

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

9087 SENATE TRANSPORTATION

HB

526

As compared to
CS HB 526 (FIN) am

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the financing authority, programs, operations, and projects
2 of the Alaska Industrial Development and Export Authority; providing an
3 exemption from the procurement code for certain projects of the authority; and
4 providing for an effective date."

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

6 • Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

7 (34) contracts of the Alaska Industrial Development and Export
8 Authority made with the developer of an integrated transportation and port facility
9 owned by the authority.

10 • Sec. 2. AS 44.88 is amended by adding a new section to article 3 to read:

11 *New Language* Sec. 44.88.088. PAYMENT OF DIVIDEND TO STATE. The authority shall
12 adopt a policy for the payment of a portion of the unrestricted net income of the
13 authority to the general fund as a dividend each fiscal year. The amount of the
14 dividend for a fiscal year may not be less than 40 percent of the net income of the

1 authority for that fiscal year, unless that amount exceeds the total unrestricted net
 2 income of the authority for that year, in which case, the amount of the dividend equals
 3 the total unrestricted net income of the authority for that fiscal year. The dividend for
 4 a fiscal year shall be paid before the end of the immediately following fiscal year. For
 5 purposes of applying this section, income of the authority is "net income" or
 6 "unrestricted net income" based upon how the income is treated in the latest audited
 7 financial statement of the authority.

Revised Section
to include a
Sunset clause

8 * Sec. 3. AS 44.88.095(g) is amended to read:

9 (g) Before July 1, 1998, the authority may issue bonds in an amount
 10 greater than \$10,000,000 to assist in the financing of a development project under
 11 AS 44.88.172 - 44.88.177 only with legislative approval. Beginning July 1, 1998,
 12 and thereafter, without [WITHOUT] prior legislative approval, the authority may not
 13 issue bonds, except refunding bonds.

14 * Sec. 4. AS 44.88.159(a) is amended to read:

15 (a) The interest rate on a loan participation purchased [FINANCED] from
 16 the proceeds of tax-exempt bonds or expected by the authority to be purchased
 17 [FINANCED] from the proceeds of tax-exempt bonds is equal to the cost of funds to
 18 the authority. In this subsection "cost of funds" means the true interest cost expressed
 19 as a rate on tax-exempt bonds of the authority plus an additional percentage as
 20 determined by the authority to represent the allocable expenses of operation, costs of
 21 issuance, and loan servicing.

22 * Sec. 5. AS 44.88.159(b) is amended to read:

23 (b) The interest rate on a loan participation purchased [FINANCED] from
 24 the proceeds of taxable bonds or expected by the authority to be purchased
 25 [FINANCED] from the proceeds of taxable bonds is equal to the cost of funds to the
 26 authority. In this subsection "cost of funds" means the true interest cost expressed as
 27 a rate on taxable bonds, plus an additional percentage as determined by the authority
 28 to represent the allocable expenses of operation, costs of issuance, and loan servicing
 29 costs.

30 * Sec. 6. AS 44.88.159(c) is amended to read:

31 (c) The interest rate on a loan participation purchased [FINANCED] directly

1 from the assets of the authority shall be determined under the regulations adopted by
2 the authority under AS 44.88.085(g)(2)(C). ^{New Language} However, the interest rate on a loan
3 participation purchased from assets of the authority may not be less than the rate
4 determined

5 (1) under (a) of this section if the project is of a type that could be
6 funded with tax-exempt bonds; or

7 (2) under (b) of this section if the project is of a type that could not
8 be funded with tax-exempt bonds.

9 * Sec. 7. AS 44.88.205(b) is amended to read:

10 (b) To further ensure effective budgetary decision making by the legislature,
11 the authority shall

12 (1) annually review the authority's assets to determine whether assets
13 of the authority exceed an amount required to fulfill the purposes of the authority as
14 defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall
15 determine whether, and to what extent, assets in excess of the amount required to
16 fulfill the purposes of the authority during at least the next fiscal year are available
17 without

18 (A) breaching any agreement entered into by the authority;

19 (B) materially impairing the operations or financial integrity of
20 the authority; or

21 (C) materially affecting the ability of the authority to fulfill the
22 authority's purposes set out in AS 44.88.070; and

23 (2) make available [PRESENT] to the legislature by January 10 of
24 each year a complete accounting of all assets of the authority and a report of the
25 review and determination made under (1) of this subsection; the accounting shall be
26 audited by the auditor who conducts the audit required by AS 44.88.200 and must
27 include a full description of all loan interest and principal payments and program
28 receipts, including

29 (A) loan commitment fees received by or accrued to the
30 authority during the preceding fiscal year; [,] and

31 (B) all income earned on assets of the authority during that

1 period.

2 * Sec. 8. AS 44.88.500(a) is amended to read:

3 (a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE
4 AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED
5 BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of
6 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

7 (1) [TO] guarantee new business assistance loans; and

8 (2) [TO] guarantee new business assistance loans made to refinance
9 existing loans.

10 * Sec. 9. AS 44.88.530 is amended to read:

11 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
12 44.88.560 apply to

13 [(1)] new loan guarantees and refinancing guarantees under
14 AS 44.88.500 [AS 44.88.500(a)(1); AND

15 (2) DEBT REFINANCING GUARANTEES UNDER
16 AS 44.88.500(a)(2)].

17 * Sec. 10. AS 44.88.535 is amended to read:

18 Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (a) The authority
19 may guarantee a loan under AS 44.88.500 - 44.88.599 if the

20 (1) loan

21 (A) is commercially reasonable;

22 (B) contains amortization provisions satisfactory to the
23 authority;

24 (C) is secured by adequate collateral; however, the authority
25 may waive on a case-by-case basis the requirement of collateral for a loan
26 guarantee of \$100,000 [\$75,000] or less for which the proposed loan
27 amortization period does not exceed five years, but the ability to waive the
28 requirement of this subparagraph or the grant of a waiver does not prevent the
29 financial institution that holds the loan guaranteed by the authority from
30 requiring reasonable collateral for the loan;

31 (2) net cash flow from the borrower provides adequate coverage for the

1 debt service on the loan;

2 (3) term of the loan does not exceed 20 years;

3 (4) loan is originated with and serviced by a state chartered or federally
4 chartered financial institution;

5 (5) portion of the loan not guaranteed by the authority is held by the
6 originating financial institution or another [FINANCIAL] institution approved by the
7 authority;

8 (6) proceeds of the loan will be used [IS MADE] to benefit a business
9 conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS];
10 and

11 (7) loan guarantee provides a benefit to the borrower.

12 (b) The authority may provide a guarantee [FROM THE FUND

13 (1) of ^{added} up to 80 percent of a loan [OF \$50,000 OR LESS] that qualifies
14 under AS 44.88.500 - 44.88.599. The [;

15 (2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN
16 \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the
17 guarantee to the outstanding principal of the loan may not increase over the term of
18 the loan.

19 (c) The authority may [NOT] guarantee the payment of interest on the
20 guaranteed portion of a loan in the manner established by the authority by
21 regulation and for a period of time not to exceed 90 days. ^{added}

22 • Sec. 11. AS 44.88.540 is amended to read:

23 Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

24 The authority may not issue a total of more than [GUARANTEE]

25 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
26 [LOANS];

27 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
28 which the amount of the loan guarantee exceeds \$500,000.

29 • Sec. 12. AS 44.88.550(a) is amended to read:

30 (a) The maximum interest rate that may be charged by a financial
31 institution on a loan guaranteed by the authority is two and three-quarters percentage

1 points above the prime rate.

2 * Sec. 13. AS 44.88.560 is amended to read:

3 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

4 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

5 (2) establish terms and conditions for loan guarantees and refinancing
6 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

7 (3) make and execute contracts and other instruments to implement
8 AS 44.88.500 - 44.88.599;

9 (4) charge

10 (A) one percent of the amount guaranteed for the service it
11 provides under AS 44.88.500 - 44.88.599; and

12 (B) any other reasonable fee that the authority may establish by
13 regulation;

14 (5) acquire real or personal property by purchase, transfer, or
15 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
16 in a loan or a loan guarantee [THE FUND]; *added*

17 (6) exercise any other power necessary to implement AS 44.88.500 -
18 44.88.599; and

19 (7) to the extent the authority considers it to be in its best interest to
20 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
21 relating to the liquidation of collateral securing loans guaranteed by the authority
22 [BUSINESS ASSISTANCE FUND].

23 * Sec. 14. AS 44.88.599(2) is amended to read: *New Language*

24 (2) "prime rate" means the lowest United States money center prime
25 rate of interest that is published in the Wall Street Journal.

26 * Sec. 15. AS 44.88.900(3) is amended to read:

27 (3) "development project" has the meaning given to "project" in (9)(A)
28 and (D) - (E) [, (D), AND (E)] of this section:

29 * Sec. 16. AS 44.88.900(7) is repealed and reenacted to read:

30 (7) "loan participation" means the purchase of a portion of a loan from
31 a financial institution if the financial institution has obtained a commitment from the

1 authority to purchase the portion of that loan before the financial institution has
2 disbursed money as part of the loan to the borrower;

3 * Sec. 17. AS 44.88.900(9) is amended to read:

4 (9) "project" means

5 (A) a plant or facility used or intended for use in connection
6 with making, processing, preparing, transporting, or producing in any manner,
7 goods, products, or substances of any kind or nature or in connection with
8 developing or utilizing a natural resource, or extracting, smelting, transporting,
9 converting, assembling, or producing in any manner, minerals, raw materials,
10 chemicals, compounds, alloys, fibers, commodities and materials, products, or
11 substances of any kind or nature;

12 (B) a plant or facility used or intended for use in connection
13 with a business enterprise;

14 (C) commercial activity by a business [SMALL] enterprise;

15 (D) a plant or facility demonstrating technological advances of
16 new methods and procedures and prototype commercial applications for the
17 exploration, development, production, transportation, conversion, and use of
18 energy resources;

19 (E) infrastructure for a new tourism destination facility or for
20 the expansion of a tourism destination facility;

21 (F) a plant or facility, other than a plant or facility described in
22 (D) of this paragraph, for the generation, transmission, development,
23 transportation, conversion, or use of energy resources;

24 • Sec. 18. Section 2(a), ch. 27, SLA 1993 is amended to read: *New Section*

25 Sec. 2. (a) The Alaska Industrial Development and Export Authority may
26 issue bonds to finance the acquisition, design, and construction of a port facility and
27 related loading and conveyor equipment related to the development and operation of
28 a bulk commodity loading and shipping terminal. The terminal may be located
29 anywhere within Cook Inlet. The facility will be [DIRECT REDUCTION IRON
30 ORE PROCESSING FACILITY FOR USE BY THE MIDREX CORPORATION, TO
31 BE LOCATED AT POINT MACKENZIE AND] owned by the authority. The

1 entire investment in the project;

2 (B) ensures an additional return on AIDEA's investment made under
3 this section that is commensurate with the return earned on the original DeLong
4 Mountain Transportation System project and the risks assumed by AIDEA;

5 (C) guarantees equitable access to the facilities by all users and
6 potential users, including access to private property and access for travel necessary and
7 related to resource exploration and development for which valid permits have been
8 obtained and travel in support of resource exploration and development;

9 (3) reasonable access to the port and road is guaranteed to all users and
10 potential users.

11 (c) Subsection (a) of this section constitutes the legislative approval required by
12 AS 44.88.095(g).

13 * Sec. 24. (a) Upon approval of the Alaska Industrial Development and Export Authority
14 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
15 the Alaska Power Administration.

16 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
17 project and related assets, or may finance the acquisition by other means available to AIDEA.
18 The principal amount of the bonds and other financing provided by AIDEA to finance the
19 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

20 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
21 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
22 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
23 no later than January 2 of each year, certify in writing to the governor and the legislature the
24 amount, if any, required to restore the capital reserve fund to the capital reserve fund
25 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
26 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
27 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
28 in this section creates a debt or liability of the state.

29 (d) Subsection (b) of this section grants the legislative approval required by
30 AS 44.88.095(g).

31 * Sec. 25. This Act takes effect immediately under AS 01.10.070(c).

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

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Offered:

Referred:

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11 Sec. 44.88.088. **PAYMENT OF DIVIDEND TO STATE.** The authority shall
12 adopt a policy for the payment of a portion of the unrestricted net income of the
13 authority to the general fund as a dividend each fiscal year. The dividend for a fiscal
14 year may not be less than 40 percent of the unrestricted net income of the authority.

1 earned that fiscal year and shall be paid before the end of the immediately following
2 fiscal year.

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4 (g) Before July 1, 1998, the authority may issue bonds in an amount
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18 (b) The interest rate on a loan participation purchased [FINANCED] from
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23 to represent the allocable expenses of operation, costs of issuance, and loan servicing
24 costs.

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26 (c) The interest rate on a loan participation purchased [FINANCED] directly
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28 the authority under AS 44.88.085(g)(2)(C). However, the interest rate on a loan
29 participation purchased from assets of the authority may not be less than the rate
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31 (1) under (a) of this section if the project is of a type that could be

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(2) under (b) of this section if the project is of a type that could not be funded with tax-exempt bonds.

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(b) To further ensure effective budgetary decision making by the legislature, the authority shall

(1) annually review the authority's assets to determine whether assets of the authority exceed an amount required to fulfill the purposes of the authority as defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall determine whether, and to what extent, assets in excess of the amount required to fulfill the purposes of the authority during at least the next fiscal year are available wit out

(A) breaching any agreement entered into by the authority;

(B) materially impairing the operations or financial integrity of the authority; or

(C) materially affecting the ability of the authority to fulfill the authority's purposes set out in AS 44.88.070; and

(2) make available [PRESENT] to the legislature by January 10 of each year a complete accounting of all assets of the authority and a report of the review and determination made under (1) of this subsection; the accounting shall be audited by the auditor who conducts the audit required by AS 44.88.200 and must include a full description of all loan interest and principal payments and program receipts, including

(A) loan commitment fees received by or accrued to the authority during the preceding fiscal year; [.] and

(B) all income earned on assets of the authority during that period.

* Sec. 8. AS 44.88.00(a) is amended to read:

(a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of

1 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

2 (1) [TO] guarantee new business assistance loans; and

3 (2) [TO] guarantee new business assistance loans made to refinance
4 existing loans.

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6 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
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8 [(1)] new loan guarantees and refinancing guarantees under
9 AS 44.88.500 [AS 44.88.500(a)(1); AND

10 (2) DEBT REFINANCING GUARANTEES UNDER
11 AS 44.88.500(a)(2)].

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13 Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (a) The authority
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15 (1) loan

16 (A) is commercially reasonable;

17 (B) contains amortization provisions satisfactory to the
18 authority;

19 (C) is secured by adequate collateral; however, the authority
20 may waive on a case-by-case basis the requirement of collateral for a loan
21 guarantee of \$100,000 [\$75,000] or less for which the proposed loan
22 amortization period does not exceed five years, but the ability to waive the
23 requirement of this subparagraph or the grant of a waiver does not prevent the
24 financial institution that holds the loan guaranteed by the authority from
25 requiring reasonable collateral for the loan;

26 (2) net cash flow from the borrower provides adequate coverage for the
27 debt service on the loan;

28 (3) term of the loan does not exceed 20 years;

29 (4) loan is originated with and serviced by a state chartered or federally
30 chartered financial institution;

31 (5) portion of the loan not guaranteed by the authority is held by the

1 originating financial institution or another [FINANCIAL] institution approved by the
2 authority;

3 (6) proceeds of the loan will be used [IS MADE] to benefit a business
4 conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS];
5 and

6 (7) loan guarantee provides a benefit to the borrower.

