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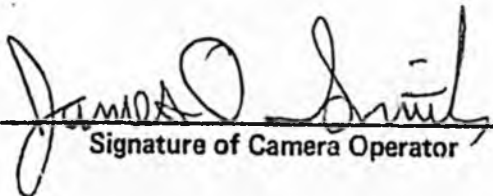
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# RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

  
Signature of Camera Operator

  
Date

RED

DOG



**ALASKA PUBLIC INTEREST RESEARCH GROUP**  
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

**MAY 1 1985**

April 26, 1985

Terry Elder  
Dept. of Commerce and Economic Development  
Pouch 0  
Juneau, AK 99811

Dear Terry:

I understand you have some questions concerning the assumptions we used in quantifying the subsidy involved in the Red Dog Road and Port Project. Before explaining our figures, I would like to make a few points.

**Jobs:** The jobs generated by state investment in the Red Dog project are 5 year jobs. Cominco officials have said time and time again that the Red Dog project will be developed with or without state help--the only question is timing. In attesting to the value of the Red Dog deposit, Cominco lobbyists have told us that the mine would be developed 5-8 years later than the proposed schedule without this year's \$175 million appropriation and \$175 million bond authorization. By funding Red Dog this year, the legislature is simply bringing those jobs on line 5 years sooner, at a nominal cost of \$1.2 million over 5 years.

**Taxes and Avoided Transfer Payments:** You would be correct in saying that our subsidy estimate did not include increased future state revenues in the form of taxes and avoided transfer payments only if these payments would not accrue without state investment in the project. As we pointed out above, Red Dog will be developed and the benefits will accrue--starting in 1989 with state investment or 5-8 years later without. Since the State will receive the \$169 million in taxes and transfer payment savings in any event, these cannot be counted as a benefit of the project.

**"Finance Plan":** You are correct in saying that an official Finance Plan is not yet in place. This has been a source of great concern to us. In the meantime, the Dept. of Commerce and AIDA have proffered a finance "option" and have based legislative requests on it. All our estimates are based on the "option" discussed in the numerous letters DCED, DoR and AIDA have written

in response to Committee questions. Our assumptions are in fact your assumptions, and I have referenced them in the footnotes below.

As you know, I have asked many times over the past months for an Administration estimate of the subsidy to Red Dog similar to the one given in the Red Dog Project Analysis. No one has answered. If you do not agree with our estimate, I would be very interested in hearing your figure.

#### THE SUBSIDY LEDGER

##### Nominal Costs:

\$175 million bond issue--  
annuitized sinking fund  
payment of \$22.09 mil.  
per year for 30 years  
will cover state debt.  
\$22.09 million x 30 =

\$662 million(1)

Available in AIDA for re-  
appropriation but now to be  
directed to Red Dog--

\$ 15 million(2)

FY 86 P+I on loan port-  
folio transferred from  
DCED to AIDA

\$ 18 million(3)

COST: \$625 million BENEFITS: \$260 million

Difference (subsidy) = \$435 million

(1) Assumes \$175 million bond issue (SB 280), tax exempt rate of 10.5% (AIDA letter to Sturgulewski, 3/19/85, page 9 (unnumbered) of Appendix A, Case IV), taxable rate of 13.5% (3% margin between tax exempt and taxable), port costs (ibid., p. 9) are tax exempt, \$12 million in bonds called 1990 (ibid., p. 9), 30 year term (ibid., page 2).

(2) \$3 million in FY 85 app. to AIDA for DeLong Mountain Regional Port and Road available for reappropriation (AIDA letter to Sturgulewski, 4/9/85, p. 2), \$12 million in multifamily housing funds to be reappropriated to the project (committee testimony, 4/16/85).

(3) Dept. of Revenue letter to Sturgulewski, 4/15/85, p. 2).

(4) AIDA letter to Sturgulewski, 3/19/85, p. 9. Assumes 4 year moratorium on payments (conversations with Cominco, Bad Dog Project Analysis options, p. V-72, explicit cap at \$260 million rather than \$300 million over 30 years).

Real Costs:

Present Value of construction (value of bond issue)--

\$175 million

Real Benefits:

PV of \$260 million over 30 years beginning year 5--

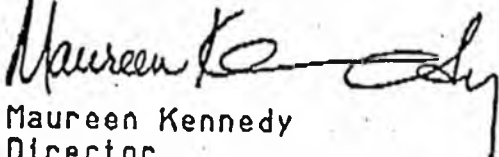
\$67.82 million

PV of net subsidy--\$107.2 million\* or 61% of total project cost.

Same assumptions as above

I would be happy to answer any questions you may have on these figures.

Sincerely,



Maureen Kennedy  
Director

INTRODUCTION OF BILLS (Senate)(cont'd)

Appropriations  
(special)  
(DeLong Mt.  
transporta-  
tion project)

SENATE BILL NO. 279, by the Resources Committee. Makes a special appropriation in the amount of \$18 million from the general fund to the Economic Development Fund (EDF) of the Alaska Industrial Development Authority (AIDA) for the DeLong Mountain transportation project. Upon passage would represent a commitment on the part of the state to Cominco's Red Dog Mine project near Kotzebue.

Sec. 2 transfers all right, title, and interest in certain loans held by the Dept. of Revenue (DOR) as of July 1, 1985 to the EDF of AIDA for the DeLong Mountain transportation project. If the amount in unpaid principal of the loans is more than \$112 million on that date, only loans and instruments totalling \$112 million in unpaid principal are transferred and appropriated. Includes veterans, small business, tourism, fisheries enhancement, child care and historical district loans.

Sec. 3 transfers all right, title, and interest in commercial fishing loans secured by limited entry permits and held by DOR, up to \$30 million, from the general fund to the Commercial Fishing Revolving Loan Fund for the purpose of making commercial fishing loans.

Sec. 4 transfers all right, title and interest in commercial fishing loans that are not secured by limited entry permits, in the same amount as is transferred by Sec. 3, from the Commercial Fishing Revolving Loan Fund to the EDF of AIDA for the DeLong Mountain transportation project.

The transfer of assets to AIDA would be used as collateral for the issuance of bonds (see SB 280).

Secs. 5 and 6 provide that the appropriations made in Secs. 1 - 4 do not lapse.

Effective July 1, 1985.

Introduced April 11 and referred to Resources and Finance.  
Identical to HB 369.

Bond  
Authorization  
(DeLong Mt.  
transportation  
project)

SENATE BILL NO. 280, by the Resources Committee. Authorizes the Alaska Industrial Development Authority (AIDA) to issue up to \$175 million in bonds or notes to finance the DeLong Mountain transportation project near Kotzebue. Represents a state commitment to Cominco's Red Dog Mine development.

Bonds could not be issued until Cominco agrees in writing to certain terms and conditions: adequate access to the road and port must be guaranteed to other users; Cominco must pay for all or a portion of the operation and maintenance of facilities constructed as part of the project, based on the use it makes of them; Cominco must repay all expenditures by the state for the project through toll fees for the use of facilities and other payments; payments by Cominco will be accelerated if the price of zinc rises above a level determined by AIDA to yield a reasonable profit.

# The proposed Red Dog mine — A boon to the Bush or a boondoggle to the state?

Continued from Page A-1

for state funds as oil revenues are falling, it seems to us that it's just not a good idea," said Maureen Kennedy, executive director of the Alaska Public Interest Research Group (AkPIRG), a non-profit consumer advocacy organization.

The state loan would be used to build a port 57-mile road to serve the proposed Red Dog Mine, one of the world's richest zinc deposits, located 82 miles north of Kotzebue.

To finance the construction, estimated to cost \$150 million, Sheffield wants to provide mine operators a complex package including \$33 million in cash in the coming fiscal year and authorization for the state to sell up to \$75 million in revenue bonds.

The transportation system would pave the way for development of the mine by Cominco, a Vancouver-based international mining company. Cominco would operate the mine under an agreement with NANA Regional, the Native firm that owns the zinc, lead and silver deposit. NANA shareholders would own 50 percent of the mine and a percentage of mine profits would go to the corporation.

