income figures

Ernie Haugen (Petersburg LIO)

Petersburg, Alaska

No telephone given

Position statement: Opposed to Susitna Blackmail Clause

PREVIOUS ACTION

Please refer to bill histories

ACTION NARRATIVE

Tape No 22A

Recording

Number 0001

Co-chairman Ringstad called to order the meeting of the House Resources Committee, and noted the presence of Reps. Wendte, Malone and Furnace. He then brought SJR 42 before the members.

Number 0014

Don Kubley spoke in favor of the resolution.

Number 0065

Rep. Uehling moved and asked unanimous consent that the committee pass SJR 42 with individual recommendations. There was no objection, and the resolution passed from committee.

Number 0074

Rep. Bussell made a statement that in his opinion

the Legislature should make a stronger statement regarding the federal classification of streams, etc.

- Number 0090 Rep. Ringstad gave a general overview of HB 589, HB 684, and HJR 57, and of their respective proposed committee substitutes.
- Number 0205 Rep. Cowdery asked a question regarding how much of a majority it would take to appropriate from the major projects fund. Rep. Ringstad replied that it would be a simple majority, and that it wouldn't be veto-proof. He then continued with his overview.
- Number 0322 Larry Crawford, Alaska Power Authority, presented the views of the APA on the legislation, saying it would be counterproductive to delay the repeal of the Susitna Equity Clause.
- Number 0639 Rep. Goll asked about updating the cost of diesel on a graph used to illustrate rate stabilization. Mr. Crawford said it was just a general graph, and that there was some disagreement on the price of diesel. He then continued with his overview.
- Number 0748 Mr. Crawford referenced HR 4170, now before Congress, which would put a cap on industrial development bonds, and would have a detrimental effect on Alaska.
- Number 0765 Rep. Ringstad asked about the sale of power from the four facilities. Mr. Crawford explained how the power is being sold and to whom.
- Number 0780 Rep. Goll asked how the \$35 million in HB 684 would be used. Mr. Crawford explained how the interest from the money would be used to help defray the higher cost of hydro, as compared to current diesel costs.
- Number 0793 Rep. Furnace asked a question regarding the number of subscribers to be served by the four facilities. A discussion ensued.
- Number 0805 Rep. Furnace asked how APA determines an interim rate before power sales agreements are in hand. Mr. Crawford said they have no mechanism to do that. A discussion ensued.
- Number 0845 Rep. Cowdery asked if APA had a plan to protect the railbelt if the Susitna Equity Clause is repealed. Mr. Crawford replied that APA's objective is to solve the 4 dam pool problem so

that the state can work in the bond market, and that the approach proposed in the CS, which would delay repeal of the Equity Clause until November, would hurt, more than help, Susitna.

Number 0855

Rep. Uehling asked how much higher our interest rates would be if HR 4170 passes. Mr. Crawford responded that it would be at least 2.5% more.

Number 0890

Rep. Ringstad asked what is the APA's approach between now and November. Mr. Crawford replied that they would see what the Legislature actually passes, but it looks like it will end up costing the state more.

Number 0910

Rep. Goll asked a question regarding the state's obligation to pay off its bonds, and what would happen if we delayed. Mr. Crawford responded by reviewing the pay-off dates on the \$35 million, \$50 million, and \$115 million notes, and the consequences of defaulting or rolling them over.

Number 0930

Don Grimes, Anchorage, responding to Rep. Uehling's earlier question on HR 4170, said the interest differential would be at least 3%, and would amount to an additional \$176 million over 25 years on an issue of \$235 million.

Number 0950

Rep. Liska asked what the hold-up is on getting the power sales agreements signed. Mr. Crawford replied that Wrangell is worried about its economy and Petersburg is putting the question to the people. The most important factor has been the price of diesel not going up as projected.

Number 0995

Don Grimes made a statement exploring further costs and complications to the state if the Susitna Equity Clause is not repealed. He described for the members what would happen if the notes were tendered and the state was unable to resell them to other investors.