7 (b) The authority may provide a guarantee [FROM THE FUND

8 (1)] of up to 80 percent of a loan [OF \$50,000 OR LESS] that qualifies
9 under AS 44.88.500 - 44.88.599. The [;

10 (2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN
11 \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the
12 guarantee to the outstanding principal of the loan may not increase over the term of
13 the loan.

14 (c) The authority may [NOT] guarantee the payment of interest on the
15 guaranteed portion of a loan in the manner established by the authority by
16 regulation and for a period of time not to exceed 90 days.

17 • Sec. 11. AS 44.88.540 is amended to read:

18 Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

19 The authority may not issue a total of more than [GUARANTEE]

20 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
21 [LOANS];

22 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
23 which the amount of the loan guarantee exceeds \$500,000.

24 • Sec. 12. AS 44.88.550(a) is amended to read:

25 (a) The maximum interest rate that may be charged by a financial
26 institution on a loan guaranteed by the authority is two and three-quarters percentage
27 points above the prime rate.

28 • Sec. 13. AS 44.88.560 is amended to read:

29 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

30 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

31 (2) establish terms and conditions for loan guarantees and refinancing

1 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

2 (3) make and execute contracts and other instruments to implement
3 AS 44.88.500 - 44.88.599;

4 (4) charge

5 (A) one percent of the amount guaranteed for the service it
6 provides under AS 44.88.500 - 44.88.599; and

7 (B) any other reasonable fee that the authority may establish by
8 regulation;

9 (5) acquire real or personal property by purchase, transfer, or
10 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
11 in a loan or a loan guarantee [THE FUND];

12 (6) exercise any other power necessary to implement AS 44.88.500 -
13 44.88.599; and

14 (7) to the extent the authority considers it to be in its best interest to
15 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
16 relating to the liquidation of collateral securing loans guaranteed by the authority
17 [BUSINESS ASSISTANCE FUND].

18 * Sec. 14. AS 44.88.599(2) is amended to read:

19 (2) "prime rate" means the lowest United States money center prime
20 rate of interest that is published in the Wall Street Journal.

21 * Sec. 15. AS 44.88.900(3) is amended to read:

22 (3) "development project" has the meaning given to "project" in (9)(A)
23 and (D) - (F) [, (D), AND (E)] of this section;

24 * Sec. 16. AS 44.88.900(7) is repealed and reenacted to read:

25 (7) "loan participation" means the purchase of a portion of a loan from
26 a financial institution if the financial institution has obtained a commitment from the
27 authority to purchase the portion of that loan before the financial institution has
28 disbursed money as part of the loan to the borrower;

29 * Sec. 17. AS 44.88.900(9) is amended to read:

30 (9) "project" means

31 (A) a plant or facility used or intended for use in connection

1 with making, processing, preparing, transporting, or producing in any manner,
 2 goods, products, or substances of any kind or nature or in connection with
 3 developing or utilizing a natural resource, or extracting, smelting, transporting,
 4 converting, assembling, or producing in any manner, minerals, raw materials,
 5 chemicals, compounds, alloys, fibers, commodities and materials, products, or
 6 substances of any kind or nature;

7 (B) a plant or facility used or intended for use in connection
 8 with a business enterprise;

9 (C) commercial activity by a business [SMALL] enterprise;

10 (D) a plant or facility demonstrating technological advances of
 11 new methods and procedures and prototype commercial applications for the
 12 exploration, development, production, transportation, conversion, and use of
 13 energy resources;

14 (E) infrastructure for a new tourism destination facility or for
 15 the expansion of a tourism destination facility;

16 (F) a plant or facility, other than a plant or facility described in
 17 (D) of this paragraph, for the generation, transmission, development,
 18 transportation, conversion, or use of energy resources;

19 * Sec. 18. Section 2(a), ch. 27, SLA 1993 is amended to read:

20 Sec. 2. (a) The Alaska Industrial Development and Export Authority may
 21 issue bonds to finance the acquisition, design, and construction of a port facility and
 22 related loading and conveyor equipment related to the development and operation of
 23 a bulk commodity loading and shipping terminal. The terminal may be located
 24 anywhere within Cook Inlet. The facility will be [DIRECT REDUCTION IRON
 25 ORE PROCESSING FACILITY FOR USE BY THE MIDREX CORPORATION, TO
 26 BE LOCATED AT POINT MACKENZIE AND] owned by the authority. The
 27 principal amount of the bonds may not exceed \$50,000,000.

28 * Sec. 19. Section 4, ch. 162, SLA 1988, as amended by sec. 4, ch. 25, SLA 1991, and
 29 sec. 4, ch. 27, SLA 1993, is amended to read:

30 Sec. 4. AS 44.88.500 - 44.88.599 are repealed July 1, 1998 [1996].

31 * Sec. 20. AS 44.88.542, 44.88.599(1), and 44.88.900(14) are repealed.

1 * Sec. 21. Section 1, ch. 27, SLA 1993, is repealed.

2 * Sec. 22. TRANSITION. (a) On the effective date of this Act, parts of the business
3 assistance fund (AS 44.88.500(a)) shall be transferred to the Alaska Industrial Development
4 and Export Authority revolving fund (AS 44.88.060).

5 (b) The first dividend payment to the state under AS 44.88.088, enacted by sec. 2 of
6 this Act, is due during fiscal year 1997 based upon unrestricted net income of the Alaska
7 Industrial Development and Export Authority for fiscal year 1996.

8 * Sec. 23. (a) The Alaska Industrial Development and Export Authority (AIDEA) may
9 issue bonds to finance the expansion, improvement, and modification of the existing port
10 facilities owned by AIDEA with respect to the DeLong Mountain transportation system and
11 to finance the construction of new facilities to be owned by AIDEA related to the DeLong
12 Mountain transportation system, or may finance these projects by other means available to
13 AIDEA. The principal amount of the bonds and other financing provided by AIDEA may not
14 exceed \$85,000,000.

15 (b) Before bonds or notes authorized under (a) of this section may be issued, the
16 Alaska Industrial Development and Export Authority shall comply with AS 44.88.173 and
17 shall incorporate into the final finance plan and agreement for the project the following terms
18 and conditions:

19 (1) Cominco, Ltd., is required to agree in writing that Cominco, Ltd., will pay
20 for all or a portion of the operation and maintenance of facilities constructed, expanded,
21 improved, or modified as part of the project based on the use Cominco Alaska makes of the
22 facilities compared to the use made by others;

23 (2) a toll schedule, which may include adjustments related to the price of zinc,
24 is established for use of facilities constructed, expanded, improved, or modified as part of the
25 project that

26 (A) ensures full repayment of and a reasonable return on the state's
27 entire investment in the project;

28 (B) ensures an additional return on AIDEA's investment made under
29 this section that is commensurate with the return earned on the original DeLong
30 Mountain Transportation System project and the risks assumed by AIDEA;

31 (C) guarantees equitable access to the facilities by all users and

1 potential users, including access to private property and access for travel necessary and
2 related to resource exploration and development for which valid permits have been
3 obtained and travel in support of resource exploration and development;

4 (3) reasonable access to the port and road is guaranteed to all users and
5 potential users.

6 (c) Subsection (a) of this section constitutes the legislative approval required by
7 AS 44.88.095(g).

8 * Sec. 24. (a) Upon approval of the Alaska Industrial Development and Export Authority
9 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
10 the Alaska Power Administration.

11 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
12 project and related assets, or may finance the acquisition by other means available to AIDEA.
13 The principal amount of the bonds and other financing provided by AIDEA to finance the
14 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

15 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
16 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
17 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
18 no later than January 2 of each year, certify in writing to the governor and the legislature the
19 amount, if any, required to restore the capital reserve fund to the capital reserve fund
20 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
21 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
22 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
23 in this section creates a debt or liability of the state.

24 (d) Subsection (b) of this section grants the legislative approval required by
25 AS 44.88.095(g).

26 * Sec. 25. This Act takes effect immediately under AS 01.10.070(c).

SENATE CS FOR CS FOR HOUSE BILL NO. 526(TRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE TRANSPORTATION COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the financing authority, programs, operations, and projects
 2 of the Alaska Industrial Development and Export Authority; providing an
 3 exemption from the procurement code for certain projects of the authority; and
 4 providing for an effective date."

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

6 • Section 1. AS 36.30.850(b) is amended by adding a new paragraph to read:

7 (34) ^{contracts of the Alaska Industrial Development and Export}
 8 Authority ~~made~~ ^{deleted} ~~with the developer of an integrated transportation and port facility~~ ^{related to}
 9 owned by the authority.

10 • Sec. 2. AS 44.88.159(a) is amended to read:

11 (a) The interest rate on a loan participation purchased [FINANCED] from
 12 the proceeds of tax-exempt bonds or expected by the authority to be purchased
 13 [FINANCED] from the proceeds of tax-exempt bonds is equal to the cost of funds to
 14 the authority. In this subsection "cost of funds" means the true interest cost expressed

1 as a rate on tax-exempt bonds of the authority plus an additional percentage as
2 determined by the authority to represent the allocable expenses of operation, costs of
3 issuance, and loan servicing.

4 * Sec. 3. AS 44.88.159(b) is amended to read:

5 (b) The interest rate on a loan participation purchased [FINANCED] from
6 the proceeds of taxable bonds or expected by the authority to be purchased
7 [FINANCED] from the proceeds of taxable bonds is equal to the cost of funds to the
8 authority. In this subsection "cost of funds" means the true interest cost expressed as
9 a rate on taxable bonds, plus an additional percentage as determined by the authority
10 to represent the allocable expenses of operation, costs of issuance, and loan servicing
11 costs.

12 * Sec. 4. AS 44.88.159(e) is amended to read:

13 (e) The interest rate on a loan participation purchased [FINANCED] directly
14 from the assets of the authority shall be determined under the regulations adopted by
15 the authority under AS 44.88.085(g)(2)(C). ^{Added} However, the interest rate on a loan
16 participation purchased from assets of the authority may not be less than the rate
17 for treasury bonds that mature at the same time as that loan participation, plus
18 150 basis points.

19 * Sec. 5. AS 44.88.205(b) is amended to read:

20 (b) To further ensure effective budgetary decision making by the legislature,
21 the authority shall

22 (1) annually review the authority's assets to determine whether assets
23 of the authority exceed an amount required to fulfill the purposes of the authority as
24 defined in this chapter; in making its review, [THE MEMBERS OF] the authority shall
25 determine whether, and to what extent, assets in excess of the amount required to
26 fulfill the purposes of the authority during at least the next fiscal year are available
27 without

28 (A) breaching any agreement entered into by the authority;

29 (B) materially impairing the operations or financial integrity of
30 the authority; or

31 (C) materially affecting the ability of the authority to fulfill the

1 authority's purposes set out in AS 44.88.070; and

2 (2) make available [PRESENT] to the legislature by January 10 of
3 each year a complete accounting of all assets of the authority and a report of the
4 review and determination made under (1) of this subsection; the accounting shall be
5 audited by the auditor who conducts the audit required by AS 44.88.200 and must
6 include a full description of all loan interest and principal payments and program
7 receipts, including

8 (A) loan commitment fees received by or accrued to the
9 authority during the preceding fiscal year; [.] and

10 (B) all income earned on assets of the authority during that
11 period.

12 * Sec. 6. AS 44.88.500(a) is amended to read:

13 (a) [THE BUSINESS ASSISTANCE FUND IS ESTABLISHED IN THE
14 AUTHORITY FROM MONEY IN THE AUTHORITY'S RESERVES DESIGNATED
15 BY THE AUTHORITY FOR THE PURPOSE.] Subject to the requirements of
16 AS 44.88.500 - 44.88.599, the authority may [USE MONEY IN THE FUND]

17 (1) [TO] guarantee new business assistance loans; and

18 (2) [TO] guarantee new business assistance loans made to refinance
19 existing loans.

20 * Sec. 7. AS 44.88.530 is amended to read:

21 Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 -
22 44.88.560 apply to

23 [(1)] new loan guarantees and refinancing guarantees under
24 AS 44.88.500 [AS 44.88.500(a)(1)]; AND

25 (2) DEBT REFINANCING GUARANTEES UNDER
26 AS 44.88.500(a)(2)].

27 * Sec. 8. AS 44.88.535(a) is amended to read:

28 (a) The authority may guarantee a loan under AS 44.88.500 - 44.88.599 if the

29 (1) loan

30 (A) is commercially reasonable;

31 (B) contains amortization provisions satisfactory to the

authority;

(C) is secured by adequate collateral; however, the authority may waive on a case-by-case basis the requirement of collateral for a loan guarantee of \$100,000 [\$75,000] or less for which the proposed loan amortization period does not exceed five years, but the ability to waive the requirement of this subparagraph or the grant of a waiver does not prevent the financial institution that holds the loan guaranteed by the authority from requiring reasonable collateral for the loan;

(2) net cash flow from the borrower provides adequate coverage for the debt service on the loan;

(3) term of the loan does not exceed 20 years;

(4) loan is originated with and serviced by a state chartered or federally chartered financial institution;

(5) portion of the loan not guaranteed by the authority is held by the originating financial institution or another [FINANCIAL] institution approved by the authority;

(6) proceeds of the loan will be used [IS MADE] to benefit a business conducted in the [WITH A MAJORITY INTEREST HELD BY] state [RESIDENTS]; and

(7) loan guarantee provides a benefit to the borrower.

* Sec. 9. AS 44.88.535(b) is amended to read:

(b) The authority may provide a guarantee [FROM THE FUND

(1) ^{Added} of up to 80 percent of a loan [OF \$50,000] OR LESS] that qualifies under AS 44.88.500 - 44.88.599. The [:

(2) FOR UP TO 80 PERCENT OF A LOAN OF MORE THAN \$50,000 THAT QUALIFIES UNDER AS 44.88.500 - 44.88.599; THE] ratio of the guarantee to the outstanding principal of the loan may not increase over the term of the loan.

* Sec. 10. AS 44.88.540 is amended to read:

Sec. 44.88.540. LIMITATIONS OF GUARANTEES [FROM THE FUND].

The authority may not issue a total of more than [GUARANTEE]

Deleted (c) that would allow the authority to guarantee the payment of interest on the guaranteed portion of a loan for the time in the manner established by the authority by regulation.

1 (1) [A TOTAL OF MORE THAN] \$50,000,000 of loan guarantees
2 [LOANS];

3 (2) [MORE THAN] \$25,000,000 of loan guarantees [LOANS] in
4 which the amount of the loan guarantee exceeds \$500,000.

5 * Sec. 11. AS 44.88.550(a) is amended to read:

6 (a) The maximum interest rate that may be charged by a financial
7 institution on a loan guaranteed by the authority is two and three-quarters percentage
8 points above the prime rate.

9 * Sec. 12. AS 44.88.500 is amended to read:

10 Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

11 (1) adopt regulations to implement AS 44.88.500 - 44.88.599;

12 (2) establish terms and conditions for loan guarantees and refinancing
13 agreements subject to the requirements of AS 44.88.500 - 44.88.599;

14 (3) make and execute contracts and other instruments to implement
15 AS 44.88.500 - 44.88.599;

16 (4) charge

17 (A) one percent of the amount guaranteed for the service it
18 provides under AS 44.88.500 - 44.88.599; and

19 (B) any other reasonable fee that the authority may establish by
20 regulation;

21 (5) acquire real or personal property by purchase, transfer, or
22 foreclosure when the acquisition is necessary to protect the authority's [AN] interest
23 in a ^{Added} loan or a loan guarantee [THE FUND];

24 (6) exercise any other power necessary to implement AS 44.88.500 -
25 44.88.599; and

26 (7) to the extent the authority considers it to be in its best interest to
27 do so, use money [IN THE BUSINESS ASSISTANCE FUND] to pay expenses
28 relating to the liquidation of collateral securing loans guaranteed by the authority
29 [BUSINESS ASSISTANCE FUND].