The administration says the road and port, which the state would own, will open the door to other potential mines in the region, though the number of those is close to development now.

The mining industry has been in a slump for two or three years. Cominco, which has assets of about \$2.1 billion (Canadian dollars), suffered net losses of \$31.2 million in 1982 and \$3 million in 1983.

The company reported net profits of \$24.2 million for 1984, but metals prices remain low. A state analysis of the costs and benefits of mine projects a likely price for zinc of 60 cents a pound, in 1984 dollars. Zinc today sells for about 45 cents a pound.

Cominco's directors have not yet committed themselves to develop Red Dog.

Nevertheless, Sheffield wants the legislature to approve his financing package before a session ends in less than three weeks. He recently said the loan is one of his top priorities for action before adjournment.

His plan is premature, critics say.

As outlined in general by the administration, Cominco would repay the state through toll fees for use of the road and port. But precise terms of the loan have yet to be negotiated.

In addition, a \$267,000 study commissioned by the state is months from completion.

Under repayment terms to which Cominco orally agreed, the loan would result in a subsidy of tens of millions of dollars, perhaps hundreds of millions.

But without specific details of a financing plan and loan agreement, nobody can calculate the size of the eventual subsidy.

For the legislature to approve a loan without critical information is flying blind, AkPIRG and others say.

"It's downright bad public policy to be

making such expensive decisions without enough information to back it up," Kennedy said.

The Alaska Environmental Lobby also opposes the loan and subsidy. Such developments should pay their own way, said Brian Allen of Fairbanks.

Why not wait until next year to fund the road and port? Why must it be done now?

The Sheffield administration and Cominco say the state must move ahead with the transportation system if Cominco is to beat out international competition to supply future worldwide zinc demand. They speak of a "window of opportunity" that may slam shut with Red Dog on the outside.

Skeptics don't buy that argument.

Officials at AkPIRG and the Alaska Environmental Lobby say they think the real reason for the push is falling state revenues, the likelihood of continuing budget cuts and a sense that this is the last chance for big subsidies.

Juneau economist David Reaume says the administration's hurry strikes him as absurd.

"You're talking about a mine that has a 50-year life. It's not going to go away," he said. "It's simply not true that we have to do it now."

When mineral markets pull out of their slump, there will be plenty of demand to develop Red Dog, he said.

Reaume said the project probably is sound "and there are some good things to come of it." But he has criticized the state's economic analysis and its handling of the loan proposal.

State officials did little independent research in evaluating the project, he said. Instead, they relied on information supplied by Cominco and NANA, companies that stand to profit directly from a subsidy of the road and port, he said.

"They haven't done their homework," Reaume said.

As a result, the state will enter into loan negotiations from a position of weakness, he said.

Cominco, NANA and the Sheffield administration emphasize the potential benefits of the project, especially the addition of needed jobs for rural residents and new tax revenues.

"That area has basically no employment," Sheffield said. "It depends on the state of Alaska for basically 85 to 90 percent of its livelihood."

The mine is expected to employ 400 people, and would create an additional 200 jobs in the service and supply sectors of the economy, mostly outside the northwest region, according to the state analysis.

Kennedy said AkPIRG agrees that jobs are an important benefit of the proposed mine. But a subsidized loan is an expensive way to create jobs, she said.

AkPIRG calculates that the subsidy is likely to be about \$435 million. If that's correct, and 347 of the mine jobs go to Northwest Alaska residents, as predicted by

the state, the cost would be \$1.2 million a job, she said.

Terry Elder, deputy commissioner of the Department of Commerce and Economic Development and the chief administration spokesman for Red Dog, is critical of AkPIRG's calculation.

He points out that without a definite financing plan and binding commitment with Cominco, nobody can calculate the subsidy. Still, administration officials concede that the loan proposal won't require Cominco to repay the state at market interest rates.

However, "from our standpoint, there will be no subsidy," Elder said.

"We've made it clear in the Senate Resources Committee and the House Loans Committee that when you consider all sources of income: toll fees, tax revenues and reduced (welfare) payments, we'll be paid back well in excess of what the state puts in."

If zinc sells for 60 cents a pound, the mine would bring in taxes of about \$170 million, measured in 1984 dollars, over the course of 30 years, or an average of \$5.7 million a year, according to the state analysis.

The report also estimates that new jobs would reduce state welfare payments to the region by about \$41 million over 30 years.

Critics answer that tax revenues will amount to relatively little. Besides, Cominco would receive a subsidy in the form of a \$15 million tax break through 1994, the result of an investment tax credit approved by the legislature last year, Kennedy said.

Depressed metals prices increase the risk inherent in a loan to Cominco, critics say.

"One of the critical assumptions is what's going to happen to the price of zinc," said Bradford Tuck, a professor at the University of Alaska-Anchorage School of Business and Public Affairs.

Cominco has not guaranteed it will bring the mine into production after the state builds the road and port. The company has promised orally that it will repay the state even if the mine isn't developed, but whether Cominco would pay any interest on the money is uncertain.

"What Cominco is doing by asking the state to participate is shifting some of the risk (to the state)," Tuck said.

Under the best possible outcome, it appears the state would get a decent return on its investment, counting tax revenues, jobs and reduced welfare benefits, but if the mine is not developed, the state could get a higher return by investing its money elsewhere, he said.

Without knowing what future zinc prices will be, state officials can only estimate the potential profitability of the mine.

"They do not know if the road and port subsidy is really needed to help the mine, or if Cominco is just trying to mine the state for extra dollars," Allen said.

"Mining is a complicated and speculative business. The estimation and assumption of

risks in mining development should be left to the private sector," he said. "If the world's largest producer of lead and zinc (Cominco) can't find investors to develop the Red Dog mine, the state should not try to second-guess the market."

AkPIRG takes a similar position but would probably support the proposed loan if the value of the subsidy were nailed down at a reasonable level, Kennedy said.

The governor argues that it's a traditional role of government to provide "infrastructure," such as roads and ports, to open new territory for economic development.

Sheffield originally requested a direct \$18 million loan appropriation from the state treasury to be followed by bigger appropriations in future years.

The \$18 million appeared as a single line item in his budget request, with no legislation, meaning the request could bypass the legislative committee and public hearing process.

But after several modifications, the current request is a more complicated one. It would assure that most, if not all, the money would be committed this year.

One part is authorization for the Alaska Industrial Development Authority to sell up to \$175 million in revenue bonds.

That requires legislation. However, instead of a free-standing bill authorizing the bond sale, the administration got the Red Dog bond issue attached to a bill allowing bond sales for improvements to Anchorage International Airport. That makes it difficult for lawmakers to vote against the Red Dog bonds if they favor airport improvements.

The legislature also is being asked to earmark for the Red Dog project \$136 million in existing, outstanding state loans, which would serve as collateral on the bonds.

An attorney for the Sierra Club Legal Defense Fund says the dedication of the loan portfolio to Red Dog is unconstitutional because it commits future state revenues.

If the loans were not transferred to AIDA and earmarked for Red Dog, repayments on them would flow into the state treasury and be available for general spending purposes, the attorney said.

In addition, the administration wants the legislature to commit to the road and port \$3 million left over from a Red Dog appropriation last year and \$12 million in other AIDA assets.

Between that money and \$17.8 million expected to be repaid on the loan portfolio, Red Dog would receive in the next fiscal year about \$33 million that could otherwise be available for appropriation.

## Sheffield backs loan

Continued from Page A-1

based in Canada.

The most obvious connection between the Sheffield administration and the project has been John Shively, the governor's chief of staff, and Willie Hensley, a prominent Native political activist and businessman.

Shively took a leave from the administration Wednesday when it was announced that he is the subject of a grand jury investigation of a state office lease in Fairbanks.

Sheffield hired Shively in December 1983. At the time Shively was a vice president of NANA Development Corp., and had worked for NANA for eight years. One of the projects he worked on was the Red Dog mine.