Number 1025

Rep. Furnace asked Mr. Grimes about rollover fees. Mr. Grimes described the process of rolling over each of the notes, and what it would cost.

Number 1085

Rep. Furnace asked how long the notes could be extended if rolled over. Mr. Grimes replied that they could be extended for as long as we like, depending on how much money we escrow to cover them.

Number 1130

Rep. Uehling asked how much we would have to appropriate. Mr. Grimes replied that, assuming

a 9% interest rate, \$225 million, more or less.

Number 1165

Rep. Goll asked about the original cash flows to pay off the bonded indebtedness. Mr. Crawford replied that it was originally intended that the debt would be taken care of by signed power sales agreements.

Number 1178

Rep. Goll asked what would be the effect on the state's credit if the notes were tendered. A discussion ensued.

Number 1190

Rep. Goll asked how the APA would manage with the 3 bills. Mr. Crawford responded that the legislature should go back to the original bills, that the Equity Clause should be repealed, because Susitna is a large project, it will require lots of bonds, and the state will need good credit to finance it.

Number 1215

Rep. Liska asked a question regarding the Tye project. Mr. Crawford replied that there have been a lot of changes to the project since its inception, and they've all combined to make hydro more expensive than diesel.

Number 1295

Rep. Uehling asked if there can be a rollover of the bonds without a cash escrow. Mr. Grimes replied that in his opinion we could do that.

Number 1305

Rep. Uehling asked a question regarding cashing out the bonds. Mr. Grimes responded by saying the bonds are loans against future appropriations, and are due on a date certain, but were intended to be replaced by long-term notes.

Number 1335

Rep. Ringstad asked if a cash appropriation is used to pay-off the notes, how would the affected communities repay the state. Mr. Crawford replied that that would be a matter of negotiation.

Tape No. 22B
Recording
Number 0001

Rep. Wendte presented his opinion on the changes proposed by the committee, saying how important it is to 1) get the power sales agreements signed; 2) repeal the Susitna Equity Clause; and 3) to bear in mind the cost to the state of refinancing the present notes.

Number 0125

Rep. Goll asked if what we were proposing isn't a bandaid of sorts. Rep. Wendte replied that the state has a moral obligation to pay its debts.

- Number 0160 Rep. Goll asked if it wasn't the intent of the legislation to set up the 4-dam pool, and to stabilize the energy program for Alaska. Rep. Wendte replied that that was the idea, and the Labor and Commerce Committee erred with its committee substitutes. He also noted that that committee's actions will effectively kill Bradley Lake.
- Number 0180 Rep. Liska asked how previous legislatures play in this issue. Rep. Wendte reviewed the history of the problem, the changes made in SB 9 in 1981, the Susitna Equity Clause and the 4-dam pool.
- Number 0200 Rep. Cowdery asked about a commitment made to the House Leadership that the amendments would be okay. Rep. Wendte said his caucus hadn't made any such commitment, but that perhaps Mr. Crawford had.
- Number 0222 Rep. Furnace questioned whether there were sufficient votes in either the House or Senate to pass the bills without the amendments. Rep. Wendte responded by saying that he hoped the issues could be dealt with without jeopardizing the short- and long-term credit of the State.
- Number 0245 Rep. Furnace asked Mr. Crawford why APA hadn't considered asking for the \$200 million to pay off the bonds in the first place. Mr. Crawford replied that his charge was to find a solution which involved the least cost to the state. He also noted that the communities involved are making business decisions in the matter, rather than political ones.
- Number 0280 Rep. Furnace asked if it is possible to identify funds under the control of the administration that could be used to pay off the notes. Mr. Crawford replied that the administration and the legislature would still have to come to agreement on their use.
- Number 0300 Rep. Bussell asked what happens if the Legislature appropriates \$85 million to cover the first two due dates, and the APA sells the power purchase agreements to the buyers. A discussion ensued regarding the communities' willingness to purchase with the Susitna Equity Clause still in effect.
- Number 0405 Co-chairman Ringstad recessed the hearing until 7:00 pm. The time was 5:05 pm.
- Number 0410 At 7:05 p.m., Co-chairman Ringstad called

the committee back to order. Members present were Reps. Larson, Bussell, Goll, Vaska, Liska, Cowdery, and Uehling. Rep. Shultz was absent. Co-chairman Ringstad asked Rep. Wendte to continue with his testimony.