30 * Sec. 13. AS 44.88.599(2) is amended to read:

31 New Section (2) "prime rate" means the lowest United States money center prime

1 rate of interest that is published in the Wall Street Journal.

2 * Sec. 14. AS 44.88.900(3) is amended to read:

3 (3) "development project" has the meaning given to "project" in (9)(A)
4 and (D) - (F) [, (D), AND (E)] of this section;

5 * Sec. 15. AS 44.88.900(7) is repealed and reenacted to read:

6 (7) "loan participation" means the purchase of a portion of a loan from
7 a financial institution if the financial institution has obtained a commitment from the
8 authority to purchase the portion of that loan before the financial institution has
9 disbursed money as part of the loan to the borrower;

10 * Sec. 16. AS 44.88.900(9) is amended to read:

11 (9) "project" means

12 (A) a plant or facility used or intended for use in connection
13 with making, processing, preparing, transporting, or producing in any manner,
14 goods, products, or substances of any kind or nature or in connection with
15 developing or utilizing a natural resource, or extracting, smelting, transporting,
16 converting, assembling, or producing in any manner, minerals, raw materials,
17 chemicals, compounds, alloys, fibers, commodities and materials, products, or
18 substances of any kind or nature;

19 (B) a plant or facility used or intended for use in connection
20 with a business enterprise;

21 (C) commercial activity by a business [SMALL] enterprise;

22 (D) a plant or facility demonstrating technological advances of
23 new methods and procedures and prototype commercial applications for the
24 exploration, development, production, transportation, conversion, and use of
25 energy resources;

26 (E) infrastructure for a new tourism destination facility or for
27 the expansion of a tourism destination facility;

28 (F) a plant or facility, other than a plant or facility described in
29 (D) of this paragraph, for the generation, transmission, development,
30 transportation, conversion, or use of energy resources;

31 * Sec. 17. Section 4, ch. 162, SLA 1988, as amended by sec. 4, ch. 25, SLA 1991, and
This section was repealed in CSHB 526 (FIN) am

1 sec. 4, ch. 27, SLA 1993, is amended to read:

2 Sec. 4. AS 44.88.500 - 44.88.599 are repealed July 1, 1998 [1996].

3 * Sec. 18. AS 44.88.542, 44.88.599(1), and 44.88.900(14) are repealed. *The repeal of*

4 * Sec. 19. Sections 1 and 2, ch. 27, SLA 1993, are repealed.

AS 44.88.500 (b) was deleted

5 * Sec. 20. ^{New Section} TRANSITION. On the effective date of this Act, assets of the business
6 assistance fund (AS 44.88.500(a)) shall be transferred to the Alaska Industrial Development
7 and Export Authority revolving fund (AS 44.88.060).

8 * Sec. 21. ^{New Section} Notwithstanding AS 44.88.095(g), the Alaska Industrial Development and Export
9 Authority may, without legislative approval, issue bonds in an amount not to exceed
10 \$10,000,000 to assist in the financing of a development project under AS 44.88.172 -
11 44.88.177. Bonds may not be issued under this section after June 30, 1998.

CSHB 526 (FIN) am restricted on development project bonds.

12 * Sec. 22. (a) The Alaska Industrial Development and Export Authority (AIDEA) may
13 issue bonds to finance the expansion, improvement, and modification of the existing port
14 facilities owned by AIDEA with respect to the DeLong Mountain transportation system and
15 to finance the construction of new facilities to be owned by AIDEA related to the DeLong
16 Mountain transportation system, or may finance these projects by other means available to
17 AIDEA. The principal amount of the bonds and other financing provided by AIDEA may not
18 exceed \$85,000,000.

19 (b) ^{New Language} Before bonds or notes authorized under (a) of this section may be issued, the
20 Alaska Industrial Development and Export Authority shall comply with AS 44.88.173 and
21 shall incorporate into the final finance plan and agreement for the DeLong Mountain
22 transportation system project the following terms and conditions:

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

24 (A) Cominco, Ltd., will pay for all or a portion of the operation and
25 maintenance of facilities constructed, expanded, improved, or modified as part of the
26 project based on the use Cominco Alaska makes of the facilities compared to the use
27 made by others; and

28 (B) toll fees paid by Cominco Alaska for the use of facilities
29 constructed, expanded, improved, or modified as part of the project to the Alaska
30 Industrial Development and Export Authority may be periodically adjusted if the price
31 of zinc rises above a level that yields a return on investment commensurate with risk;

1 (2) a toll schedule, that may be periodically adjusted, is established for use of
2 facilities constructed, expanded, improved, or modified as part of the project that

3 (A) ensures full repayment of and a reasonable return on the state's
4 investment in the project; and

5 (B) guarantees equitable access to the facilities by all users and
6 potential users, including access to private property and access for travel necessary and
7 related to resource exploration and development for which valid permits have been
8 obtained and travel in support of resource exploration and development;

9 (3) reasonable access to the port and road is guaranteed to all users and
10 potential users.

11 (c) As used in (b) of this section, "reasonable return" means a rate of return on the
12 total investment of the state of at least 6.5 percent.

13 (d) Subsection (a) of this section constitutes the legislative approval required by
14 AS 44.88.095(g).

15 * Sec. 23. (a) Upon approval of the Alaska Industrial Development and Export Authority
16 (AIDEA), AIDEA may acquire the Snettisham hydroelectric project and related assets from
17 the Alaska Power Administration.

18 (b) AIDEA may issue bonds to finance the acquisition of the Snettisham hydroelectric
19 project and related assets, or may finance the acquisition by other means available to AIDEA.
20 The principal amount of the bonds and other financing provided by AIDEA to finance the
21 acquisition of the Snettisham hydroelectric project may not exceed \$100,000,000.

22 (c) To secure bonds issued under (b) of this section, AIDEA may establish a capital
23 reserve fund with respect to those bonds under AS 44.88.105. If AIDEA establishes a capital
24 reserve fund as provided in this subsection, the executive director of AIDEA shall annually,
25 no later than January 2 of each year, certify in writing to the governor and the legislature the
26 amount, if any, required to restore the capital reserve fund to the capital reserve fund
27 requirement as defined in AS 44.88.105(h). The legislature may appropriate to AIDEA the
28 amount so certified by the executive director of AIDEA. AIDEA shall deposit the amounts
29 appropriated under this subsection during a fiscal year in the capital reserve fund. Nothing
30 in this section creates a debt or liability of the state.

31 (d) Subsection (b) of this section grants the legislative approval required by

1 AS 44.88.095(g).

2 * Sec. 24. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. SCS CS HB526 (TRA)

Revision Date: _____
Title: Financing authority, programs and projects of AIDEA

Department: Commerce and Economic Development
BRU: AIDEA
Component: AIDEA

Sponsor: House Labor & Commerce
Requestor: Senate Transportation

COMPONENT SERIAL NO. _____ 1234

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0
--------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Bonds will be sold to finance projects and will have no fiscal impact on the General Fund. Program changes will have no fiscal impact on the General Fund.

Prepared by: William R. Snell, Executive Director
Division: AIDEA
Approved by Commissioner: William L. Hensley
Agency: Commerce and Economic Development

Phone: 907-269-3000
Date: May 3, 1996
Date: 5/3/96

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FISCAL NOTE

No. 1

Bill Version: SB 222

(S) Publish Date: 1/17/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____ Department: Commerce and Economic Development
 Title: Financing authority, programs and projects of BRU: AIDEA
AIDEA Component: AIDEA
 Sponsor: Rules Committee
 Requestor: Governor COMPONENT SERIAL NO. 1234

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ 0.0

POSITIONS
FULL-TIME
PART-TIME
TEMPORARY

ANALYSIS: (Attach a separate page if necessary)
 Bonds will be sold to finance projects and will have no fiscal impact on the General Fund. Program changes will have no fiscal impact on the General Fund.

Prepared by: William R. Snell, Executive Director Phone: (907) 561-8050
 Division: AIDEA Date: January 16, 1996
 Approved by Commissioner: William L. Hensley Date: 1-16-96
 Agency: Commerce and Economic Development

FISCAL NOTE

No. 2

Bill Version: SB 222

(S) Publish Date: 1/17/96

STATE OF ALASKA
1996 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to the financing authority, programs, operations, and projects of the Alaska Industrial Development...
Sponsor: Rules Committee
Requestor: Governor

Dept. Affected: Administration
BRU: General Services
Component: Purchasing
COMPONENT SERIAL NO. 60

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
------------------------	---	---	---	---	---	---

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 96) cost: \$ -0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

There is no fiscal impact to the Department of Administration.

Prepared by: Dugan Petty, Director
Division: General Services

Phone: 465-2250
Date: _____

Approved by Commissioner: Mark Bower
Agency: Department of Administration

Date: 1/16/96

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SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 4/16/96

FURTHER: Finance

DATE TURNED INTO OFFICE: 5/2/96

The Transportation Committee considered CS FOR HOUSE BILL NO. 526(FIN) am

Relating to the financing authority, programs, operations, and projects of the Alaska Industrial Development and Export Authority; efd.

and recommends:

be replaced with SCS CS HB 526 (TRA)

adopt previous _____ CS _____ (_____)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to the _____ Committee

Senate Bill:
 same title
 new title
House Bill:
 same title
 technical title
 new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Al C. Lane</i>	<input checked="" type="checkbox"/>	<i>Debra...</i>	<input checked="" type="checkbox"/>		
<i>Miss Taylor</i>	<input checked="" type="checkbox"/>	<i>...</i>	<input checked="" type="checkbox"/>		
CHAIR: <i>John King</i>	<input checked="" type="checkbox"/>	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
<i>Commerce - Develop</i>	<i>3/8/96</i>	<input checked="" type="checkbox"/>	

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

Bonding Authorization Amendment

Replace existing Section 2 with the following:

***Sec 2.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds in an amount greater than \$10,000,000 to fund participation in loans under AS 44.88.155 or in an amount greater than \$10,000,000 to assist in the financing of a development project under AS 44.88.172 - 44.88.177, except refunding bonds.

Insert new section as follows:

***Sec 3.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds, except refunding bonds.

Insert new section prior to existing Section 20:

***Sec. __.** Section 3 of this Act takes effect July 1, 1999.

Replace existing Section 20 with the following:

***Sec. __.** Except for Section 3, this Act takes effect immediately under AS 01.10.070(c)

Renumber other sections accordingly.

Bonding Authorization

Insert new section following existing Section 2 as follows:

***Sec 3.** AS 44.88.095(g) is amended to read:

(g) Without prior legislative approval, the authority may not issue bonds, except refunding bonds.

Insert new section prior to existing Section 20:

***Sec. __.** Section 3 of this Act takes effect July 1, 1999.

Replace existing Section 20 with the following:

***Sec. __.** Except for Section 3, this Act takes effect immediately under AS 01.10.070(c)

Renumber other sections accordingly.

Interest Rates on Loan Participations

*Sec 5. AS 44.88.159(e) is amended to read:

(e) The interest rate on a loan participation purchased [FINANCED] directly from the assets of the authority shall be determined as follows:

(1) if tax-exempt bonds could be issued to fund the purchase, the interest rate shall be determined in accordance with (a) of this section as though tax-exempt bonds were issued to fund the purchase.

(2) if tax-exempt bonds could not be issued to fund the purchase, the interest rate shall be determined in accordance with (b) of this section as though taxable bonds were issued to fund the purchase [UNDER THE REGULATIONS ADOPTED BY THE AUTHORITY UNDER AS 44.88.085(g)(2)(C)].

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR TAYLOR

TO: CSHB 526(FIN) am

1 Page 6, after line 29:

2 Insert a new bill section to read:

3 ** Sec. 16. Section 2, ch. 19, SLA 1990, is amended to read:

4 Sec. 2. The [IN ACCORDANCE WITH AS 37.15.610, THE] issuance of
5 revenue bonds in an amount up to ^{2,79,200,000} \$22,300,000] for the construction of the Bradfield
6 River resource road, port and electrical intertie project by the Alaska Industrial
7 Development and Export Authority (AIDEA) [DEPARTMENT OF
8 TRANSPORTATION AND PUBLIC FACILITIES UNDER AS 37.15.610 -
9 37.15.760] is approved. The project may be partly located in Canada. This
10 section constitutes the legislative approval required by AS 44.88.095(g)."

11 Renumber the following bill sections accordingly.

CS FOR HOUSE BILL NO. 526(FIN)
SECTIONAL ANALYSIS
(9-LS1549\F)

Section 1- Limited Procurement Exemption.

Section 1 creates a procurement exemption for AIDEA contracts related to integrated transportation and port facilities owned by the Authority. This procurement exemption is intended to apply to DeLong Mountain Transportation System (DMTS) contracts of the Authority, therefore eliminating the need for any sole source waivers.

Background. Procurement exemptions or waivers are generally required for AIDEA development finance projects. Under AIDEA's development finance program, AIDEA must own and operate the projects. AIDEA contracts with the principal user of each project and that user becomes responsible for all the project costs. In order to maintain this legal relationship, it is desirable for AIDEA to contract with the principal user to act as AIDEA's agent for the completion of the construction and other project work. To accomplish this, a procurement exemption or a sole source waiver is generally required.

Currently, two specific procurement code exemptions apply to AIDEA contracts. First, AS 36.30.850(b)(8) creates an exemption for acquisition of property and other contracts relating to airports under AS 44.88. This exemption applies to, among other things, AIDEA contracts related to the Federal Express hangar at Anchorage International Airport. The second existing procurement exemption (AS 36.30.850(b)(22)) relates to AIDEA contracts for a clean coal technology demonstration project and currently applies only to the Healy Clean Coal Project.

AIDEA has adopted Procurement Plans and Procedures covering all of AIDEA procurements including those covered by procurement exemptions. Under the Procedures, AIDEA requires competition that is practical under the circumstances, and Alaska hire. It should be noted that, since adoption of the AIDEA Procurement Plan, Legislative Budget and Audit has undertaken several AIDEA procurement audits and has never found procurement discrepancies.

Section 2- AIDEA Bonding Authority.

Section 2 of the bill relates to AIDEA's ability to issue bonds. Currently, AIDEA may not issue bonds, except refunding bonds, without the approval of the legislature. Section 2 of the bill restores AIDEA's ability to issue bonds without legislative authorization, except in the case of bonds greater than \$10 million issued to assist development finance projects. On July 1, 1995, a delayed amendment to AIDEA's statutes took effect which removed AIDEA's authority to issue bonds other than refunding bonds. This section restores those powers.

Background. . The current bonding limitation prevents AIDEA from issuing any bonds (other than refunding bonds) and curtails AIDEA's ability to fulfill its statutory mission. Most recently, AIDEA was unable to issue conduit revenue bonds to support the development of the Fort Knox mine. Although the bonds would not have obligated AIDEA's assets, current law prevented the issuance.

Sections 3-5- Technical Changes.

Sections 3 through 5 make technical changes to AIDEA statutes covering AIDEA's loan participation program. Specifically, AS 44.88.159(a), (b), and (e) are each amended to clarify that AIDEA purchases participations in loans from financial institutions under its loan participation program, and does not finance loans directly.

Section 6-Technical Change Regarding Annual Reporting.

Section 5 of the bill amends AS 44.88.205(b) to clarify that the members of the Authority are not required to take formal action to make available the annual financial report to the legislature. AS 44.88.205(b) requires that a report regarding the finances of the Authority be made available to the legislature by January 10th of each year. Because it is not always possible for the AIDEA board to meet to adopt the report prior to the statutory deadline, historically it has fallen on the executive director of the Authority to certify the report and make it available to the legislature. The technical correction in section 6 clarifies the statute to allow this practice to continue.