Shively lobbied for NANA in Washington, D.C., in the late 1970s to assure that the company would receive title to the rich Red Dog mineral deposit as part of its land selection under the Alaska Native Claims Settlement Act.

In 1983 he lobbied the Alaska Legislature for creation of a regional resource development authority, which NANA saw as a way for the state to participate in construction of the road and port.

Hensley, one of the most respected and influential of Alaska's Native leaders, is a director of NANA Regional Corp., president of NANA Development Corp. and chairman of the state Democratic Party.

He backed Sheffield, a Democrat, in the 1982 gubernatorial campaign and helped raise money for him.

Since Shively arrived in the governor's office, both he and Sheffield have worked to dispel any appearance of a conflict of interest.

"We got it right out front," Sheffield said.

When Shively took the job as one of Sheffield's top aides, it was agreed he would not participate in any decisions on the Red Dog project, or even attend any meetings on the subject, they said.

Shively has said he doesn't think it would be a conflict of interest for him to be involved in administration decisions on Red Dog because he has no financial interest in the mine project or NANA, and no commitment for a job with NANA.

Shively said he resigned from the board of directors of the Native-owned United Bank Alaska, in which he owns stock, when he went to work for the governor.

Hensley is chairman of UBA, of which NANA owns about 10 percent. Eight Native companies own about two-thirds of UBA.

NANA will not finance any portion of the Red Dog development costs, which include about \$150 million for the transportation system and \$250,000 for the mine itself, but NANA has much to gain from the mine's successful development.

The mine is expected to employ about 400 people, and NANA has negotiated a strong local hire and training commitment from Cominco to benefit NANA shareholders. Cominco has guaranteed NANA a share of mine profits.

In the early years, that share will be relatively modest. But once Cominco has recouped the interest on its investment, NANA's share will be substantial — 25 per-



Gov. Bill Sheffield



John Shively



Willie Hensley

cent of annual profits increasing to 30 percent after five years, increasing after that by 5 percent a year until NANA receive 50 percent.

Cominco has estimated that NANA will be paid an average of \$30 million a year, as measured by 1985 purchasing power, for 30 years.

The benefits will extend to NANA shareholders far beyond Northwest Alaska because of a revenue-sharing provision of the settlement act that established the Native corporations and endowed them with land and cash.

Political insiders have talked about the loan proposal being "wired" because it has the staunch backing of at least two powerful legislators as well as the governor.

House Finance Chairman Al Adams and Sen. Frank Ferguson, both Democrats from Kotzebue and NANA shareholders, back the proposed loan, which promises jobs for their constituents.

Sheffield won the governorship 1982 largely on the strength of returns in rural and Southeast Alaska. According to pollster Marc Helleenthal, Sheffield will receive strong support from those areas again if, as expected, he bids for re-election in 1986.

In the '82 campaign, many NANA leaders backed Republican Terry Miller, lieutenant governor under former Gov. Jay Hammond, until Tom Fink knocked Miller in the Republican primary.

"Almost anybody who could deliver anything in an organized fashion was backing Terry Miller. I was one of the new guys who was backing the governor," Hensley said. "I really wasn't on the inside of the Sheffield campaign. I wasn't that close to the govern-

nor."

Cominco and NANA Development Corp. contributed the legal limit of \$1,000 each to Terry Miller in the 1982 campaign. After the primary election, NANA Regional, NANA Development and NANA Oilfield Services contributed \$1,000 each to the Sheffield campaign, according to APOC records.

By all accounts, Hensley devoted most of his political energy in 1982 to the subsistence ballot issue, serving as chairman of Alaskans for Sensible Fish and Game Management.

Hensley said he led a \$400,000 fund-raising drive that fueled the campaign to protect rural Alaskans' priority fish and game rights for subsistence.

Sheffield sided with the Natives on the subsistence issue. Fink did not.

Hensley and other Native leaders conducted a successful get-out-the-vote drive that contributed to victory on the subsistence issue and helped propel Sheffield into office.

Three months after the general election, Hensley registered with the Alaska Public Offices Commission as a deputy treasurer for the Sheffield campaign, which was trying to pay off \$115,000 in debts to third parties. The campaign also set about repaying Sheffield \$540,000 he had sunk into his campaign.

Hensley was one of three people responsible for organizing Sheffield's inaugural celebrations in Anchorage, Fairbanks, Juneau and Nome during two weekends in January 1983. He said his mission was to go after major contributions from the business community.

According to APOC records, \$135,000 in profits from the inaugural balls and private receptions were donated to the Sheffield campaign.

world news

**Bomb explodes at Paris IMF building**

PARIS — A bomb planted under a car in front of the European headquarters of the International Monetary Fund and World Bank exploded Saturday, smashing windows and damaging the entrance to the IMF building. A passer-by was slightly injured and was taken to a nearby hospital for treatment. Police said no one claimed responsibility for the blast.

**Police arrest 270 at rally in Chile**

SANTIAGO, Chile — Police arrested 270 people, including 60 women and children, who were celebrating the 52nd anniversary of Chile's outlawed Socialist Party, lawyers for the Catholic church said Saturday. Police broke into a union building where the Socialists were holding their anniversary rally Friday night and herded everyone present onto police buses waiting outside, the lawyers said. The meeting, a folk music recital, was organized by one of the four factions into which the party of the late president Salvador Allende is splintered.

**Walesa tells workers to keep up fight**

WARSAW, Poland — Lech Walesa said Saturday there is "still no justice" in Poland and that workers must keep fighting for the ideals of the outlawed Solidarity labor federation. In a statement issued to mark the May Day workers' holiday this Wednesday, Walesa said Poles are still being arrested for advocating the right to form independent trade unions, barred from having a voice in economic policy, and subjected to continued higher prices.

From Daily News wire reports

**13,000 black miners reported fired in S. Africa**

The Associated Press

JOHANNESBURG, South Africa — An estimated 13,000 black miners were fired on Saturday after a week of work stoppages in a dispute over higher wages at the world's largest gold mine, government radio said.

The report said the Anglo-American Corp., one of the world's largest mining and mineral marketing companies, fired a third of the 40,000 blacks who mine gold at the Vaal Reefs Exploration and Mining Co. Ltd., 150 miles west of Johannesburg.

The South African Broadcasting Corp., which is run by the government, said the

miners were told of their dismissal early Saturday as they prepared to go underground for the day shift at the pit.

There was no immediate confirmation of the report. Spokesmen for Anglo-American did not answer their home or office telephones Saturday night.

Anglo-American is a private company that mines minerals in South Africa, where gold is the chief source of foreign exchange.

The company also owns an international diamond marketing cooperative, which controls the recovery, worldwide shipping, cutting and laying of diamonds.

There has been no violence at the Vaal

Reefs mine.

Last week, miners staged work stoppages and slowdowns because the company offered a 10 percent wage increase to black supervisors. The all-black National Union of Mineworkers, which represents most of the workers, said it wanted the pay increase extended to all black miners.

The company has said it will not authorize a blanket wage increase before negotiations begin next month between the union and the South African Chamber of Mines, a coalition of mine managers that bargains with white and black mine unions.

**Former world leaders urge ban on nuclear testing**

The New York Times

PARIS — A meeting here of former government leaders from 24 countries on Saturday urged a total ban on nuclear testing for the duration of the current Geneva arms talks and new steps to strengthen the world's monetary and trading arrangements.

The declaration was signed by former leaders from the West, the developing nations, and several Communist countries. Their aim is to influence

the outcome of next week's Western summit meeting in Bonn as well as the Geneva talks between the Soviet Union and the United States.

The former leaders were attending the third meeting of the Interaction Council of Former Heads of Government. Members try to use their prestige and contacts to encourage the world's present political leadership to adopt policies favored by the Interaction Council.

Kurt Waldheim, the former U.N. secretary general, who chaired the meeting, said at a news conference that members of the council would visit governments around the world to press the policy recommendations made on Saturday.