- Number 0419 Rep. Wendte continued, and responded to Rep. Bussell's earlier question regarding paying off the first two due dates.
- Number 0500 Rep. Cowdery asked if Rep. Wendte would use the funds going to the Permanent Fund to pay off the bonds. Rep. Wendte said he would not.
- Number 0540 Rep. Uehling asked a question regarding the power sales agreements. Rep. Wendte responded that making the first two payments would go a long way toward getting them signed.
- Number 0595 Rep. Uehling made a comment that it is imperative that we solve the APA's problems now, and not jeopardize the future needs of the railbelt.
- Number 0645 Gordon Harrison, Office of Management and Budget, discussed the revenue picture.
- Number 0680 Rep. Ringstad asked a question regarding the accuracy of the figures, given the CS. Mr. Harrison replied that they would have to be updated to be valid.
- Number 0720 Rep. Vaska asked that the figures be updated to apply to the CS.
- Number 0745 Rep. Vaska asked for a projection at 30%. Mr. Harrison acknowledged that the disparity between 30% and 50% becomes quite significant when projected out over the long term.
- Number 0825 Rep. Wendte asked a question regarding the original proposal and when it dropped from 10% to 5%. Mr. Harrison replied that it was 1990, and that figures for years after 1990 should be changed.
- Number 0845 Former Representative Ernie Haugen, Petersburg, spoke on the issue, saying that when originally conceived, Tye was substantially smaller and less costly. Now, it's twice as big, and at least three times as expensive, and if it had been anything like that when projected, Petersburg would never have gone for it.
- Number 0978 Rep. Bussell asked a series of questions of Mr.

Haugen, regarding the surplus power capacity of Tyee, and a discussion ensued.

Tape No. 22C
Recording
Number 0026

Don Grimes, Anchorage, corrected Mr. Haugen, that the contracts being negotiated were no longer take or pay, but a variation - take and pay.

Number 0055

Rep. Vaska asked if the State defaults on the bonds, what would be the effect on its ability to sell other bonds. Mr. Grimes responded that it would be disastrous, impairing the State's ability to sell bonds for any purpose.

Number 0075

Rep. Vaska asked how it would be received in the financial world if the state defaulted. Mr. Grimes replied that it would not be acceptable

Number 0089

Rep. Vaska asked what would be the effect on the bonding capabilities of other governmental entities if these bonds are not paid off. Mr. Grimes replied that there would be carry over into the municipalities, etc.

Number 0100

Rep. Vaska asked how the State would fare on the international market. Mr. Grimes said it would affect the State's credit worldwide.

Number 0107

Rep. Liska asked a question regarding the downgrading of the North Slope Borough's credit rating and whether there is a connection to this issue. Mr. Grimes replied that the NSB is still able to sell bonds, but has had to pay penalties.

Number 0125

Rep. Goll asked a series of questions regarding the State's general obligation bonded indebtedness. Mr. Grimes responded by agreeing that ours is the highest per capita in the country, and that it is managed relative to the Prudhoe Bay production curve.

Number 0150

Rep. Goll asked if it would cast doubt on the state's credit to cash-out the bonds. Mr. Grimes said that it would not, but would show that the State is concerned about its credit rating.