Sections 7-13 - Modifications To Business Assistance Loan Guarantee Program.

The bill amends AIDEA's business assistance loan guarantee program to make it more effective in light of the recent changes to the federal Small Business Administration loan guarantee program.

Background. Historically AIDEA's business assistance program has not been widely used by the Alaska business community. Until recently, the federal Small Business Administration (SBA) has offered a loan guarantee program which was preferred by both borrowers and lenders. In fiscal year 1995, the SBA Alaska office issued \$49 million dollars in loan guarantees. The SBA recently made changes to its program that reduce the percentage of a loan that may be guaranteed and significantly increase the cost of these guarantees. The Alaska banking community has indicated to AIDEA that the changes made to the SBA program have left a significant financing void for Alaska small businesses. The modifications made to AIDEA's business assistance program under the bill will create additional financing alternatives for Alaska businesses to help fill the void.

Section 7- Amends AS 44.88.500(a) to eliminate AIDEA's business assistance fund. Under current law, AIDEA's business assistance program is conducted through a separate fund and the beneficiaries of guarantees may only seek recourse against the assets of the fund. The proposed change will allow the authority to issue guarantees from its general assets. The total amount of guarantees that may be issued by AIDEA remains limited to \$50,000,000 under AS 44.88.540. Additionally, section 7 makes minor technical amendments.

Section 8- Makes a minor technical change to AS 44.88.530 to clarify the provision.

Section 9- Amends AS 44.88.535 to make several technical and program changes to the business assistance program.

Under current law, AIDEA may waive collateral for loan guarantees of \$75,000 or less if the loan has an amortization period of 5 years or less. The bill would modify existing law to allow AIDEA to waive collateral for loan guarantees of \$100,000 or less under the same circumstances.

Under current law, loan guarantees may only be made to businesses in which a majority interest is held by Alaska residents. AIDEA is prevented from issuing loan guarantees if a business is not majority Alaska owned, even if the proceeds of the loan will benefit a business conducted in Alaska. The bill would allow AIDEA to issue loan guarantees if the proceeds of the loan will benefit a business conducted in Alaska.

Under current law, AIDEA may not guarantee interest under the business assistance program. Limited interest guarantees (up to 90 days interest) were a principal ingredient of the Small Business Administration program. The bill would allow AIDEA to guarantee interest for a period of the time and in the manner to be established by regulation.

This section of the bill also makes minor technical clarifying amendments to AS

44.88.535.

Section 10-12 - This section of the bill also makes minor technical and clarifying amendments to AS 44.88.540, 44.88.550(a), and 44.88.560 consistent with the other changes to the business assistance program made under the bill.

Sections 13-15 - Modifications To Statutory Definitions-

Section 13- Amends AS 44.88.900(3) to clarify that energy related projects may qualify for AIDEA's development finance program.

Section 14- Amends AS 44.88.900(7) to clarify the definition of loan participation.

Section 15- Amends AS 44.88.900(9) to eliminate a reference to "small enterprise" from the definition of "project." Currently, AIDEA projects may include several different types of business activities. Under current law, one such type of business activity is a "commercial activity conducted by a small enterprise." Except for references in the definition sections of AIDEA's statutes, no further reference is made to a "small enterprise." The bill amends the definition of a project to eliminate the reference to "small enterprise." The bill does not modify any of the other requirements affecting AIDEA's ability to enter into projects.

Section 16- Repealers

AS 44.88.500(b), 44.88.542 and 44.88.599(1) are repealed to be consistent with the elimination of the business assistance fund under section 7 of the bill.

AS 44.88.900(14), the definition of "small enterprise" is repealed to be consistent with section 15 of the bill.

Section 17(1)- Repeal of Certain Bonding Authority-

Section 17(1) repeals certain legislative authorization for AIDEA to issue bonds for projects which no longer require AIDEA financing. This section repeals legislative authorization for AIDEA to issue \$40,000,000 in bonds related to aircraft fueling facilities at Anchorage International Airport. The involved airlines self financed the facilities. In addition, this section repeals legislative authorization for AIDEA to issue \$50,000,000 in bonds for the Midrex facility originally proposed for Point McKenzie. If the project proceeds it will not be developed at Point McKenzie.

Background. Although no bonds are issued and none are intended to be issued with respect to the AIA fueling facilities and the Midrex facilities, the existing legislative authorization must be reported in AIDEA's official statement for each AIDEA bond issue. Legislative authorization for projects that are not proceeding creates confusion on the part of potential bond investors. The bill would eliminate the unneeded bonding authority and therefore eliminate the official statement reporting requirement.

Section 17 (2)- Repeal of Business Assistance Sunset-

This section repeals the sunset for the Authority's business assistance loan guarantee program. Under current law the business assistance program will sunset on July 1, 1996.

Background. The business assistance program was created under legislation adopted in 1988 that included a provision that would have repealed the program July 1, 1991. Subsequent legislation in 1991 and 1993 extended the delayed repealer to July 1, 1993 and July 1, 1996 respectively.

Section 18-19 - Specific Project Authorization to Issue Bonds

Background. As noted above, section 2 of the bill requires legislation for AIDEA to issue bonds in an amount greater than \$10 million if the proceeds of the bonds are to be used for an AIDEA Development Finance Project. Both the Red Dog Expansion and Snettisham acquisition are expected to exceed this threshold and therefore require legislative authorization.

Section 18- Red Dog Authorization- Section 18 authorizes AIDEA to issue up to \$85,000,000 in AIDEA bonds to finance the expansion of AIDEA's DeLong Mountain Transportation System facilities serving the Red Dog Mine.

Background. The DeLong Mountain Transportation System (DMTS) serving Cominco's Red Dog Mine was AIDEA's first development finance project and has been a resounding success. The Red Dog Mine operations provide more than 350 jobs, accounting for more than 15% of all jobs in the Northwest Arctic Borough. Expansion of the DMTS is necessary to support Cominco's expansion of the Red Dog Mine, will provide up to 70 more jobs and allow the mine to continue employing Alaskans in the region for the next 50 years. Cominco will pay for the improvements to the DMTS in the form of increased user fees for the facilities.

Section 19- Snettisham Acquisition Authorization- Section 19 authorizes AIDEA to acquire the Snettisham Hydroelectric Project from the federal Alaska Power Administration and authorizes the issuance of up to \$100,000,000 in AIDEA bonds for the purpose. In addition, under subsection (c), the bonds issued by AIDEA for

this purpose may carry the "moral obligation" of the state.

Background. Snettisham is a 78 megawatt facility serving Juneau and Douglas. Acquisition of the project by AIDEA will be supported by a long-term "take-or-pay" power sales agreement with Alaska Electric Light and Power and is expected to provide long-term rate stability for its Juneau and Douglas customers. If the state does not purchase Snettisham, it may be sold to the highest bidder, likely to be a non-Alaskan entity.

Section 20- Immediate Effective Date

Section 20 provides for an immediate effective date. As noted above, existing law prohibits AIDEA from issuing any bonds, and hampers AIDEA's ability to fulfill its mission. The immediate effective date will restore AIDEA's bonding authority at the earliest possible date.

Comparison of CS HB 526(FIN) to HB 425

While there are several technical non-substantive differences between CS HB 526(FIN) and HB 425, there are only a few significant substantive differences. The following will summarize those substantive differences:

Business Assistance Program - Interest Guarantee - Under HB 425 (section 9), an amendment was made to AS 44.88.535(a)(1)(C) that would have allowed AIDEA to waive collateral on loan guarantees "in the manner and under requirements established by the authority by regulation." CS HB 526(FIN) (section 9) would only allow the waiver of collateral on loan guarantees of \$100,000 or less if the proposed loan amortization period does not exceed five years.

Red Dog Bonding Authorization - HB 425 (section 18) authorized the issuance of up to \$60 million in bonds for the expansion and modification of AIDEA's DeLong Mountain Transportation System. In CS HB 526(FIN) (section 18) this authorization limit is increased to \$85 million.

Comparison of CS HB 526(FIN) to CS SB 222(STA)

While there are several technical non-substantive differences between CS HB 526(FIN) and CS SB 222(STA), there are only a few significant substantive differences. The following will summarize those substantive differences:

Bonding Authority- Under CS SB 222(STA) (section 2) legislative approval would be required for AIDEA to issue any bonds to assist in the financing of a development project. Under CS HB 526(FIN) (section 2) legislative approval is only required for AIDEA to issue bonds for a development project if the amount of those bonds will exceed \$10 million.

Business Assistance Program-Collateral Waivers- CS SB 222(STA) (section 9) would allow the authority to waive collateral for loan guarantees in the manner and under requirements established by AIDEA under regulation. CS HB 526(FIN) (section 9) only permits the waiver of collateral for loan guarantees under \$100,000 if the loan amortization period does not exceed five years.

Business Assistance Program - Interest Guarantee - Under CS HB 526(FIN) (section 9), an amendment would be made to AS 44.88.535(c) that would allow the authority to guarantee interest on loans guaranteed under the business assistance program for the time and in the matter established by regulation. CS SB 222(STA) does not include this amendment and therefore, under that bill, the Authority would not be allowed to guarantee the payment of interest under the program.

Business Assistance Program - Sunset - Under CS HB 526(FIN) (section 17(2)) the sunset for the business assistance program would be repealed. Under CS SB 222 (STA) (section 17) the sunset is extended until July 1, 1999.

Business Assistance Program -Transition Provision - CS SB 222 (STA) includes a transition provision (section 20) not provided in CS HB 526(FIN). Under the CS SB 222(FIN) provision, upon the elimination of the business assistance fund as provided in the bills, assets in the fund would be transferred to the Authority's revolving fund.

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222

January 16, 1996

The Honorable Drue Pearce
Senate President
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to boost Alaska's economy and create jobs in the state by strengthening the bonding authority of the Alaska Industrial Development and Export Authority (AIDEA). The bill also modifies AIDEA's business assistance program to make it more effective in light of the recent changes to the federal Small Business Administration loan guarantee program. In addition, the bill includes required bonding authority for several major development projects.

The first basic component of the bill (sec. 2) restores AIDEA's bonding authority for development projects of \$10,000,000 or less. AIDEA's general bonding authority expired June 30 and has severely restricted AIDEA's ability to assist not only in key development projects but also in conduit revenue financing transactions that do not involve the credit of AIDEA or the state.

The second component of the bill makes needed changes to AIDEA's business assistance program (primarily secs. 5 through 12) and repeals the existing July 1, 1996 sunset provision for the program (sec. 17(2)). Recent changes in the federal small business administration program have left a financing void for Alaska small businesses. The bill will make changes in AIDEA's business assistance loan guarantee program allowing AIDEA, in conjunction with the state's private financial institutions, to create additional financing opportunities for state businesses.

The third component of the bill provides legislative authority for two important projects that exceed the \$10 million dollar statutory threshold. Although there are legal questions as to whether this "approval" of bonds infringes on executive powers, I believe the legislature needs to participate in AIDEA's development agenda.

This bill would authorize AIDEA to issue up to \$60,000,000 in revenue bonds for expansion, improvement, and modification of AIDEA's existing port and transportation facilities serving the Red Dog Mine (sec. 18). Repayment of the bonds would be the obligation of mine developer.

Cominco, Ltd. The Red Dog already provides more than 350 jobs, 15 percent of the jobs in the Northwest Arctic Borough. The expansion project will provide up to 70 more jobs and allow the mine to continue to be a major source of employment in the region for the next 50 years. The bill also provides a limited procurement exemption for contracts entered into by AIDEA related to the Red Dog Mine expansion and other similarly situated AIDEA projects (sec. 1).

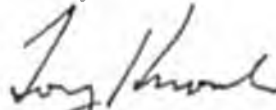
The second project this bill authorizes is AIDEA's acquisition of the Snettisham hydroelectric project (sec. 19). Congress recently authorized the Alaska Power Administration's sale of Snettisham to the state. This bill authorizes the issuance of up to \$100,000,000 of AIDEA bonds to finance the acquisition. Repayment would be the responsibility of Alaska Electric Light and Power under a "take-or-pay" long-term power sales contract. Snettisham is a 78 megawatt facility that is expected to provide long-term rate stability for customers in Juneau and Douglas.

Finally, the bill makes technical modifications to AIDEA's statutes (secs. 3, 4, 5, 6, 14, 15, 16, and 17(1)) and repeals previously granted bonding authority for fueling facilities at the Anchorage International Airport and the Midrex facility proposed for Point MacKenzie. AIDEA will not be required to issue bonds for either of these projects.

In a time of dwindling state resources it is fortunate that we have a financially health agency like AIDEA to forge public-private partnerships that can strengthen the state's economic base. This bill will enhance the tools available to AIDEA to further this mission.

I urge your passage of this bill.

Sincerely,



Tony Knowles
Governor



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



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AIDEA Program Overview

The mission of the Alaska Industrial Development and Export Authority (AIDEA) is to promote the general prosperity of the people of Alaska, to relieve unemployment, and to create additional employment. The Authority accomplishes its mission by providing Alaskans with long term commercial and development financing. Projects eligible to receive this financing assistance are industrial, manufacturing, export, and business enterprises and facilities within the state. The Authority also has the ability to own and operate facilities which advance its mission.

AIDEA is a public corporation of the State of Alaska, a political subdivision within the Department of Commerce and Economic Development, but with separate and independent legal existence. Below is a summary of AIDEA's financing assistance programs:

DEVELOPMENT FINANCE PROGRAM: Transportation infrastructure, ports, airports, utilities, tourism destination infrastructure and other public use facilities may be funded through direct ownership by AIDEA. To be eligible for AIDEA funding, a project must be essential for the economic well being of an area and must produce adequate revenues to repay the bonds sold to finance the project. AIDEA works closely with local governments and approves projects compatible with the local economy and supported by the community. AIDEA development and ownership have contributed to these successful projects: DeLong Mountain Transportation System (at Red Dog Mine); Skagway Ore Terminal; and the Ballyhoo Dock extension at the Unalaska Marine Center.

LOAN PARTICIPATION PROGRAM: Working through financial institutions (banks), AIDEA participates up to 80% in permanent financing for business enterprises such as hotels, shopping centers, office buildings, warehouses, car dealerships, and fishing vessels. The project may be newly constructed, newly acquired or refinanced. Borrowers apply at a qualified bank for a loan; the bank, in turn, applies to AIDEA. The bank retains a minimum 20% share in the loan, although that share may be amortized more rapidly than AIDEA's portion. AIDEA participation is limited to \$10 million. Certain manufacturing and other facilities may qualify for tax-exempt financing under the Loan Participation Program.

BUSINESS ASSISTANCE PROGRAM: More commonly known as the AIDEA guarantee program, this program provides up to an 80% guarantee of the principal balance to the financial institution making the loan. This added degree of support can make project financing, refinancing and working capital loans available for projects that might not otherwise be financed. Borrowers apply to the bank, which in turn, submits an application to AIDEA. Guarantees up to \$1 million are made on loans for real property, equipment or working capital for projects that stabilize the economic base or create or maintain employment. Targeting entrepreneurs in rural areas, in 1991 the Alaska Legislature established a streamlined approval process for guarantees on loans of \$75,000 or less. The loans may be unsecured. AIDEA also supports the Rural Development Initiative Fund (RDIF) under the Business Assistance

Program. The RDIF is administered by the Department of Community and Regional Affairs (DCRA) and supported by AIDEA. The RDIF provides funding up to \$100,000 (\$200,000 for two or more borrowers of the loan) to businesses in rural Alaska which may not currently be served by commercial financial institutions.