After strongly supporting the nuclear arms talks in Geneva, the former leaders called on nuclear powers to suspend all weapons testing while the talks continue. Such a ban, they said, would "instill

greater confidence" into the negotiating process. A widely accepted 1963 treaty bans nuclear weapons tests in the atmosphere.

Turning to next week's summit meeting in Bonn, the former government leaders said the world's economic difficulties can be resolved only by simultaneous action to strengthen the monetary system, free international trade, and deal with the Third World debt crisis.

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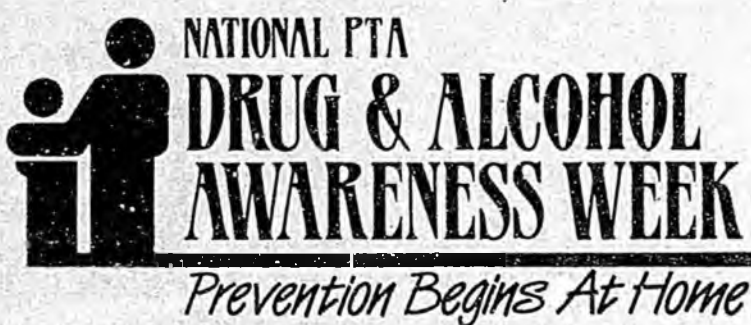
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|---|--|--|

# The Red Dog mine — boon to Bush or boondoggle to state?

## Critics question planned loan to build port and road to site

By ANN CONY  
Daily News reporter

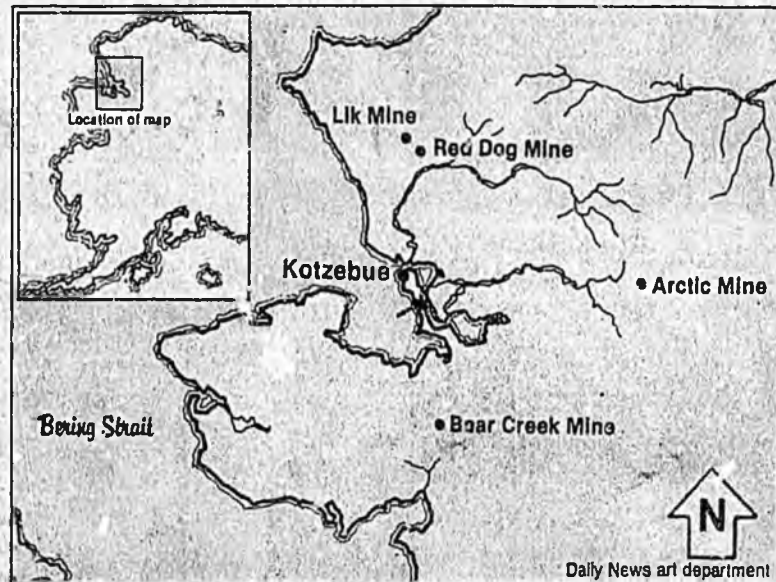
JUNEAU — A proposed low-interest loan to aid a mining venture in Northwest Alaska will bring employment and economic diversification, the Sheffield administration says.

"It's a good deal for the state of Alaska," Gov. Bill Sheffield said recently.

Critics, however, say the proposed loan is a risky, premature subsidy that may be the last "hurrah" in a dying era of indiscriminate big spending.

"If you combine the lack of rational analysis that's gone into the project with the dismal outlook for the metals market and the compe-

See Page A-10, THE PROPOSED



## Sheffield could make political gains if loan plan is approved

Ely ANN CONY  
Daily News reporter

JUNEAU — The Red Dog mining project that Gov. Bill Sheffield wants to encourage with a state-subsidized loan could benefit him politically and help a regional Native corporation with ties to his administration.

Sheffield is asking the legislature to approve a loan package that would finance \$150 million in construction under terms that have yet to be negotiated.

The money would be used to build a road and port to serve the proposed Red Dog zinc mine, a project of NANA Regional Corp. and Cominco Ltd., an international mining compa-

See Page A-10, SHEFFIELD

4311

- City Editor, W.P. Dougherty, 786-4301
- Community, 786-4320
- Editorial Page, Steve Lindbeck, 786-4308
- Homes, Nancy Montgomery, 786-4325
- Juneau bureau, John Lindback, 586-9571

- Letters to the Editor, Michael Carey, 786-4440.
- Lifestyles, M. A. Mariner, 786-4330
- Mat-Su bureau, 376-4101
- Photography, 786-4347 or 786-4331
- Religion news, 786-4320
- Sports, 786-4335 after 4 p.m.
- Suzan Nightingale, columnist,

- TV-radio news, Stephanie Barrow, 786-4326
  - We Alaskans, Kathleen McCoy, 786-4318.
  - Weddings, 786-4320
  - Weekend section, Peter Porco, 786-4321
- For other departments, business hours are 8 a.m. to 5 p.m. weekdays.

- Classified ads, 563-6363
- Classified billing, 786-4231
- Composing, 786-4363
- Dispatch, 786-4270
- Display billing, 786-4236
- Mailroom, 786-4366
- Retail ads, 786-4242
- Personnel, 786-4275
- Pressroom, 786-4367

**Managers:**

development

- Dale Kuta, advertising
- Donna Schmidt, classified advertising
- Lurlyne Allen, comptroller
- Mary Beth Finley, circulation
- Carol Butterfield, personnel
- Dale Bussow, production
- Howard Weaver, managing editor

### **Classified advertising**

**In Anchorage, call 563-6363**

**In Wasilla, call 376-4101**

- Anchorage hours: 7:30 a.m. to 7 p.m. Monday through Thursday; 7:30 a.m. to 6 p.m. Friday; 9 a.m. to 2 p.m. Saturday.
- Wasilla hours: 8 a.m. to 5 p.m. Monday through Friday, 376-4101.
- Deadlines: Call before 10

a.m. for next day's paper.

- Billing: Most ads can be phoned in and billed after they appear in the paper.
- Freebies: Free ads for items up to \$100, private parties only. Two lines, seven days.
- \$7 deal: Three lines, seven days, only \$7 for items up to \$1,000, private parties only.
- Guaranteed results: Any serv-

en-day ad to sell an item can run seven more days free if the item didn't sell. Private parties only.

- Sunday Singles: \$10 for a one-inch ad, two Sundays, includes reply box.
- Autofinder: \$20 includes a picture ad of your car in our Autofinder magazine (magazines are free to the public) and a three-line ad in the auto section.

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Subscription rate is \$5 a month by carrier in the Anchorage area. Call for home delivery rates in other areas.

For home delivery information, call:

- Anchorage area, 563-6666.
- Palmer, Wasilla, Matanuska Valley, 376-4101 (8 a.m. to 5 p.m.

Monday through Friday).

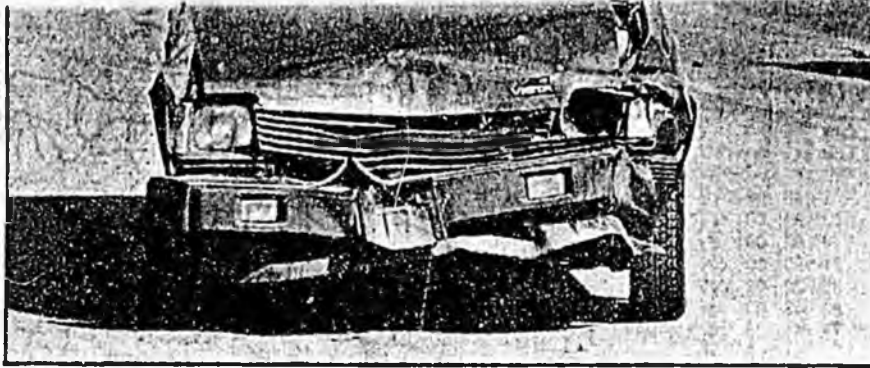
- Eagle River, 694-3445 (7 a.m. to 1 p.m. Monday through Friday).
  - Kenai Peninsula, 283-7943 (8 a.m. to noon Monday through Saturday).
- Home delivery problems should be called in before 10 a.m. for same-day service in Anchorage and Eagle River.