Number 0160

Rep. Uehling asked if paying off the \$35 million and \$50 million would keep the problem under control until the November election. Mr. Grimes said that would depend on whether the utilities had the confidence to sign the power sales agreements. As long as the Susitna Equity Clause is in effect, the State will suffer a rate penalty. If

it is enough to drop the State's bond rating from A to Baaa, he said, that would cost 2% in interest.

- Number 0238 Co-chairman Ringstad called a short at ease at 7:55 p.m.
- Number 0240 Co-chairman Ringstad called the meeting back to order at 8:00 p.m.
- Number 0242 Rep. Malone asked of the chair who was testifying for the Governor's office. Co-chairman Ringstad replied that the Governor's office declined to testify, although his liaison had been in attendance earlier.
- Number 0272 Rep. Uehling moved and asked unanimous consent that the committee adopt the proposed CS for HJR 57. Rep. Vaska objected.
- Number 0277 Rep. Vaska removed his objection, and there being no further objection, the CS was adopted.
- Number 0284 Rep. Uehling moved and asked unanimous consent that the committee pass CSHJR 57 (Res) with individual recommendations. Rep. Vaska objected, saying he had an amendment.
- Number 0292 Rep. Uehling withdrew his motion.
- Number 0298 Rep. Vaska moved the following amendment, and asked unanimous consent: On page 1, line 17, delete "Alaska Permanent Fund" and insert in its place "General Fund" and delete "15" and replace with "16". Rep. Bussell objected.
- Number 0310 Rep. Vaska explained that the amendment would make the management of the fund parallel that of the general fund, rather than the savings-account philosophy of the Permanent Fund.
- Number 0350 Rep. Vaska asked Gordon Harrison of OMB to respond to the proposed amendment. Mr. Harrison replied that he was not able to speak to it.
- Number 0360 Rep. Malone gave his view of the effect of the amendment, saying it would make the fund easier to manage, would ensure greater liquidity, and would be more likely to avoid bad investments.
- Number 0390 Rep. Larson asked Rep. Malone if it would bring into play the spending limit. Rep. Malone replied that appropriations above the dedicated 10%, and appropriated by the Legislature, would be effected

by the spending limit, but that appropriations going out of the fund would not be.

Number 0456

A vote on the amendment was taken with Reps. Goll and Vaska voting yea, and Reps. Ringstad, Larson, Bussell, Liska, Cowdery and Uehling voting nay. The amendment failed.

Number 0461

Rep. Vaska moved a second amendment, as follows, and asked unanimous consent: On page 1, line 16, following the word "cost", add "and provide money for energy cost assistance", and add a new section 17(b) on page 2, line 3, to read, "10 percent of the annual revenue paid into the major projects fund shall be used for energy cost assistance.", and add a new section 17(g) on page 3, following line 6, to read: "Notwithstanding (c) of this section money may be expended from the major projects fund for energy cost assistance." Rep. Liska objected.

Number 0572

Rep. Ringstad made a statement regarding the bush power cost problem, saying that the power cost assistance section of the CS attempts to address the problem. Further discussion ensued.

Number 0670

Rep. Larson asked Rep. Vaska if, since the power cost assistance program is not as effective as it is intended to be, would he be opposed to cutting it to 5% in the bill and dedicating the remaining 5% to weatherization. Rep. Vaska said he would not be opposed to it.

Number 0700

Rep. Bussell said he was concerned that what we're dealing with is supposed to be a major projects fund, and is not intended to answer every subsidy program in the statutes.

Number 0730

Rep. Goll stated that he is usually opposed to lengthy constitutional amendments, but he supports the proposed amendment as it would be cost effective.

Number 0764

Rep. Larson stated that he supports the amendment, but would reduce the 10% to 5%.

Number 0776

Rep. Cowdery called for the question. The vote was taken, with Reps. Vaska, Goll and Larson voting yea, and Reps. Bussell, Liska, Cowdery, Uehling and Ringstad voting nay. The amendment failed.