REVENUE BOND PROGRAM: AIDEA acts as a conduit to facilitate a financing transaction between a borrower and a willing purchaser of the bonds. This type of financing can be advantageous to both the borrower and the purchaser of the bonds. This program saw high volume use prior to the 1986 amendments to the federal tax code; however, it is in less demand today.

EXPORT ASSISTANCE PROGRAM: Designed to foster and facilitate international trade, this program offers guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans. Guarantees may total up to 90% of the transaction plus interest or \$1 million, whichever is less.

VENTURE CAPITAL: AIDEA has also invested in a venture capital partnership as a limited partner. The Polaris Fund is designed to introduce Outside venture capitalists to investment opportunities in Alaska while providing venture capital to Alaskan businesses. The Polaris Fund manages the partnership. For additional information and loan applications, contact Jim Yarmon, c/o Yarmon Investments, 840 K Street, #201, Anchorage, AK 99501, (907) 276-4466.

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ALASKA INDUSTRIAL DEVELOPMENT
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AIDEA DEVELOPMENT FINANCE PROJECT REVIEW AND APPROVAL PROCESS

HISTORY AND BACKGROUND

- The Development Finance Program has its roots in the original DeLong Mountain Transportation System (DMTS) project to support the opening of the mining district that includes the Red Dog Mine.
 - Financial safeguards in the original legislation required that before approving a project: financed under the Development Finance Program, the Authority must prepare a finance plan (Ch. 162 SLA 1984) which includes:
 - An estimate of the total cost of the project;
 - Sources of funds for the project;
 - An estimate of the operational costs of the project;
 - Sources of money to pay for operational costs.
 - Additionally, the Authority was required to submit the finance plan to the State Bond Committee, Governor, and Legislature before issuing bonds or otherwise incurring debt for the project.
 - These and other safeguards have been added to AS 44.88 for application to all Development Finance projects undertaken by the Authority.
- The Development Finance Program realizes the benefits of tax exempt debt as allowed by the Internal Revenue Service (IRS) Code. Most categories of the Code require governmental ownership. Through Authority ownership the benefits of tax exempt debt, and a strong credit rating, can be reflected in lower rental payments from the industrial user. This, in turn, has a positive effect on the financial feasibility of a project, sometimes making the difference as to feasibility. A lease and user agreement contains provisions for construction, operation, indemnification and rent payments to the Authority.
- The Program is guided by the provisions of AS 44.88.172. Statutory safeguards contained in AS 44.88.095(c) require the Authority's Board of Directors to find, on the basis of all information available:
 - Project is economically advantageous to the state and the general public welfare;
 - Project applicant is financially responsible (credit analysis);
 - Demand on public facilities can be supplied reasonably; and
 - Project will provide/retain employment consistent with the size of the investment.
- Before adopting a resolution approving the issuance of bonds under the Development Finance Program, AS 44.88.095(d) further requires that:
 - The Project is economically and financially feasible and able to produce revenue adequate to repay the bonds;
 - The Project complies with applicable law; and
 - Issuing the bonds is not expected to adversely affect other credit instruments of the state.
- The requirements for finance and the sale of bonds have been met for the original DMTS, the Unalaska Marine Center, the Skagway Ore Terminal, the Healy Clean Coal Project and the Federal Express Line Maintenance Hangar.
- Projects awaiting authorization by the Legislature under the Development Finance Program are the expansion of the DMTS and the acquisition of the Snettisham Hydroelectric Project. How the process will be applied to these projects is explained below.

THE DEVELOPMENT FINANCE PROCESS

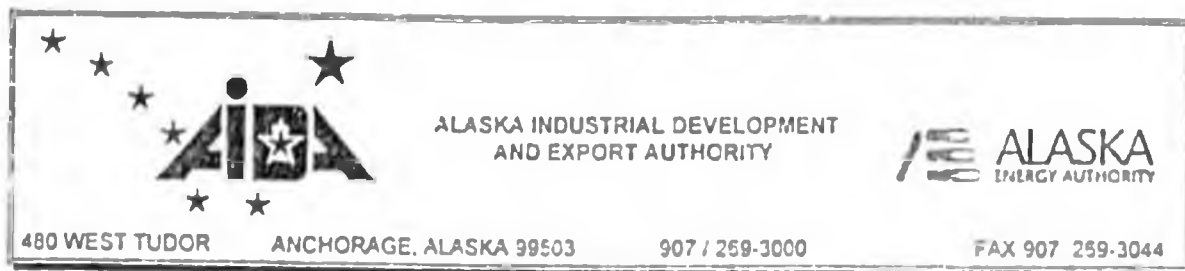
Following are the review steps undertaken when financing is sought under the Development Finance Program. Later, this general treatment will be applied in a discussion of the DMTS and Snettisham projects.

- Approach by the Customer - Staff of the Authority meets with customers seeking financing assistance through AIDEA. Staff discusses with the customer options for either a loan under the Credit Program or infrastructure development under the Development Finance Program. If a potential project is appropriate to the Development Program process, the benefits of tax exempt financing along with the limitations under the tax code, the Authority's costs associated with a financing, and the requirements likely to be included in a lease and user agreement are explained to the customer.
- Information Collection - If the customer is interested in pursuing a development project and lease, staff of the Authority then collects information appropriate to the findings that must be made under 44.88.095(c) and (d) as explained above.
- Feasibility Analysis - The core of the business decision to undertake a project is a feasibility analysis. Usually this is done by a third party with the guidance of staff. The consultant team chosen to do the analysis is selected based on its knowledge and experience in the business area of the project. Capital costs are evaluated for adequacy and the debt service for the project is calculated. Operating costs are estimated. Revenues are estimated and income, net of debt service and operating costs, is determined to establish profitability of the project.
- Credit Review - In addition to a positive finding of financial feasibility, the Authority also requires a customer to have substantial credit strength to perform its obligations under the lease and user agreement. A credit analysis is performed by the authority's financial advisor to assist in the determination of credit worthiness.
- Lease and User Agreement Negotiations - With the feasibility and credit aspects determined, a lease and user agreement is negotiated among the parties. This agreement may be subject to other agreements, such as a land lease, acquisition of regulatory agency approvals (permits), and the approval of the legislature if bond authorization is required. The status of negotiations and progress of the project at the time bond authorization is sought would depend on the time the legislature convenes.
- Legislative Approval - Legislative action is required when the dollar value of a project exceeded the threshold requiring legislative approval.
- Local Government Concurrence - The statutes provide that local government must concur with a project if the project is sited in its jurisdiction. This is obtained by resolution of the local governing body before the Authority's Board of Directors acts on the project.
- Board Action - The Board of Directors considers the information listed above, and documents its finding in a resolution whether to approve the project for implementation under the Development Finance Program.
- Bond Sale & Construction - Documents are prepared for the sale of bonds, and construction documents are bid for the project. With funds in hand, a contract is awarded for the construction. When the facility is placed in service the Authority monitors operation and maintenance as provided by the lease and user agreement.

DEVELOPMENT FINANCE PROCESS

(The order of activities shown will vary, depending on circumstances unique to each project.)

1. APPROACH BY CUSTOMER
 - AIDEA Staff explains advantages and limitations of Program
 - Provisions for repayment and security of AIDEA investment explained.
2. INFORMATION COLLECTION
 - Facts and financial figures are obtained from customer.
 - Preliminary feasibility review performed.
3. FEASIBILITY ANALYSIS
 - Projected capital costs, operating expenses, and revenues are examined in detail.
 - Feasibility report written.
4. CREDIT REVIEW
 - Credit of customer is evaluated by financial advisor.
 - Credit evaluation presented.
5. LEASE AND USER AGREEMENT NEGOTIATIONS
 - Negotiation of the terms of the lease agreement between the user and the Authority.
 - Includes responsibilities during construction, startup, and operation.
6. LEGISLATIVE APPROVAL
 - As required by statute the project is presented to the Legislature for bond authorization.
 - The extent to which the earlier steps are completed would depend on the timing of the legislative session.
7. LOCAL GOVERNMENT CONCURRENCE
 - Local government must want to have the Project in its jurisdiction.
 - A resolution from the local government favoring the Project is presented to the Authority.
8. BOARD ACTION
 - The Authority's Board of Directors considers all information gathered above as it deliberates approval of the project.
 - A resolution approving the project releases staff for finance and construct the project.
9. BOND SALE & CONSTRUCTION
 - The Project is constructed and put into operation according to provisions of the Lease and User Agreement.
 - Bonds are sold to pay for the construction.



DELONG MOUNTAIN TRANSPORTATION SYSTEM EXPANSION Project Overview

- Cominco Alaska (CAK) is well known to the Authority. Performance under the Cominco - AIDEA agreement has been excellent. Annual payments to the Authority of \$12 million have been timely and commitments to others, in terms of local hire, have been met. The performance by CAK is particularly noteworthy considering the last several years have seen low prices for base metals.
- The proposed expansion will lower the break-even price for the CAK operation and position the company for greater profitability when higher base metal prices are obtained. (The mine has been operating at or below its break even point for most of its 5 years of operation.)
- The expansion project qualifies under the definition of a development project, but the bond authorization of \$85 million requires legislative approval. Legislation originally introduced in January, 1996, required \$60 million bonding authorization. The authorization was increased due to a budget revision caused primarily by a recently completed re-evaluation of the ore grade at the mine. By recognizing an ore reserve grade increase from 17.8% zinc to 19.5% zinc, another 160,000 tons of ore concentrates will be produced annually. This raises the expected annual throughput at the DMTS port to 1,250,000 tons, and requires a consequential enlargement of facilities. This and other refinements in the budget, including increases in capitalized interest and larger construction costs for freight and camp accommodations, have been reviewed by staff of the Authority. Based on this review, staff has found that the scope of construction has been sufficiently defined through the ongoing engineering effort, and sufficient monetary reserves have been established for the Project to be completed for the bond authorization requested.
- A feasibility analysis by Stanford Research Institute (SRI) is in preparation. Preliminary results of the analysis show the Project to be feasible.
- When the DMTS was originally built Cominco agreed to provide a Letter of Credit to secure the first ten Minimum Annual Assessments. AIDEA will look for similar security for the expansion project.
- Negotiations of an amended lease and user agreement will begin in April 1996.
- The findings required by AS 44 88.095(c) and (d) recognize the following
 1. Project economically advantageous to the State
 - 105 new jobs created plus added stability for the existing 350 jobs.
 - Cominco's payments to the N. W. Arctic Borough, in lieu of taxes, totaled \$2.5 million last year. The Borough uses these funds, in part, to match grants from the federal government and others.
 2. Applicant financially responsible
 - To be addressed by SRI report and credit analysis by the Authority's financial advisor, Public Financial Management.
 - Credit enhancement, if needed, will be included in the lease and user agreement to secure the Authority's position.
 3. Demand on Public Facilities - None; stand alone facility. The Northwest Arctic Borough has provided local government concurrence.
 4. Provide/retain employment consistent with size of investment.
 - Considering the security that will accompany the \$85 million investment, the 105 new jobs created are consistent with the investment. The \$22 million annual payroll at Red Dog is one-

third of the total payroll in the Northwest Arctic Borough. A substantial portion of the balance of the borough economy relates to indirect employment associated with the mine.

5. Economic and Financial Feasibility - The SRJ report is expected to show the project is economically and financially feasible.
6. Project to comply with applicable law.
 - The regulatory agency review and permit process will be complete before bonds are sold.
 - Water quality in Red Dog Creek has improved as the direct result of the mine.
 - The relationship between CAK and the NANA subsistence committee is effective in dealing with concerns for whale migrations near the DMTS Port, and caribou migrations across the DMTS access road.
7. Bonds will not affect adversely other credit investments of the state.
 - Bonds will either rely on the credit strength of CAK or will be sufficiently credit enhanced to be a secure investment for AIDEA.
 - The bonds will be rated on their own right and will not adversely affect other credit investments.



ALASKA INDUSTRIAL DEVELOPMENT
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March 13, 1996

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The Honorable Senator Bert Sharp
State Capitol
Mailstop 3100, Room 514
Juneau, Alaska 99801-1182
ATTN: Ms. Ann Ringstad

Subject: DeLong Mountain Transportation System Expansion
Increase in Request for Bond Authorization

Dear Senator Sharp:

The Alaska Industrial Development and Export Authority (the Authority) has received a request from Cominco Alaska, Inc. (CAK) to increase the bond authorization for an expansion of the DeLong Mountain Transportation System (DMTS) from \$60 million to \$85 million.

As explained on the attached March 1, 1996 letter from D. J. Charlton, General Manager of CAK, to the Authority's Project Manager, the reason for this request for increased authorization is a revised budget caused primarily by a recently completed re-evaluation of the ore grade at the mine. By recognizing an ore reserve grade increase from 17.8% Zinc to 19.5% Zinc, another 160,000 tons of ore concentrate will be produced annually. This raises the expected annual throughput at the DMTS port to 1,250,000 tons, and requires a consequential enlargement of facilities. This and other refinements in the budget, explained in Mr. Charlton's letter, have been reviewed with staff of the Authority. We believe the revised budget reasonably represents the total of costs for the DMTS expansion. The scope of construction has been sufficiently defined through preliminary engineering, and sufficient monetary reserves have been established for us to feel comfortable the Project can be completed for the bond authorization requested.

The increased production from the mine and throughput at the port will improve the competitiveness of the Red Dog Mine in world markets. It will also increase

The Honorable Senator Bert Sharp

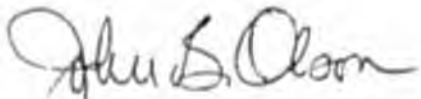
March 13, 1996

Page 2

employment by 80 full time and 25 seasonal jobs (this adds to approximately 350 jobs currently). We continue to believe the DMTS expansion represents a valuable project for the state, and look forward to working with CAK to make it a sound investment for the Authority.

If you have any further questions, please let me know.

Sincerely,



Fox

William R. Snell
Executive Director

Attachment



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 269-3044

SNETTISHAM PROJECT ACQUISITION

Project Overview

- **Project economically advantageous to the State** - The proposed divestiture of the federal Alaska Power Administration (APA) and the sale of the Snettisham Hydroelectric Project was approved by President Clinton and signed into law on November 28, 1995. The underlying reasons for the divestiture are to cap local electrical rates and protect consumers from future "rate reform" by Congress; and to allow for the elimination of the APA, which has outlived its usefulness and initial purpose. Under State ownership this project will provide reliable low cost electric power to the people of Juneau in an environmentally sensitive manner while insuring full repayment of the State's investment. Alternatively, if the project is sold to a private independent power producer it would most assuredly result in higher power rates.
- **Applicant financially responsible** - Since project start-up nearly 20 years ago, AEL&P, the Juneau utility, has been purchasing nearly all the project's power and reliably transmitting it to Juneau rate payers. The project presently provides about 80 percent of Juneau's electrical load requirement. Under a proposed "take or pay" power sales agreement with AIDEA, AEL&P will continue to purchase the project's power. The financial ability of AEL&P to perform under the power sales agreement will be confirmed prior to closing.
- **Demand on public facilities** - Since the Authority contemplates no additions or modifications to the existing Snettisham facility, there will be no additional burdens placed on public facilities.
- **Provide/retain employment consistent with the size of investment** - The Authority contemplates the development of an operating agreement with AEL&P. As operator, AEL&P intends on retaining four to five of APA's Snettisham craft employees as well as possibly some management personnel. Maintaining favorably low power utility rates will also have a positive effect on business employment in the region.
- **Economic and financial feasibility** - Tax exempt financing of the Snettisham project is viewed as necessary to prevent rate shock. Since the Internal Revenue Code now prohibits the use of tax-exempt bonds to finance an existing facility it must be amended for the purchase of Snettisham. Legislation required for tax-exempt financing of this Project is now attached to the Congressional Budget Reconciliation Bill. A feasibility determination will be made based on interest rates and other factors that would affect the final deal structure.
- **Although yet to be fully evaluated, risks associated with State ownership of this facility appear to be fairly typical of those of any remote Alaskan hydroelectric facility that has submarine cables and an exposed transmission line.** In the process of acquiring this project the Authority will strive to minimize its risks through negotiations with AEL&P, the intended operator and purchaser of all the facility's electrical output. Establishment of sufficient reserves for replacements and insurance will significantly reduce the State's financial exposure as owner. Prior to purchasing this facility the Authority will perform a detailed physical facility evaluation and a comprehensive risk assessment. If this study determines that the Project's risks are too large or unmitigatable, the Authority will recommend not proceeding with acquisition.
- **Project to comply with applicable law** - The records reflect that the project is in full compliance with all laws and regulations.
- **Bonds will not adversely affect other credit instruments of the State** - The bonds will not be a general obligation of the State of Alaska. The State moral obligation will induce the market to assign a lower interest rate to the bond, while presenting a minimal risk to the state.