Daily News reporter

Parked on the sidewalk at Fireweed Lane and C Street, a crumpled car sits as a monument to the intersection's dubious honor as the most popular spot in town for automobile accidents during 1984.

"It was sitting here Monday morning when I came to work and no one has come to get it yet," said Clyde Powell, manager of Flowers by Bagoy.

The brand new Colt Vista with the smashed front-end is just one of the



Anchorage Daily News/Erik Hill

A crumpled Vista, damaged in an accident at Fireweed and C.

See Back Page, INTERSECTIONS

Central American country's already depressed economy.

The Sandinistas' trade with the United States has declined sharply since 1981 and now represents an estimated 20 percent of their imports and 12 percent of their exports, mostly agricultural products that can be sold elsewhere on the world market. Their share of total U.S. trade is minuscule; Nicaragua imported only \$111 million in U.S. goods and exported only \$57 million to the United States last year.

Instead, the officials said, the sanctions represent an attempt to demonstrate that Reagan still intends to pres-

See Back Page, REAGAN

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6 a.m. to 5 p.m.

# State loan may provide Red Dog mine subsidy

## Consultants say low-interest deal could mean subsidy up to \$130 million

By ANN CONY  
Daily News reporter

JUNEAU — The state would provide developers a subsidy of \$80 million to \$130 million for the Red Dog mine project under a low-interest loan proposed by the Sheffield administration and Cominco Ltd., financial consultants told lawmakers Tuesday morning.

Consultants from SRI International of Menlo Park, Calif., hedged when asked whether Cominco could develop the mine without state financing of a road and port north of Kotzebue.

But they said the state could probably avoid subsidizing the loan by increasing the interest rate.

"I think you could avoid a subsidy if you wanted to," Gerry Marsh, a senior consultant with SRI, which has a \$267,000 state contract to study financing options for the Red Dog mine.

Sen. Jan Faiks, R-Anchorage, said after the SRI presentation that she plans to introduce a measure designed to limit the potential subsidy. Sen. Rick Halford, R-Chugiak, said he is considering a measure requiring the loan

proposal to be approved by the legislature after the Sheffield administration negotiates definite loan terms with Cominco.

Marsh said the subsidy question is an equity issue for lawmakers to decide.

Cominco wants to develop the rich Red Dog zinc deposit in partnership with NANA Regional Corp., which owns the mineral deposit 82 miles north of Kotzebue.

The state would provide \$158 million to \$190 million to build the road and port. If the state accepted Cominco's offer on loan repayment terms, the

state would earn zero to 2 percent on the loan, Marsh said.

SRI officials said Cominco would sink about \$270 million into development of the proposed mine and mill. Cominco's return on investment in Red Dog would most likely be 16.5 percent, though it could be as low as 10.3 percent or as high as 19.3 percent, depending on future metals prices, he said.

Marsh pointed out that NANA will not finance any of the development costs and

See Back Page, RED

## Kenzie may be today

By DOUG O'HARRA  
Daily News reporter

WASILLA — Depending on the weather, fire crews could begin burning fallen timber in the Point MacKenzie farm project today, state officials say.

"We will be making a decision in the morning as to whether it's a burn or a no-burn day," Bob Martin said Tuesday. Martin is

a special assistant to the commissioner of the Department of Environmental Conservation.

If not today, the burning could begin any day through June 1 when conditions are right under terms of a DEC permit issued last week to the Department of Natural Resources.

Given good conditions this morning — clear weather, winds blowing away from Anchorage and the Matanuska-Susitna Valley, and low

particulate levels — state forestry crews will fire one mile of black spruce piled on Eileen Haines' 300-acre tract in the farm project.

That "test burn" will be allowed to cool off before any other timber is burned, said DEC officials.

"It's to study the behavior of the burn, and

See Back Page, BURN

Sens. Ted  
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and South  
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e was U.S.

ambassador to Brazil.  
Motley has retained his Alaska citizenship, but said he has not decided whether to move back.  
"I don't know. Everything is open. I have done a lot of thinking, but have not decided," Motley said in a telephone interview.  
As for a suggestion by Stevens and others that he run for governor, Motley said, "I don't know. I haven't ruled it out and I haven't ruled it in."  
Motley added, "I knew about George Sullivan announcing (for the

GOP gubernatorial nomination) ... and I have read that Steve (Cowper) is beating the governor in the polls. I am always interested in Alaska politics. I am fortunate enough to have people keep an ear to the ground for me in Alaska."  
Motley informed Shultz several months ago that he would like to return to private life, but the secretary asked him to delay his departure. Motley is expected to remain on the job for about two months until his successor, Elliott Abrams, is confirmed by the Senate.

With the key Congressional votes on aid to Nicaragua out of the way, Motley said he decided to make the resignation announcement.  
Motley said there was no policy difference with the Reagan administration that caused him to resign.  
"Absolutely not," he said. "I have been totally comfortable with the president's policies from day one."  
Motley described the State Department job as "the toughest job I ever had," and cited the U.S. invasion of Grenada as his biggest success.



The Associated Press

begins his 5,400 mile quest from Fairbanks to Washington, tation centers.

## s wheelchair quest

a paraplegic  
his wheel-  
journey to  
was para-  
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on to show  
can accom-  
money for  
country...  
and gloves,

"It feels good to be leaving, but it's kind of scary because I wonder what kind of conditions I'll run into," King said.  
He left under sunny skies and temperatures of about 45 degrees.  
King hopes the trip will take only 123 days, and intends to spend eight to 12 hours a day on the road, with Sundays as a rest day.  
He will travel on the Alaska Highway into Canada, drop down into Denver and cross the plains to Washington, D.C., arriving by the end of August.

## Red Dog proposal analyzed

Continued from Page A-1



therefore won't take any investment risks but will earn an estimated \$600 million in royalties over 30 years.  
The state will take a significant risk, according to SRI.  
Projections of an \$80 million state subsidy are based on mine production beginning in 1989 and road and port construction costs of \$158 million.  
But the consultants predict lower future zinc prices than Cominco and the state forecast. Low zinc prices could delay mine production — and Cominco's loan repayments — by a couple of years, according to Marsh. In addition, it's not unreasonable to assume that construction costs could escalate to \$190 million, he said.  
Those risk factors could increase the state subsidy to \$130 million, SRI calculated.

ment needs to be protected to the maximum extent possible," said Faiks, who is co-chairman of the Senate Finance Committee.

She said she may introduce an amendment that would require a minimum rate of return on the state loan.

Halford, Senate majority leader and a member of the Finance Committee, said he may propose that the authorization to sell bonds and commit state funds to the project be contingent on legislative approval of the final loan agreement, which is to be negotiated by Cominco and the Sheffield administration.

Gov. Bill Sheffield is asking the legislature to authorize a complex loan package for financing construction of a 57-mile road and port. The package includes bond sales and dedication to Red Dog of outstanding state loans valued at \$136 million. Repayments on the loan portfolio and the transfer of \$15 million in unused state appropriations from the past would yield about \$33 million for Red Dog during the coming fiscal year.

"We don't approve royalty oil contracts without knowing the terms. We don't make loans without specifying the interest rates and penalty payments," Halford said. "I think those are legitimate concerns."

Marsh said Cominco's return on investment will be far more dependent on future zinc prices than on the magnitude of its loan repayments to the state. The repayment terms required by the state will have a greater impact on the value of the subsidy than on Cominco's profits.

Legislation to accomplish Sheffield's plan is before the Finance Committee in the Senate and awaiting a vote on the floor in the House.  
"I think the project needs to go, but the state's invest-

Cominco's return would be about 2 percent lower than projected if the state were to require a 10 percent return on its investment, he said.