Number 0780

Rep. Uehling moved and asked unanimous consent that the committee pass CSHJR 57, with individual

recommendations. Rep. Vaska objected. The vote was taken, with Reps. Larson, Bussell, Liska, Cowdery, Uehling and Ringstad voting yea, and Reps. Goll and Vaska voting nay. The resolution passed from committee.

Number 0795

Rep. Uehling moved and asked unanimous consent that the committee adopt the proposed CS for HB 684. There was no objection, and the CS was adopted.

Number 0800

Rep. Uehling asked for an explanation of the change in Section 3. Rep. Ringstad explained that it would make the \$35 million available for power rate stabilization only after all 5 utilities had signed power sales agreements.

Number 0835

Rep. Goll asked for Mr. Crawford's opinion of the change. Mr. Crawford said that if all 5 utilities don't sign, the \$35 million would be inadequate to cover the difference, and the APA would have to come back to the Legislature for more, anyway.

Number 0875

Rep. Cowdery said he had been under the impression that \$35 million would be adequate. Mr. Crawford reiterated that it would be, if all five utilities sign.

Number 0885

Rep. Wendte commented that it was bad policy to give each community veto power over the other 4.

Number 0892

Lewis Greenbaum, Anchorage, said that the amendment needs a technical change, as there are only 3 "municipalities" involved. The other two utilities are co-operatives. He suggested the committee change it to "power purchasers."

Number 0910

Rep. Vaska asked who was making the change, the committee or the administration. Rep. Ringstad confirmed that the committee was making the changes.

Number 0925

Rep. Bussell asked if Mr. Crawford could give us the specific names of the utilities involved, and they could be included in the bill.

Number 0930

Mr. Crawford said "power purchasers" should be sufficient.

Number 0940

Rep. Vaska asked how specific the bill should get. Rep. Uehling asked for the utilities' names. Mr. Crawford listed them as the Cities of Ketchikan, Wrangell and Petersburg, and Kodiak Electric Association, and Copper Valley Electric

Association.

- Number 0970 Rep. Larson suggested that if "power purchasers" was good enough for bond council, Mr. Greenbaum, it ought to be good enough for us. Rep. Liska suggested a definitions section.
- Number 0980 Mr. Greenbaum said that if clarity is the goal, he would suggest including the specific utilities.
- Number 0992 Rep. Bussell moved the following amendment, and asked unanimous consent: On page 1, line 18, delete line 18 and replace with "power purchasers served by the Lake Tyee (City of Petersburg, City of Wrangell), Swan Lake (City of Ketchikan), Terror Lake (Kodiak Electric Association), and Solomon Gulch (Copper Valley Electric Association)". There was no objection, and the amendment was adopted.
- Number 1030 Rep. Goll made a point regarding third party purchasers of the power.
- Number 1045 Rep. Uehling moved and asked unanimous consent that the committee pass CSHB 684 as amended, with individual recommendations. Rep. Vaska objected. The vote was taken with Reps. Bussell, Liska, Cowdery, Uehling and Ringstad voting yea, and Rep. Vaska voting nay. Reps. Goll and Larson abstained from voting. The bill passed from committee.
- Number 1064 Rep. Uehling moved and asked unanimous consent that the committee adopt the proposed CS for HB 589. Rep. Vaska objected. The vote was taken, with Reps. Bussell, Liska, Cowdery, Uehling and Ringstad voting yea, and Rep. Vaska voting no. Reps. Goll and Larson abstained from voting. The CS was then adopted.
- Number 1080 Rep. Vaska moved the following amendment, and asked unanimous consent: Delete section 8 on page 4, and rewrite section 7 to provide an immediate effective date for all sections of the bill. Rep. Cowdery objected.
- Number 1085 Rep. Vaska supported the proposed amendment by saying that Susitna should stand on its own merits and that the Equity Clause is detrimental to the energy program.
- Number 1140 The vote on the amendment was taken, with Reps. Goll and Vaska voting yea, and Reps. Larson, Bussell, Liska, Cowdery, Uehling and Ringstad