SNETTISHAM DIVESTITURE HISTORY & TALKING POINTS

- Origins of the Deal
 - Reagan initiatives:
 - Privatization of federal agencies
 - Utility "rate reform" -- to raise rates charged for federal power to reflect market interest rates. This would approximately double the wholesale price of Snettisham & Eklutna Power.
 - Alaska Power Administration responded to these initiatives by offering the facilities for sale to cooperatives and public power agencies, with the intention of eliminating this entire federal agency.
- Why did Congress take so long to authorize the divestitures and the elimination of the APA?
 - The Democratic congress resisted passage, believing the prices were too favorable to Alaska. Senators Murkowski and Stevens and Congressman Young achieved passage this year after years of effort.
- Why is the State involved in the purchase of Snettisham?
 - Federal law authorizing the APA and the four larger Power Marketing Agencies (Bonneville and others) requires an absolute preferential use by public power agencies (Cooperatives and state/municipal agencies).
 - National public power interests (National Rural Electric Cooperative Association - NRECA, and American Public Power Association - APPA) would have blocked the legislation had either of the Alaska projects been sold to non-public (investor-owned) utilities such as Alaska Electric Light & Power Company in Juneau.
- Cost of the projects to the Federal government:
 - Snettisham - \$156.4 million -- 78 MW (Long Lake early 80's; Crater Lake 1994)
 - Eklutna - \$34.6 million -- 30 MW (approximately 1967)
- Replacement costs of Snettisham and Eklutna.
 - Snettisham - Approximately \$200 million.
 - Eklutna - Approximately \$80 million.
- Present value of debt service payments by consumers on the facilities to the federal government under present rate structure.
 - Snettisham - Approximately \$100 million.
 - Eklutna - Approximately \$14 million.
- What costs constitute wholesale rates paid by consumers of Eklutna and Snettisham power?
 - The wholesale cost of power is comprised of:
 1. Debt service (at about 3%) on the original Federal investment in the facilities, over a 50 year amortization period; and,
 2. All the O&M costs of the Alaska Power Administration, including about \$1 million annual overhead.

3. \$8 - 12 million a year.

• Can the Federal Government ever change the rates?

Yes, at any time. Utilities contract to buy the power on a take-and-pay basis. In fact, the price is changed every year pursuant to an APA "rate study," which takes into account any new investments necessary, the projected load the following year, and other factors. The last three federal administrations have proposed "rate reform," which would approximately double the wholesale cost of power to Alaskans.

• How were the prices for the facilities worked out?

The APA originally had appraisals done (mid-80's), and the results indicated market values (based on earnings) of about \$180 million (for Snettisham) and roughly \$50 million (Eklutna).

In the case of Snettisham, the State worked backwards from existing wholesale rates, and agreed to a price which will have minimal effect on rates when transfer occurs, regardless of the cost of money (interest rates on the bonds).

• Will AIDEA's participation as conduit financier result in any subsidy to Alaskans purchasing electricity or to Utilities?

No. The local utility will provide the revenues for the AIDEA revenue bonds through a take-or-pay contract. Under this contract, the utility will be obligated to pay sufficient money each year to operate, repair, insure, and maintain the facilities, and to pay 100% of the debt service on the bonds.

• Will the utilities in the railbelt or Juneau profit from this divestiture?

No, the utilities will not. However, ratepayers (consumers and industrial/commercial users) will benefit from stable rates, which would be problematic under continued Federal ownership. Also, local ratepayers will no longer be forced to pay the overhead of the Alaska Power Administration, which will be eliminated once the projects are divested. These savings go directly to the consumer, not to the utilities.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



480 WEST TUDOR

ANCHORAGE, ALASKA 99503

907 / 269-3000

FAX 907 / 269-3044

February 23, 1996

Ms. Anne Ringstad, Senate State Affairs Committee
c/o The Honorable Senator Bert Sharp
Alaska State Legislature
State Capitol
Juneau, AK 99811

Dear Anne:

As requested, the purpose of this letter is to provide information on why the moral obligation of the state has been requested for the purchase of the Snettisham hydroelectric project, versus issuing general obligation debt of the Alaska Industrial Development and Export Authority (AIDEA).

There are both market related reasons and policy related reasons for requesting that the Snettisham bonds be issued as State moral obligation bonds, rather than as AIDEA general obligation bonds. The circumstances outlined below present the classic situation in which the state moral obligation induces the market to pay significantly more for the bonds, while presenting a minimal-to-zero risk to the state and are the exact set of circumstances where attachment of the state moral obligation is most appropriate and beneficial.

Market Impacts:

Bond Rating: The State of Alaska is presently rated AA, making a Snettisham state moral obligation bond potentially a AA- bond issue. AIDEA received an A rating on our most recent bond issue (May 17, 1995). Based on the rating disparity, an AIDEA bond issue could expect a penalty of approximately 15 basis points.

Marketability: The Snettisham project will be a unique bond with its requirement of Congressional action and the 10 year history of the potential sale. It will, therefore, need to be actively marketed to institutional investors. A state moral obligation, in and of itself, is potentially the single most important characteristic a bond can have. Bonds with identical ratings sell at significantly different prices, depending in large part upon the nature of the credit enhancements that provided the ratings. A state moral obligation is an enhancement; the market is accustomed to in analyzing revenue bond

financings, and therefore, provides maximum marketability leverage compared to other forms of credit enhancement when the underlying source of revenue [e.g. Alaska Electric Light & Power (AEL&P)] is unrated and unfamiliar to the market.

Insurability: It is likely that the Snettisham bond will benefit from being insured. Insurance will be significantly more economical, and more readily purchased, if the bond carries the state moral obligation.

Risk:

By its nature, the Snettisham bond presents a very minimal risk to the state under the moral obligation. The project is complete, and has operated successfully for nearly 20 years. Juneau's load now uses practically all the firm energy produced by Snettisham and load projections show that all firm energy and most of the average annual surplus will be consumed by the commercial and residential market in the near future. In addition, 100% of Snettisham's annual surplus energy has already been sold. Thus, the project will be fully utilized from the day of acquisition by AIDEA. These factors make AEL&P's take-or-pay obligation easy to meet without a rate change. In addition, the risk is limited with a rate covenant that will be included in the underlying revenue contract. The rate covenant will require AEL&P to collect whatever rates are necessary to meet the take-or-pay obligation even in the highly unlikely instance that load declines.

Policy and the Impacts on AIDEA:

Ability to meet AIDEA's primary mission: While attaching the state moral obligation to the Snettisham bond will not measurably affect the State of Alaska, issuing AIDEA general obligation debt could affect AIDEA and its future ability to enhance economic development in Alaska. Issuing AIDEA debt to purchase Snettisham could reduce AIDEA's future ability to incur obligations for economic development projects. Projects which AIDEA has bonded in the past (e.g. Federal Express maintenance facility, Unalaska Dock expansion) generally met a narrow "private activity" purpose, unlike Snettisham, which is a highly traditional public purpose financing and as such, a classic vehicle for the state moral obligation.

Industry Concentration: At June 1996, AIDEA will have outstanding approximately \$115 million in bonds, other than bonds related to the Red Dog Project. AIDEA has authority to and anticipates going to the bond market in 1996 for the Healy Clean Coal Project (\$85 million). If both the Healy and Snettisham projects are issued as AIDEA general obligations, nearly 62% of AIDEA's June 1996 debt, on a proforma basis, will be concentrated in two power generation facilities, with the corresponding concentration of revenues. Rating agencies and the bond market view such concentrations as unhealthy and the result of that may decrease the marketability of future AIDEA bonds.

Debt ratios: Adding \$185 million (\$85 million to finance Healy and an assumed \$100 million issuance for Snettisham) to AIDEA's general obligation debt will increase AIDEA's debt ratios. This, again will hurt AIDEA's abilities to market debt and may decrease the Authority's ability to fulfill its primary economic development mission.

Precedents and Previous State Commitments:

Precedents: The Alaska moral obligation has been attached in the past to revenue financing for hydroelectric projects as a matter of course, helping to finance hydroelectric projects throughout the state. It currently applies to: the Bradley Lake project, which benefits all railbelt consumers; the refinancing of the Sitka hydroelectric project; the Anchorage-Fairbanks Intertie project; and the Four Dam Pool projects.

Previous commitments: The sale of Snettisham has been pending for nearly ten years awaiting Congressional action. During the federal hearings and negotiations, the State represented that the bonds would be Alaska moral obligation bonds. The pricing mechanism for the acquisition was negotiated based on this assumption. The purchase agreement was finalized based up this representation, and the Alaska congressional delegation, the utility, and the City and Borough of Juneau all based their approval and support of the transfer to the Snettisham project based upon the state moral obligation on the bond.

When the purchase agreement was approved by the Alaska Energy Authority, the entity had the clear legislated authority to use the Alaska moral obligation for such a financing. No subsequent legislative approval was required or suggested at the time the purchase agreement was executed and duly approved. Only the subsequent subdivision of the AEA, its oversight transfer to AIDEA, and subsequent changes in AEA statutes have created the requirement for legislation specifically allowing the state moral obligation. However, the basic contracts with the United States and AEL&P preceded these statutory revisions.

I hope that the explanation provided above helps to clarify the reasons and purpose of providing the state moral obligation on the Snettisham bonds. If you require additional information, please do not hesitate to contact me.

Sincerely,



William R. Snell
Executive Director

Ms. Anne Ringstad
February 23, 1996
Page 4

cc: Pat Pourchot, Office of the Governor
David Ramseur, Office of the Governor

DATE: April 18, 1996
TO: Representative Mike Navarre
FROM: Don Evans, Managing Director *DE*
SUBJECT: Response to Site Selection and Timeline Questions

Thank you for your keen interest in our project. We have made substantial progress as a result of our prefeasibility investigation over the past several weeks and would like to respond to your questions with respect to site selection status and timeline.

Site Selection

After a thorough prefeasibility investigation by highly qualified professionals, we have identified two locations which positively encompass the key siting criteria for our proposed plant. They are the Tyonek Native Corporation property in the vicinity of the existing Tyonek dock, on the West Side of Cook Inlet, and the Nikiski location (two Nikiski properties offer excellent options). Within the next three weeks, we will select a primary site from these choices.

Timeline

The project schedule is as follows:

- Selection of primary site and beginning of Feasibility Investigation - second week of May 1996
- Completion of Feasibility Investigation, Stage I, Class A Data Development for Permitting - December 1996
- Beginning of Feasibility Investigation, Stage II, Engineering data necessary for project permitting activities and design/construction - January 1997 - completion based on status of previous activity.

Legislative action on AIDEA bond financing amendment is critical for the project to move forward in this aggressive timeline inasmuch as dockage comprises a major element of the infrastructure necessary for comprehensive project packaging.

Attached is a detailed project, PERT Chart.

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MEMORANDUM
April 22, 1996

To: Senate Finance Committee

From: R.B. Stiles

Reference: CSHB 526

I would like to add my support to continuation of the legislative authorization for the issuance of up to \$50,000,000 in bonds by the Alaska Industrial Development and Export Authority for the acquisition, design and construction of a bulk commodity loading and shipping terminal.

My firm (DRven Corporation) is the development manager for the Diamond Chuitna Project, a grass roots coal development project based on 20,000 acres of State coal leases located in the Beluga Coal Field of Southcentral Alaska. To date the owners of the Diamond Chuitna Project have invested in excess of \$40,000,000 in efforts to develop both the project and markets for the coal.

The Beluga Coal Company also owns state coal leases in the Beluga Coal Field and has many years invested in the development of their leases and markets for the coal.

A bulk commodity terminal in the Cook Inlet is critical to either or both of these projects moving forward.

Other development projects based on State owned, Mental Health Trust owned or Native Corporation owned land and/or resources are all equally dependent upon development of a bulk commodity terminal within the Cook Inlet.

Continuation of the subject legislative authorization and allowing for location of a terminal anywhere within the Cook Inlet is an essential element in the development and export of natural resources adjacent to the Cook Inlet.

Project Brief For An
**INTEGRATED FACILITY FOR PRODUCTION OF
IRON CARBIDE AND OTHER FERROUS ALLOYS,
IN ALASKA**

THE ALYESKA ALLOYS PROJECT

I. PROJECT SUMMARY

1. Objectives. Establishment of a project on ice-free, deep water at Cook Inlet on the south shore of the state of Alaska, for the proprietary production of iron carbide, ferro-nickel and ferro-chromium alloys, based on indigenous natural gas and chromite ore, together with imported iron and nickel ores (refer to the diagram following this page). The perceived prime markets for these metals and alloys are in relatively nearby Japan, South Korea and Taiwan, with the west coast of the U.S. as an even closer, secondary objective.

Project long-term natural gas supplies are expected to be purchased from Cook Inlet producers through arrangements made with Alpine Gas Company of Colorado selling equivalent quantities of its Wyoming gas production into the U.S. spot market in exchange for Alyeska Project-produced iron carbide.

The integration of the production components of the Project will result in synergistic effects, enhancing the energy efficiency of all operations, thereby contributing to long-term market stability and economic competitiveness of Project outputs.

All Project processes and products will conform with environmental standards and objectives. No hazardous or toxic outputs are associated with the Project.

Approximately one-hundred twenty skilled jobs will be directly created by the Project in Alaska, with corresponding requirements in associated service sectors including the transportation, materials handling and electric power generation/distribution industries.

Commissioning of the Project is expected within 18 months of Phase Two commencement (Phase One is the proposed Feasibility Investigation described in this document), and is targeted to be in position to meet projected customer delivery schedules for iron carbide in early 1998.

2. Participation. At the present time, participation is being offered in a new limited liability company ("l.l.c.") which has been formed under Colorado statutes and named Alyeska Holdings LLC (please see the *Prefeasibility Study Funding Proposal* which accompanies this *Brief*). Interest holders in this new L.L.C. are expected to comprise: (1) a U.K. holding company, (2) certain principals active in the conceptualization, realization and management of the project, (3) a major capital equipment supplier, and (5) other contributors to capital as may be subsequently identified.

3. Capitalization. The market is presently believed to be able to initially sustain several production modules for iron carbide (of 1,000 metric tons per day capacity, each), with anticipation that probably numerous additional modules subsequently can be supported by future market growth. Estimated nominal capital cost per module is \$60 million. The ferroalloys facility will be predicated initially on production of 100,000 tons/year of output going to the aforesaid East Asian markets and to the lower 48 states, with an estimated initial alloys plant capital requirement of \$25 million.