## **ALASKA PUBLIC INTEREST RESEARCH GROUP**

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

### RED DOG ROAD AND PORT FACTSHEET

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

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

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

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

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

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

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

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

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

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

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



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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

April 9, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

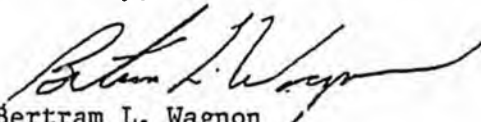
6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the \$18 million from the general fund, the \$142 million principal in loans, the interest on the \$18 million while in the fund, the interest generated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

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

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

Please let me know if you have further questions.

Sincerely,



Bertram L. Wagon  
Executive Director

BLW:ec

Enclosures

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

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

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

Notes

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

ATTACHMENT II

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

<u>Fiscal Year</u>	<u>Cash Flow from Loans (000)</u>	<u>Fund Balance (000)</u>
1995	7,060	7,060
96	6,720	14,486
97	6,382	22,317
98	6,042	30,590
99	5,736	39,385
2000	5,698	49,022
01	5,604	59,528
02	4,841	70,322
03	4,041	81,395
04	3,833	93,367
05	3,729	106,433
06	3,672	120,749
07	3,023	135,846
08	1,624	151,055
09	495	166,656
10	93	183,414
11	19	201,775
12		221,952
13		244,147
14		268,562
15		295,418

ATTACHMENT III

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

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

Original sponsor: Rules/Governor

1  
2 IN THE HOUSE

BY THE HOUSE SPECIAL  
COMMITTEE ON STATE LOANS

3 CS FOR HOUSE BILL NO. 105 (Loans)

4 IN THE LEGISLATURE OF THE STATE OF ALASKA

5 FOURTEENTH LEGISLATURE - FIRST SESSION

6 A BILL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## **ALASKA PUBLIC INTEREST RESEARCH GROUP**

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

### The Red Dog Road and Port Project

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employment:

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

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

Income:

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

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

Jobs for previously unemployed people:

During Construction: 38-- 12 in villages, 7 outside AK  
During Production: 93--51 in villages, 10 outside AK

Tax revenues :

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

Cominco: million  
\$2 million per year through 1992, \$8 million in 1993, average \$10/per year through 2008.

NANA:

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

---

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

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

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

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

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

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 105

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

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

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

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

**DEPARTMENT OF REVENUE**

TREASURY DIVISION

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

April 15, 1985

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

Dear Senator Sturgulewski:

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

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

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

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

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

Hon. Arliss Sturgulewski  
April 15, 1985  
Page 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

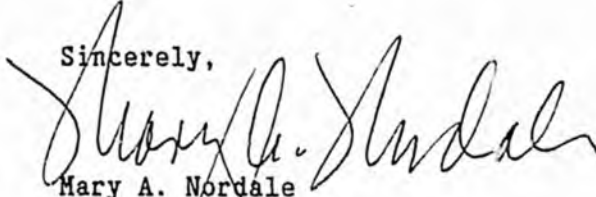
Implicit in the question is an assumption that the cash flow from the loans and the \$18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the \$18 million and only the \$71.6 million on the loans.

Hon. Arliss Sturgulewski  
April 15, 1985  
Page 4

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

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

Sincerely,



Mary A. Nordale  
Commissioner

MAN/gb  
85-57

Enclosure

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

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

<u>Fiscal Year</u>	<u>Veterans</u>	<u>Small Business</u>	<u>Commercial Fish</u>	<u>Tourism</u>	<u>Child Care</u>	<u>Historical District</u>	<u>Fisheries Enhancement</u>	<u>Total</u>
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,000	2,783	5,786	308	4	22		17,937
1988	8,554	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
<b>Total</b>	<b>145,758</b>	<b>19,875</b>	<b>31,768</b>	<b>3,099</b>	<b>15</b>	<b>147</b>	<b>6,804</b> (principal only)	<b>207,466</b>

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

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D  
JUNEAU, ALASKA 99811  
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

April 8, 1985

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

Dear Senator Sturgulewski:

Re: \$142 Million AIDA Transfer

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

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

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

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

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

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

No, both organizations expect repayment on a timely basis.

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

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

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

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

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

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

April 8, 1985

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

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

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

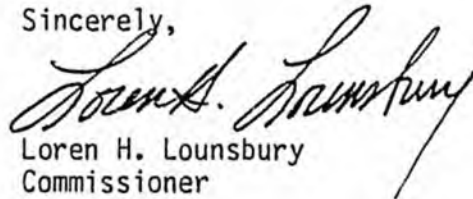
5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the \$142 million as of July 1, 1985?

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

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

Please let me know if you have further questions.

Sincerely,



Loren H. Lounsbury  
Commissioner

LHL/mst1748m  
040385c

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



Proposed Amendments to SB 280

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

Section 1. (2) The United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Dept. of Interior or a right of way as authorized by Title 11 of ANILCA:

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

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

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

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

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

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

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

## I. BACKGROUND

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

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

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

## II. WHY IS AIDA INVOLVED

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

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

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

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

### III. AIDA AND THE DELONG MOUNTAINS TRANSPORTATION PROJECT

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

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

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

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

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

#### IV. WHAT HAS OCCURRED TO DATE

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

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

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

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

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

#### V. WHAT IS PLANNED FOR THE FUTURE

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

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

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

7TH FLOOR FRONTIER BLDG.  
3801 C STREET, SUITE 722  
ANCHORAGE, ALASKA 99503  
PHONE: (907) 562-2728

### RESOLUTION OF INTENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


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

Date:

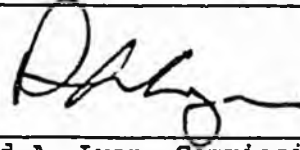
Dec 18/1984

Date:

Dec 17, 1984



H. M. Giegerich, President  
Cominco, Alaska



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

## APPENDIX B

### REQUEST FOR PROPOSAL FOR FINANCE PLAN

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

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

#### I. Introduction and Explanation of Project

##### A. Alaska Industrial Development Authority:

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

## B. The Proposed Transportation Project

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

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

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

## C. The Finance Plan

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

Sec. 44.88.173. Finance plan.

- (a) Before approving a project financed under AS 44.88.172, the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project, and a description of the sources of money that will be used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.
- (b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.
- (c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project.  
(4 8 ch 162 SLA 1984)

## II. Terms & Conditions of Performance

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

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

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

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

### III. Scope of Services

#### A. Costs of the Project

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

#### B. Revenues of the Project

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

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

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

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

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

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

### C. Financing Options

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

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

D. Presentation of Alternative Finance Plans

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

E. Presentation of Results

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

F. Fees

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

IV. Method of Evaluation

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

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

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

V. Submission of Proposals

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

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

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

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

## APPENDIX A

### TECHNICAL SPECIFICATIONS

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

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

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

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

## Cominco's Red Dog plan masks subsidy

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

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

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

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

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

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

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

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

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



**Steve  
Cowper**

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

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

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

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

there than in Northwest Alaska.

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

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

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

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

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

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

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

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

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

Anch. Times 3-26-83

## Chamber of Commerce supports Red Dog road

Times Business Staff

Cominco Alaska's request for state financing to build a road and port facility for its Red Dog mineral deposit 90 miles northeast of Kotzebue won a vote of confidence from the Anchorage Chamber of Commerce board of directors Monday.

The board endorsed the plan "in principle," urging the legislature to appropriate "such funds which are necessary" to begin the road and port construction.

Asking for \$150 million for the

transportation facilities, Cominco has stressed the state would own the 57-mile road and port on the Chukchi Sea. Cominco would maintain them and repay the state's costs with user fees.

The board's resolution pointed out economic advantages to the plan, delays in the mine's development caused by lack of a road and the firm's guarantee to repay the state's investment with interest.

# Support for Red Dog

**THE ARGUMENTS** in favor of state involvement in the Red Dog zinc mining project in far northwestern Alaska grow more compelling. Maybe the time has come to end the rancor and say it's something all Alaskans should support.