Sufficient advance sales of product will be developed to support commitment of project funding, with an objective of attaining an 80:20 debt/equity ratio, and with debt amortization over a 10-15 year period.

4. Marketing. Outputs of the project will be sold into the East Asia and western North American markets under a combination of direct, long-term off-take contracts with primary steelmaking users, coupled with spot or merchant market offerings, as conditions develop. Sufficient advance commitments to take product are an Alyeska Project prerequisite.

5. Production Licenses. Licenses for production of iron carbide and the beneficiation of ferrous nickel and chromium oxide ores as the bases for ferroalloy production, will be obtained under options from Iron Carbide Holdings, Ltd. of Lakewood, Colorado.

6. Initial project activity (the "Feasibility Investigation"). Early investigation of project feasibility reveals a significant level of interest in the local communities on Cook Inlet in Kenai Borough and with the Alaska Industrial Development and Export Authority. With the formation of the limited liability company and completion of the *Prefeasibility Study* (see 2, above) the Project Feasibility Investigation (described herein) will commence, comprising: identification of raw materials and energy sources, site selection, market evaluations, engineering feasibility analysis, staffing

requirements, availability of in-state economic incentives, environmental impact analyses and permitting, and project construction and permanent finance arrangements.

7. Prefeasibility Study Management. Individuals conducting the Prefeasibility Study will include (see for bio-data):

Evans, Donald - Denver, Colorado	Investigation Director
Freeman, Walter - Cave Junction, Oregon	Ferroalloys Development
Heffernan, John - New York City	Market Analyses
Sattler, William - Portland, Oregon	Engineering Feasibility*
Sharpe, Howard - Highlands Ranch, Colorado	Environmental Studies

*A major design/construct engineering organization will conduct the investigation of this aspect of the Project under the direction of Mr. Sattler. Additional specialist individuals and organizations in the other subject areas will be involved as needed.

II. PROJECT OUTPUT DESCRIPTIONS

1. Iron Carbide Production

This chemical compound (Fe_3C) is man-made by a patented process, to which International Iron Carbide Corp. may acquire options for licenses in the state of Alaska, the Canadian province of Nova Scotia and in Kazakhstan in the Commonwealth of Independent States (C.I.S.) in the former U.S.S.R.

In a pressure vessel, at a temperature of 1130°F., iron oxide (ore) reacts with hydrogen and carbonaceous gases forming the carbide, with the only direct by-product being water. (Some natural gas combustion products result from the requirement for process heat, but generally speaking the iron carbide process is environmentally benign, especially when compared with the blast furnace/coke oven plants it replaces.)

The application of iron carbide is as a replacement for molten blast furnace iron ("hot metal") and ferrous scrap in the production of steel by the conventional basic oxygen process (BOP) and electric arc furnace (EAF) methods, which are in predominant use throughout the world today. As such replacement, iron carbide represents a source of high-purity iron and fuel (i.e., its combined carbon amounting to almost 7% by weight) for high quality steel production.

Blast From the Past

Once Scorned, a Man With an Idea Is Wooed By the Steel Industry

Frank Stephens Spent Years
On Iron-Carbide Method
Of Low-Cost Production

Change Faces Many Barriers

By SUSAN CAREY and ERLE NORTON
Staff Reporters of THE WALL STREET JOURNAL

In the photograph, Frank Stephens strikes the pose of a statue beside him, both man and marble gazing heavenward as if searching for divine guidance. The statue is of Don Quixote.

"If you're going to chase windmills, you need some skilled help," Mr. Stephens says.

The 75-year-old engineer has spent more than two decades chasing a windmill — in his case, a radical change in steelmaking that might cut costs by one-third. But, rejected in the U.S. by the very industry he sought to help, he ended up testing his idea in Australia. Lacking enough money, he was joined by unlikely investors, some of whom are now doing battle in court.



Frank Stephens

His idea? He found a new way to make iron for steelmaking; the resulting metal, iron carbide, has the potential to be made directly into steel without first being melted in blast furnaces. "This could revolutionize the whole industry," says F. Kenneth Iverson, chairman of Nucor Corp., the nation's No. 4 steelmaker.

Now, Mr. Stephens's Lakewood, Colo., company — where he, his son Frank and only one other employee work in a modest office next to a Taco Bell — is being courted by the same industry; that for years trashed his idea.

Last year, Nucor, which in the past has leapfrogged competitors technologically, built the world's first commercial iron-carbide plant using Mr. Stephens's design. Nucor mainly wants to produce iron carbide as an inexpensive, high-grade supplement to the increasingly scarce and costly scrap steel it melts in electric furnaces. But it also is working with USX Corp.'s U.S. Steel to develop a process to make steel directly from iron carbide.

U.S. Steel once balked at a chance to buy Mr. Stephens's technology, but today, says Michael Moore, a research director at the nation's largest steelmaker, "we believe in iron carbide." In addition, Iron Carbide Holdings Ltd., a joint-venture company partly owned by Mr. Stephens and an Australian concern, has sold licenses or options for licenses to the likes of Mitsubishi Corp., North Star Steel Co. and Cleveland-Cliffs Inc. And Peter Stroh, the chief executive of Stroh Cos., the Detroit brewing company, seems to be gunning for a piece of the iron-carbide business through a tangle of court cases. "All of a sudden, other people view this as a money tree and are looking at how they might own part of it," Mr. Stephens says.

Iron carbide may never live up to the high hopes, of course. Nucor's \$95 million iron-carbide plant in Trinidad and Tobago has start-up problems. And some view iron carbide as, at best, a niche product.

But Mr. Stephens disagrees. So does Louis Schorsch, steel director of McKinsey & Co., the consulting firm. "If it works as advertised, it will be quite a big deal," he says. It will be important, he adds, even if used only in the scrap-steel process, which now turns out 40% of America's steel.

A Tough Start

The son of a mining engineer, Mr. Stephens was reared in Colorado mining camps. When he and his brother weren't hunting and fishing, they worked as powder monkeys, carrying dynamite deep into the mines. Motivated by that grueling labor, Mr. Stephens won a scholarship to the Colorado School of Mines.

After graduating in 1942, Mr. Stephens worked at Battelle Memorial Institute, a Columbus, Ohio, research outfit, and then at an engineering and construction firm in New York. After some military jobs in World War II, he addressed the challenge of breaking down steelmaking into smaller, fewer and more efficient steps.

Usually, iron ore is made into pellets, which then are heated with limestone and coke; the resulting molten iron is refined in a basic oxygen furnace into steel. Mr. Stephens hoped to use iron ore in its natural, granular form, bypassing the costly pellet-making process, and then to skip the limestone and coke, making iron carbide by heating the grains of ore with gases. Along the way, he heard of a Swedish inventor who had tried all this but found it too expensive.

Mr. Stephens became obsessed with making it work. For years, he jotted down notes, talked with colleagues and tinkered with exotic metallurgical concepts. Finally, in 1972, he figured it was now or never. So, he went to work for Hazen Research Inc., a small Golden, Colo., laboratory whose clients included mining and steelmaking companies.

There, he teamed up with John Hager, one of his professors at the School of Mines. They plugged formulas into a computer and pumped various mixtures of

Please Turn to Page A1, Column 5

Big Steel Warms Up to New Idea

Continued From First Page

gases and fine iron ore into a cylindrical chamber. They got four patents for their work, which was underwritten sometimes by Hazen and sometimes by other companies. But all the backers eventually left.

That is when Mr. Stephens began his hardest sell—to Big Steel. Always risk-averse, the bloated, loss-plagued industry was more concerned about hobbling from quarter to quarter than investing in pie-in-the-sky technology.

He approached U.S. Steel with what he assumed would be a natural lure: saving money. For two years, he and people at U.S. Steel talked about the technology and put together feasibility studies and cost analyses. But with U.S. Steel discussing building a multibillion-dollar blast-furnace-based mill, the company could hardly push a new technology.

Mr. Stephens also struck out at National Steel Corp., which, he says, appeared reluctant to try anything so new. And the day Mr. Stephens was to make a presentation to Armco Inc., the company cut 3,000 research-and-development employees—hardly a good omen.

Rodney Hodgson, a Hazen vice president who worked with Mr. Stephens, says it isn't surprising that selling the iron-carbide idea has been so difficult. "There already was a way of making steel," he says. "It is hard to make that industry shut its doors, mothball . . . that existing infrastructure at huge expense and try something new." Some Hazen clients started worrying that Mr. Stephens's research threatened to make obsolete their time-honored products and processes. One such client, Cleveland-Cliffs, makes iron-ore pellets for blast furnaces.

Hazen and Mr. Stephens agreed he had to go. He left the lab—and his patents—in 1983. At age 53, he was still peddling a technology that no one seemed to want.

Donald Evans, a colleague at Battelle and Hazen, joined him, and the two began looking for backers. They zeroed in on iron-ore-rich Australia and there found Jeff Hull, a gold-mine developer, who with others invested some \$9 million in return for a stake in Iron Carbide Holdings.

The money enabled Mr. Stephens to buy back his patents from Hazen and finance a full-scale test of iron-carbide making. Lacking funds to build a custom plant, the Australians found a small, mothballed reactor that they could rent on the cheap. "It was not really suitable," Mr. Hull recalls. "We virtually went bankrupt" producing 360 tons of the silvery grains.

Word of the plant and the notion that iron carbide could be something more than a laboratory curiosity filtered back to the U.S. Sample batches were sent to steelmakers. All this intrigued a Chicago engineer-turned-businessman, Frederick Keady, who had a background in coal, utilities and steel and already knew of Mr. Stephens's work.

Mr. Keady invested \$2 million for a 25% stake in Iron Carbide Development Corp., which in turn controls Iron Carbide Holdings. He says he later brought in another \$6 million in seed money. That investment

while seemingly a godsend, has sparked a messy legal tug of war that, though unconnected with Mr. Stephens, threatens to give him an unwanted investor.

Here's what happened. In the late 1980s, Mr. Keady obtained a majority stake in Millers Cove Resources Inc., a Canadian owner of U.S. coal mines that had been largely owned by Mr. Stroh, who retained a small interest. Mr. Keady did that by folding his iron-carbide holding, which included exclusive licenses to build iron-carbide plants in the middle of the U.S., and some other assets into Millers Cove. Mr. Keady says he has lined up \$100 million in commitments by specialty steelmakers that want an iron-carbide plant in Louisiana. Nothing would please Mr. Stephens more, but it might not happen soon.

In 1993, Mr. Stroh offered to put money into Millers Cove's iron-carbide unit, but he never did. In early 1994, he sued Mr. Keady in an Ontario provincial court, alleging mismanagement and suppression of his minority-shareholder rights. In June, a judge agreed, and appointed Arthur Andersen & Co. as interim receiver and manager of Millers Cove.

In a written statement, Mr. Keady says, "Pretenders who shrewdly avoided any commitment [to iron carbide] in the difficult times now argue they are most worthy to direct and control this unique technology." He also defends his role in developing the technology and says he brought valuable assets to Millers Cove.

Mr. Stroh, through a spokeswoman, declines to comment. His lawyer in Toronto, Bruce Leonard, also declines to discuss details of the litigation, noting that Mr. Stroh and Arthur Andersen separately sued Mr. Keady in June in federal district court in Detroit. Both actions ask that Mr. Keady return the Millers Cove shares he received from Mr. Stroh.

Amid the battle, an unperturbed Mr. Stephens says he just wants to see his invention commercialized and is pinning his hopes on Nucor. Even though the steel industry shunned his idea for years, he hasn't abandoned his reason for pursuing it—to aid an industry he considers crucial to the nation. "I never got involved with the idea of personal gain," he says. "I got involved because the industry needed something . . . less expensive."

Newfoundland's Premier Plans to Resign in 1996

By a WALL STREET JOURNAL Staff Reporter

ST. JOHN'S, Newfoundland—Newfoundland Premier Clyde Wells said he intends to resign in the new year.

Mr. Wells said it has never been his intention to hold political office for more than 10 years. Seeking an additional term in office would require more than that.

Mr. Wells, 58 years old, was first elected premier in 1989. He has been leader of the province's Liberal Party since 1987.

At a news conference, he said he intends to remain in office until a successor

REVENUE BONDS

1986	Reiswig, Jon A. & Suzanne (Medical Clinic)	\$600,000
1986	Alaska Hotel Properties (Hotel in McKinley)	\$6,300,000
1986	Westcenter 2A Ltd. Partnership (Tenant Improvements)	\$300,000
1986	Plooy, Thomas R. & Sandra L. (Office Retail Building)	\$380,000
1988	Sheldon Jackson College	\$5,000,000
1991	YMCA (Payoff Existing Loan)	\$650,000
1991	Alaska Public Television (Studio and Office Facilities)	\$1,500,000
1992	Alaska Kidney Foundation (Building)	\$1,250,000
1992	Polar Equipment, Inc. (Canning Facility)	\$975,000
1994	Alaska Public Radio (Equipment)	\$140,000

* 1985- 72 low bonds issued

Potential issues -

- Fort Knox (Amax) \$ 30.0m bond auth (increase to \$70.0m)
- Kennsington mine \$ 30.0m bond auth
- KPC \$ 30.0m bond auth
- Red Hog ? (See tax exempt portion)

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
PROJECT BONDS ISSUED SINCE JANUARY 1, 1987

YEAR	ISSUE NAME	TOTAL ISSUE
1992	FEDERAL EXPRESS FACILITY	28,000,000
1991	UNALASKA DOCK FACILITY	7,000,000
1990	SKAGWAY ORE TERMINAL	25,000,000
1987	DELONG MOUNTAIN TRANSPORTATION SYSTEM	* 103,250,000
	TOTAL	<u>163,250,000</u>

* REVENUE ISSUE

LOGN
PART.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
BONDS ISSUED SINCE JANUARY 1, 1984

YEAR	ISSUE NAME	TOTAL ISSUE
1985	REVOLVING FUND BONDS, SERIES 1985A	8,020,000
1987	TAXABLE UMBRELLA BONDS I, SERIES 1987	14,540,000
1986	UMBRELLA BONDS, 1986	13,885,000
1985	UMBRELLA BONDS, 1985C	13,595,000
1985	UMBRELLA BONDS, 1985B	24,245,000
1985	UMBRELLA BONDS, 1985A	16,650,000
1984	ECONOMIC DEVELOPMENT BONDS	11,800,000
1984	CONSOLIDATED BONDS, 1984	12,140,000
1984	VARIABLE DEMAND/FIXED RATE BONDS	11,000,000
1984	ECONOMIC DEVELOPMENT BONDS	13,120,000
	TOTAL	<u>137,995,000</u>

Potentials -
 ASB (Power System Inc) - potential ^(multiple) loan part.
 see small hydro proj

Comparison of AIDEA Development Finance Program to
Conditions Imposed in Original DMTS Legislation

Ch 68 SLA 1985-- Conditions to be satisfied before bonds could be issued:

Sec 2:

(1) (A) Cominco Ltd to pay for all operation and maintenance based on use

AS 44.88.173 requires AIDEA to adopt a finance plan for new projects that estimates all costs of project including operational costs and identifying sources of funds for the costs.