What's at stake here would be some \$150 million in state money to finance construction of a 57-mile road from the mine site to the Bering Sea coast and the construction of a dock facility from which the ore would be shipped.

Without question, the zinc deposits at Red Dog are among the largest in the world. One of the world's foremost mining companies, Cominco, has teamed up in a partnership with the Nana Native Regional Corp., which owns the land where the ore deposit is located.

The only hangup is the start-up cost of the infrastructure required. It is there the company and native corporation leaders are asking for state help.

Help is the proper word.

## In the big Time

**WHAT DO** Libby Riddles of Teller, Alaska, and Princess Diana of Kensington Palace, London, have in common?

Little, it would seem. But they share the top of the People page in this week's Time Magazine.

Diana is shown in a one-column color photo with a caption about her latest wardrobe.

Libby is seen in a two-column color photo with a caption that tells about her dash through a blinding blizzard to the finish line of the 1985 Iditarod Trail Sled Dog race.

Time makes a small error by referring to the competition as a dogsled race. All good Alaskans know it's the dogs that race, not the sleds.

But the magazine scores points for recognizing Libby's stunning achievement and, in reporting it, giving her some royal company across the page.

Cominco is not seeking a grant. Rather, it has offered to enter into an iron-clad agreement with the state to repay the costs over a period of years.

Further, the facilities that would be built would be public — available for use by other mining ventures that almost certainly will follow from other highly mineralized areas in the same locale, if and when the road and dock are built.

**THERE ARE OTHER** reasons for the legislature and the governor to move forward confidently with the proposal this session. Alaskans have been talking for years about the need for economic development opportunities, for infrastructures to accommodate new commercial activities and for jobs for rural Alaskans.

The Cominco/Nana project will accomplish all three ends.

Mining, long languishing in Alaska, would move dramatically forward if this mine goes into operation. New infrastructure to support it and additional mining operations would be in place. Native residents of the area north of Kotzebue would have an opportunity for year-round employment in a stable industrial setting.

**HERE IS AN** opportunity for Alaskans in other parts of the state to demonstrate that their belief in economic development is not restricted to the city limits of Anchorage or Fairbanks or other population centers.

The Red Dog mine is a project for northwestern Alaska, to be sure. But it is more. The state as a whole stands to benefit from having more jobs for more people, from a strong new addition to the economy, and from the chance at last to bring into production some of Alaska's great mineral deposits.

The Anchorage Chamber of Commerce this week gave its endorsement to the state's participation in the Red Dog venture. It's time for others to join.



# AKPIRG ADVOCATE

April 1985  
Vol. 11 • No. 2

## "REVENGE OF THE FOLLIES!"

The Follies are back! AkPIRG and the Center for the Environment are jointly offering you an evening of political satire--at the expense of everyone. See what Jerry Falwell and Phyllis Schaffley are up to these days. Follow Dorothy Fink and Toto Abood up the revenue road. Check up on Bill Sheffield, asleep on the campaign trail and hear the ballad of Bill the Red Ross. Two shows only at the Anchorage Museum, April 5th and 6th. All you folks who have been complaining for 4 years about missing the Follies! and Follies Encore! in 1981, get down to AkPIRG or the Center and fork over \$10. And watch out Fairbanks and Juneau, we may take this show on the road!

## Utility Service & Safety Standards

Why is Alaska the only state in the Union that does not require utilities to pay interest on deposits? Why is Alaska years late in meeting the deadline set by federal law (PURPA) to implement special service termination protections for the elderly, handicapped, and seriously ill? And, why are utilities in Alaska allowed to disconnect service in below zero weather with no notice? Because the APUC has tried to promulgate service and safety standards for the electric utility industry three times since ACAP petitioned for them in 1980, and has heard lots of complaints from rural electric coops about how expensive and unnecessary they are, and very little in the way of support from consumers.

The latest proposed standards are good. Installment payment plans (and an extra 25 days to negotiate one) must be offered before service can be terminated in below 31 F weather, or if any resident of the household is over 65, under 4, or seriously ill. Deposits will not be required of customers with good credit. Deposits must bear interest, and can be held for a maximum of two years. Personal notice must be attempted before service can be disconnected. And the list goes on. Thanks to a grant from the APA, ACAP has done extensive research on service and safety standards and is working closely with APUC staff to ensure that this third attempt will result in uniform standards that adequately protect all Alaskans from the monopolistic billing and collection practices of their utilities.

AkPIRG recently completed an analysis of campaign finance bills now before the legislature. Call us or write for a free copy of the report.

Beginning March 18, AkPIRG has a full time staffer on the housing beat. Gail Neubert, recently a researcher at the Alaska Health Project, will be working with us on housing quality, affordability, and availability issues. Give her a call if you have ideas or leads.

## Videotape Library

AkPIRG/ACAP has a small videotape and cassette library covering events that we have sponsored, and important consumer issues. The tapes we have so far include:

### Videotapes

Move Over Orwell--a summary of ACAP's telecommunications conference held in August, 1984; includes discussion of cellular mobile telephones, cable TV, and telephone technology; general overview of Alaskan telecommunications.

Crossroads--a condensation of Ralph Nader's speech to Alaskan consumers in April, 1984; tape produced by KAKM, Channel 7.

### Cassette Tapes

Move Over Orwell--the complete proceeding of ACAP's telecommunications conference featuring speakers from the APUC, GCI, MultiVisions, the Federal Communications Commission, and Matanuska Telephone Association.

Budget Conference--the complete proceeding of AkPIRG's conference on budget issues held in November 1982.

These tapes may be borrowed or reproduced. We'll update the list as new tapes become available.

Eight utility members of the Alaska Telephone Association and ACAP have initiated a bill stuffer program to educate telephone ratepayers about upcoming subscriber line charges.

**Alascom Update:** Following in AkPIRG's footsteps of the late 1970's, ACAP once again challenged Alascom's need for a rate increase--so far successfully. The issue is this: should Alascom be entitled to extract an additional \$12 million/year from its ratepayers for instate long distance tolls, while it continues to receive a "\$15 million/year subsidy from AT&T to cover the same service? Of course not! Once ACAP went public with Alascom's "double-dipping" proposal, the long-distance company quickly assured everyone that it intended to put the rate increase in "escrow," for possible refund to the ratepayer if the subsidy was upheld in court.

As if asking for a protective rate increase was not enough, Alascom also cancelled all its agreements with local telephone companies, whereby it reimburses them for the costs of using local equipment to complete long distance calls. Alascom's attempts to hold the local telco's hostage for a rate increase backfired as well. At the time of printing, the APUC has postponed twice its decision on the requested rate increase, hoping that negotiations at the local and federal levels might make the problem go away. If nothing else, the delay is saving ratepayers a little over \$1 million per month.

## Red Dog Mine

In February, the AkPIRG board decided to carefully follow the proposed state involvement in the Delong Road and Port Project. The proposed road and port will serve the Red Dog zinc, lead, and silver mine now planned by Cominco, Alaska in a joint venture with the NANA Regional Corp.

Although a final proposal still is not on the table, the most often cited plan is for the State to build the \$150 million project, Cominco/NANA to pay back the state in annual increments of roughly \$10 million, and for the state to forgive about \$28 million for the project. The present value of the total state subsidy is estimated at roughly \$65 million.

There is no doubt that the project will strengthen the economy in northwest Alaska, provide much-needed jobs for NANA region residents, and diversify the state's economy. The State should aggressively support the endeavor.

Several obstacles remain, however. The real price of zinc must increase roughly 50% before the mine becomes feasible without state involvement. The preferred route for the road runs through the Krustenstern National Monument, and it will literally take an act of Congress to authorize the right-of-way. Finally, the North Slope Borough must agree to transfer the land in which the deposit lies to a new NANA Borough in the area.

The terms of any state involvement must be carefully analyzed, however. Will the state agree to a low-interest or no-interest loan? Will there be a moratorium on repayment? For how long? Will the state agree to an actual grant for the project? How much? What about cost overruns? What if the mine is extremely successful in its first years--will the state be repaid at a faster rate? If the mine is never built, exactly what guarantee will Cominco offer for repayment? In real terms, what will each of these options "cost" the state? And finally, is state involvement really necessary, or is it just helpful.

Through recent tax changes and incentive programs, the State has already provided major breaks to new mineral development projects. The investment tax credit, passed last year, offers up to a 60% credit on corporate income and mining license taxes. Can we afford more right now?

Kudos to Sen. Joe Josephson! Joe's leadership on the airfare issue is a classic example of how citizen organizing and pressure can force an industry such as the airlines to the bargaining table. Now, if we could just get similar leadership on telephone issues. . .

## Cominco

AkPIRG scored a \$3 million victory in February. The Alaska Industrial Development Authority (AIDA) decided against letting a \$3 million sole source contract to Cominco Alaska for geotechnical data in connection with the Red Dog road and port project finance plan.

AkPIRG argued that in order to protect the integrity of the plan, the contract should have been competitively bid. Moreover, AIDA should wait until gaps in information were identified by the finance plan team before it went ahead and bought a block of information from Cominco. Moreover, Cominco staff acknowledged that much of the field work and analysis to be paid for under contract had been completed last year.

Cominco staff acknowledged that much of the field work and analysis to be paid for under the contract had been completed last year.

Bert Wagnon, AIDA Director, says he decided to wait until the legislature approves funding for the entire proposal before going ahead with the contract. We heartily agree. And will this now-available \$3 million be counted toward the \$18 million in the governor's budget earmarked for Red Dog?

## CALENDAR

- April 1985 -- Your REA coop's annual meeting. Be sure to vote consumer representatives onto the Board of Directors.
- April 5-6 -- ACE/AkPIRG "Revenge of the Follies!" Anchorage Museum, 7:30 p.m.
- April 10 -- AkPIRG Board Meeting, 5:30 p.m.
- June 3 -- Teleconference on APUC proposed service and safety standards. Noon - 2 p.m. Check the last Legislative Alert for your location.
- June 11 -- Public hearing on APUC proposed service and safety standards. 420 L Street, Suite 100, Anchorage, 9 a.m.

**Alaska Public Interest Research Group  
P.O. Box 10-1093  
Anchorage, Alaska 99510**

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APR 19 1985



# Alaska State Legislature

## House

Official Business

Pouch V  
State Capitol  
Juneau, Alaska 99811

April 17, 1985

Senator Arliss Sturgulewski  
Pouch V  
Juneau, Alaska 99811

Dear Arliss:

On April 10 I wrote to you about the fact that I had not received a reply from Cominco to questions I had asked for on February 12.

Cominco did reply to my Anchorage address. I have it in hand now and it is enclosed for your information.

Yours truly,

A handwritten signature in cursive script, appearing to read "Marco".

Marco A. Pignalberi  
State Representative

MAP:mk

Enclosure

cc: Senator Tim Kelly  
Senator Rick Halford  
Senator Fred Zharoff  
Representative John Sund

APR 15 1985



H M Giegerich  
President & General Manager

Representative Marco A. Pignalberi  
6712 Lunar Drive  
Anchorage, Alaska 99504

March 8, 1985

Dear Representative Pignalberi:

I would like to apologize for taking so long to supply the information that you requested during our meeting in Juneau on February 12. My only excuse is press of work and lack of time. I have spent most of the intervening period on airplanes.

We certainly appreciated the opportunity to meet with you and the Anchorage caucus, to discuss our Red Dog Project. I consider that the exchange of views was very worthwhile, and I think that we were able to better appreciate your thoughts and concerns.

During the discussions, I gave you some estimated figures in regard to Cominco's return on investment under different financing alternatives, and I indicated that these would be confirmed. I am now pleased to do this, and will compare these with my estimates, which have turned out to be both optimistic and pessemistic.

The first alternative assumes that Cominco puts up the entire \$400 million investment. Using current metal prices, the return on investment (R. O. I.) would be 7.8% (My estimate was 6.0%). With Cominco's forecast prices, the R.O.I. increases to 13% (My estimate was 10%).

If the State finances the \$150 million cost of the transportation system, and this financing is repaid as proposed by Cominco, the R. O. I., using current metal prices, increases to 9.6%, and to 16% (My estimate was 18%) with Cominco's forecast prices.

You also requested information in regard to the State's return on its investment. Assuming a State investment of

Rep. Pignalberi

-2-

March 8, 1985

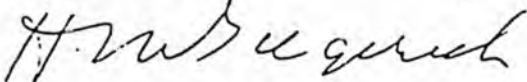
\$150 million, to be repaid by a toll fee of \$260 million over 30 years, this is a return on investment (on a discounted cash flow basis) of 4.3%. Adding in the estimated direct taxes to the State of \$360 million during the same 30 year period (for a total of \$620 million) the R.O.I. is increased to 12.8%. And it should be stressed that these taxes are a direct result of income generated by Red Dog and will be achieved only if Red Dog is put into production.

One further item should be considered. In early 1984, at Governor Sheffield's request, a study of the Red Dog Project was carried out by a Task Force from the key State agencies, including CED, CRA, Revenue, DOT/PF and DNR. One portion of this report studied the economic effect of Red Dog on the State, and identified a significant reduction in transfer payments from the State to the NANA region, amounting to about \$1.5 million per year, or more than \$40 million over 30 years.

This reduction in State expenditures can also be directly attributed to Red Dog. When this is added to the previous \$620 million, the R.O.I. on the State investment of \$150 million becomes 13.7%. So it can be seen that the Red Dog transportation system is truly an economic investment for the State.

If there is any other information on Red Dog, or Cominco, that would be of assistance to you, please do not hesitate to contact me.

Yours truly,



H. M. Giegerich  
President and General Manager

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF REVENUE

TREASURY DIVISION

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

April 19, 1985

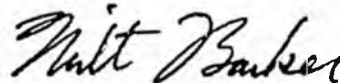
The Honorable Arliss Sturgulewski  
Chairman  
Senate Resources Committee  
Alaska Senate  
Pouch V  
Juneau, AK 99811

Dear Senator Sturgulewski:

During hearings on HB 105 in the House Special Committee on Loans, the chairman asked what impact there would be on State debt capacity as a result of authorizing Alaska Industrial Development Authority to issue bonds for the DeLong Mountains transportation project. In response, the Department of Revenue offered testimony substantially as contained in the attached letter to Chairman Sund.

The Department is providing you with a copy of this letter in anticipation that you or your committee may have similar questions as a result of your consideration of SB 280.

Sincerely yours,



Milt Barker  
Deputy Commissioner

MB/gb  
85-85

Enclosure

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

## DEPARTMENT OF REVENUE

TREASURY DIVISION

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

April 19, 1985

The Honorable John Sund  
Chairman  
Committee on Loans  
Alaska State House  
Pouch V  
Juneau, AK 99811

Dear Representative Sund:

At the request of your staff, I would like to offer the Department of Revenue's comments on the effect debt issuance by Alaska Industrial Development Authority (AIDA) for the DeLong Mountains transportation project would have on State general obligation bond debt capacity.

Issuance of this debt would have no direct effect on the State's debt capacity. The AIDA debt would be secured by project revenues and assets of the economic development fund. The full faith and credit of the State would not be pledged to the project nor would debt service on the bonds be paid by future appropriations from the general fund. As a result, the debt will not be counted as State debt along with general obligation bonds and lease financing by the rating agencies or bondbuyers.

Only in the event that the project were partially or substantially completed, yet no mining ever occurred, Cominco failed to honor its pledge to pay back State costs, and the State decided to assume responsibility for the debt even though it had no legal obligation to do so, would the debt become State debt and thereby diminish State debt capacity for other purposes. Such diminution would be mitigated to some extent by available cash flow from the proposed loan appropriations or possibly by some degree of project revenues if intermittent or marginally profitable mining operations were to occur.