Before issuing bonds the Authority must under AS 44.88.095(d) determine

- project economically feasible and will produce sufficient revenue to repay bonds or loans*
- project complies with law*
- issuance of bonds not expected to adversely affect ability to issue other state bonds*

(1) (b) If Cominco ceases to develop the project it will pay for all costs expended by the Authority with interest

At the outset of a project AIDEA enters into a reimbursement agreement with the project proponents requiring that the proponent reimburse the authority for all costs expended in the event AIDEA fails to participate in the project for any reason. Such an agreement has been entered into with Cominco for the expansion project

(1)(C) Toll fees by Cominco may be periodically adjusted if zinc price rises above a level that yields a return on investment commensurate with risk

This provision has been included in the original agreement with Cominco and will be a subject of negotiation with respect to the expansion project

(2) US Government makes land in Cape Krusenstern National Monument available

This occurred for the original project with Cominco but is not needed for the expansion project

(3) NANA regional Corp to agree to sell or lease for 99 year term to AIDEA land needed for port and road and for future expansion

AIDEA has entered into a 99 year lease with NANA and will negotiate with NANA for any modifications needed to the lease related to the expansion project

(4) Tax exempt financing used to maximum extent possible

AIDEA seeks to uses tax exempt financing to the maximum extent possible on all of its development projects. At this time it is anticipated that all of the DMTS expansion project will be financed with tax exempt bonds

(5) Toll Schedule established that:

-ensures full repayment and reasonable return on states investment (reasonable return means return on total state investment of at least 5%) (see sec 4)

AIDEA negotiated a 6 1/2% return on the original project and will negotiate for a 5% or higher return on the expansion project

-guarantees equitable access to facilities by all users and potential users, including access to private property and related resource exploration and development

Equitable access is a required element of the original project and is required to maintain the tax exempt status of the bonds issued for the project. It will continue to be an element of the expansion project for the same reasons. The road is an Industrial Use highway available for all industrial use users.

(6) contracts subject to AS 36

Project participants are required to comply with the provisions of AS 36 including those with respect to prevailing wages for public construction. Except for specific procurement exemptions provided by statute, project expenditures are subject to the procurement code

(7) reasonable access to port and road guaranteed to all users and potential users

As noted above, public access to the port and road have been guaranteed under the existing agreements with Cominco and are required to maintain tax exempt status of the bonds. These guarantees will necessarily be included in any new arrangements with Cominco. Under the existing agreements, Cominco is provided priority but not exclusive use of the facilities.

(8) AIDEA to own and operate facilities

Under AIDEA's development finance program, AS 44.88.172, AIDEA must own and operate development projects. AIDEA generally enters into an agreement with the project proponent to operate the project on as AIDEA's agent. This has been done for the existing DMIS project and will likely continue. At such time as there are multiple users for the facility AIDEA will reconsider the issue of who should act as operator of the project.

ALASKA PUBLIC DEBT

1995-1996



STATE OF ALASKA
Tony Knowles, Governor

Department of Revenue

March, 1996

TABLE 3A
Alaska Housing Finance Corporation
Debt Issued and Outstanding
(Includes the Public Housing Division of AHFC, Formerly ASHA)
(continued)

<u>Bond Program</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Debt Outstanding 6/30/95</u>	<u>Interest Rate (%)</u>	<u>Final Maturity</u>
HUD Turnkey Notes Payable	Various	4,739,981	4,739,981		N/A
HUD Notes Payable	Various	29,286,000	29,614,148		N/A
Mutual Help HUD Notes Payable	Various	995,702	995,702		N/A
Wrangell 221 (d)3 Indebtedness	9/1/86	666,500	291,551		8/1/07
		<u>38,746,285</u>	<u>37,998,016</u>		
Other AHFC Public Housing Division Debt Issues Issued and Paid Off	Various	<u>124,267,985</u>	-		Various
Total Public Housing Debt		<u>200,254,270</u>	<u>50,413,016</u>		
TOTAL ALL AHFC LONG-TERM DEBT		<u>\$ 10,141,752,814</u>	<u>\$ 2,236,058,295</u>		
<u>Short-Term Debt Outstanding:</u>					
Commercial Paper	Various	\$ 150,000,000	\$ 150,000,000		
Reverse Repurchase Agreements	Various	313,850,000	304,282,000		
Total Short-Term Debt		<u>\$ 433,350,000</u>	<u>\$ 454,282,000</u>		

Notes:

1. Collateral for these issues consists of AHFC Real Estate Owned Properties
2. Multifamily bond issues

4. Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA) is a public corporation administratively located in the Department of Commerce and Economic Development but with separate and independent legal existence. Created in 1967, AIDEA promotes economic development within the State by:

- providing loans for industrial and commercial projects;
- owning and operating certain types of infrastructure facilities;
- guaranteeing loans for export transactions; and
- guaranteeing business loans.

The State's moral obligation stands behind the capital reserve funds which secure certain bonds issued by AIDEA. However, since 1990, and in the future, bonds sold, other than refunding bonds, are the general obligation of AIDEA and any capital reserve fund does not have the moral obligation of the State of Alaska, unless specifically provided by legislation.

The Authority has covenanted that it will not incur any General Obligation indebtedness causing future estimated net income (as defined in the bond resolutions) to be less than 150 percent of the General Obligation Annual Debt Service requirements in each year and to take no action to cause its Unrestricted Surplus to be less than the lesser of \$200 million or the amount of General Obligation

Indebtedness outstanding and in no event less than \$100 million. The bonds currently outstanding are secured by full faith and credit of the Authority and certain bonds maintain the State's moral obligation, attached to a Capital Reserve Fund.

During 1988, reductions in the cash flow from AIDEA's loan portfolio reduced projected debt service coverage below 150 percent. The reduced cash flow stemmed from loan delinquencies, modifications, and foreclosures associated with Alaska's economic recession. In response to the declining debt service coverage, AIDEA defeased \$78,295,000 of its Economic Development Bonds and Consolidated Bonds by deposit of \$91,269,000 of U.S. Treasury securities purchased with AIDEA's general assets into an irrevocable trust. None of the defeased bonds remain outstanding.

During 1994, AIDEA defeased \$23,840,000 of its tax-exempt Umbrella Bonds and its Taxable Umbrella Bonds, in order to improve its projected debt service coverage. All of the bonds chosen for the defeasance would not have been eligible for refunding.

AIDEA bonds are rated A by Moody's and A- by Standard & Poor's. (Standard and Poor's rates as A the bonds with a state moral obligation on a capital reserve fund.)

a. AIDEA currently offers six programs as follows:

i. Tax-Exempt Loan Participation Program

The Tax-Exempt Loan Participation Program can provide up to \$10 million for financing economic development projects. This program in the past has been referred to as the "tax-exempt umbrella bond program" because many small projects financed under this program were grouped together when AIDEA issued bonds under an "umbrella". The bonds are tax-exempt by virtue of the small issue exemption in the federal tax code.

AIDEA does not directly loan money. Proceeds of the bonds or authority funds are used to purchase up to 80 percent of an eligible loan from financial institutions. The Tax-Exempt Loan Participation Program combines the Economic Development and Consolidated Bond Programs that were previously separate and which financed participation under and over \$1,000,000, respectively. As of June 30, 1995, AIDEA had issued \$292,920,000 of Tax-Exempt Bonds (excluding refunding bonds) to fund loan participation purchases, of which \$71,420,000 were outstanding (including refunding bonds). All of the outstanding Tax-Exempt bonds currently outstanding have a capital reserve fund with the State's moral obligation attached.

ii. Taxable Loan Participation Program

In response to escalating federal restrictions on tax-exempt bonds, AIDEA has implemented a taxable loan participation program; the program uses bonds or Authority funds to purchase loan participation. The provisions of the program are the same as for the Tax-Exempt Loan Participation Program except for the deletion of restrictions related to federal tax-exemption. This program was previously called the Taxable Umbrella Bonds Program. The only bonds which have been issued under this program were issued in 1987 in the amount of \$14,540,000; the remaining amounts outstanding were defeased during 1994.

iii. Revenue Bond Program

AIDEA acts as a conduit in the sale and issuance of bonds on behalf of private borrowers who secure the bonds under the Revenue Bond program. The bonds generally are sold by private placement to the financial institution originating the loan rather than by public sale to the highest bidder. Part of the demand for the program arose from lenders who desired the tax exemption on the interest income. The elimination by the Tax Reform Act of 1986 of deductibility of bank interest expense allocable to holdings of tax-exempt obligations has greatly reduced demand for this program.

AIDEA does not participate financially in the Revenue Bond projects nor are the Authority's assets or credit pledged as security for the bonds. Bonds issued under this program are not considered to be obligations of the Authority or the State. They are considered to be obligations of the private borrower only. Furthermore, the State's moral obligation does not stand behind these bonds.

Most bonds under this program are tax-exempt by virtue of the small issue exemption. A few have been exempt facility bonds. From inception to June 30, 1995, AIDEA has issued 290 Revenue Bonds totaling \$601,262,230. The Authority is authorized to issue revenue bonds to finance the continuation of power transmission interties to be owned by electric utilities in a collective amount not to exceed \$5,000,000.

iv. Development Finance Program

Alaska statutes authorize AIDEA to finance development projects that it intends to own and operate. The types of facilities the Authority may own or operate must be for use in manufacturing, natural resource extraction, transportation of products or materials, or infrastructure for tourism destination facilities.

Bonds for projects to be owned or operated by AIDEA may be secured by the project, project revenues, specific assets of AIDEA's economic development account, or AIDEA's general assets. They can be general obligations or revenue bonds of the Authority.

Legislation enacted in 1985 authorized this program and authorized a bond sale of up to \$175,000,000 to provide financing for the DeLong Mountain Transportation Project. The project consists of a road and port owned and operated by AIDEA to facilitate the development of the Red Dog and other mines in Northwest Alaska. \$103,250,000 of such bonds were issued during 1987 and \$76,300,000 were outstanding as of June 30, 1995. The capital reserve fund associated with these bonds carries the State's moral obligation.

The 1990 Legislature enacted legislation authorizing the Authority to finance, design and construct or reconstruct additional Economic Development projects, which have subsequently been completed:

(a) The Legislature authorized the issuance of up to \$25,000,000 in bonds for the reconstruction of a public use ore terminal in Skagway, Alaska. A \$25,000,000 bond issue was delivered in December, 1990. As of June 30, 1995, \$20,255,000 were outstanding. There is no State moral obligation on the bonds.

(b) The Legislature authorized the issuance of up to \$10,000,000 of bonds for the

construction of improvements to the City of Unalaska Marine Center. The project was completed in late 1991. \$7,000,000 of bonds were issued in December 1991 to finance the project; \$5,670,000 of bonds were outstanding at June 30, 1995, with no State moral obligation attached.

(c) The Legislature authorized the issuance of up to \$50,000,000 of bonds for the construction of a multi-bay aircraft maintenance facility to be located at the Anchorage International Airport. No action has been taken, and issuance has now been postponed indefinitely.

(d) The Legislature authorized the issuance of up to \$85,000,000 in bonds to finance the acquisition, design and construction of aircraft maintenance and air cargo/air transport support facilities located at the Anchorage International Airport. Construction of a \$28,000,000 aircraft maintenance facility began in August of 1992 and was completed in 1995. Bonds were issued in September, 1992 in the amount of \$28,000,000. At June 30, 1995, \$27,225,000 was outstanding, with no State moral obligation attached. The remaining authorization is still outstanding.

(e) The 1993 Legislature enacted legislation authorizing the Authority to issue bonds not to exceed \$40,000,000 in principal for financing, design and construction of public use aircraft fueling facilities, to issue bonds not to exceed \$50,000,000 to finance the acquisition, design and construction of port facilities related to the development and operation of a direct reduction iron ore processing facility located at Point MacKenzie, and to issue bonds not to exceed a principal amount of \$50,000,000 for an Anchorage seafood processing, storage and loading project. The developers will use a private source of capital for the aircraft fueling facilities; developers of the port facilities have determined not to locate at Port MacKenzie; and the seafood facility developer continues to seek additional capital sources to allow the project to proceed.

(f) The Authority is authorized to issue up to \$20,000,000 of bonds to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park.

v. Export Assistance Program

1987 Legislature authorized AIDEA to guarantee up to 90 percent of principal and interest on loans made to finance the export of raw materials, goods, or services from Alaska. The guarantees are against political or commercial loss. No loan guarantees have been issued under this program as of December 1, 1995.

AIDEA may issue bonds to purchase insurance to cover its guarantees. The bonds may be secured by premiums paid by the borrower, bond proceeds, the insurance purchased from bond proceeds, or other assets of the Authority. The bonds would not have the State's moral obligation attached.

vi. Business Assistance Program

This program was authorized by the 1988 Legislature. The program is more commonly known as the AIDEA loan guarantee program and provides a guarantee of up to 80% of the principal balance to the financial institution making the loan. This added degree of support

can make the project financing, refinancing, and working capital loans available for projects that might not otherwise be financed. Borrowers apply to the bank, which in turn submits an application to AIDEA. Guarantees up to \$1,000,000 are made on loans for real property, equipment, or working capital for projects that stabilize the economic base or create or maintain employment. A streamlined approval process targeting entrepreneurs in rural areas provides guarantees on unsecured loans of \$75,000 or less. This program is also used to guarantee loans up to \$200,000 under the Rural Economic Development Initiative Fund administered by the Department of Community and Regional Affairs and supported by AIDEA.

b. Bond Authorization

AS 44.38.095 places a statutory ceiling of \$400 million per fiscal year on AIDEA annual bond issuance. AS 44.88.095(g) requires legislative approval for the authority intends to issue, except for refunding bonds.

c. Federal Tax-Exemption and Ceilings

Most of the types of tax-exempt bonds issued by AIDEA became subject to a federal Private Activity Bond (PAB) ceiling of \$200 million per year in 1984. Effective August 15, 1986, a new ceiling was established by the Tax Reform Act of 1986 (the "Act") at the level of \$250 million for the remainder of 1986, \$250 million for 1987, and \$150 million per year thereafter. The new ceiling encompasses not only the types of bonds issued by AIDEA (exempt facility and qualified small issue bonds), but also qualified mortgage bonds (a type issued by AHFC), student loan bonds, and certain other kinds of tax-exempt bonds.

There are important exemptions to the PAB ceiling, specifically airports, docks, and wharves if the facilities are owned by a governmental unit. AIDEA is a governmental unit for this purpose.

Pursuant to the Act and an Executive Proclamation issued by the Governor on November 24, 1986, half of the 1986 PAB ceiling was allocated to AIDEA and half to AHFC.

By Resolution No. CF 86-1, the AIDEA board authorized the carryforward of the \$110.2 million unused portion of AIDEA's \$125 million allocation of the 1986 ceiling for the purpose of issuing qualified student loan bonds. The Alaska Student Loan Corporation requested a ruling from the IRS to permit use of this carryforward for their 1988 Series A Student Loan Revenue Bonds. The IRS ruled that the Alaska Student Loan Corporation cannot use a carryforward elected by AIDEA. The carryforward was lost on December 31, 1989 since the act requires use of a carryforward within 3 calendar years of the year it arose. AIDEA did not issue any bonds subject to the PAB ceiling and received no allocations of the ceilings until calendar year 1992 when it received an allocation for, and issued, \$975,000 in PAB bonds.

The Authority received a carryforward of 1994 bond cap allocation of \$100,000,000. At June 30, 1995, \$91,980,000 remains unused.

d. Debt Issued and Outstanding

AIDEA has issued \$517.2 million of bonds with \$220.9 million outstanding as shown in Tables 3.5-3.6

TABLE 3.5

Alaska Industrial Development and Export Authority
Type of Debt Issued

Calendar Year	Economic Development Bonds	Consolidated Bonds	Umbrella Bonds	Taxable Umbrella Bonds	Development Bonds	Revolving Fund Bonds
1981	\$ 75,145	\$ -	\$ -	\$ -	\$ -	\$ -
1982	11,660	14,520	-	-	-	-
1983	28,380	33,815	-	-	-	-
1984	26,240	24,340	-	-	-	-
1985	-	-	56,700	-	-	-
1986	-	-	14,100	-	-	-
1987	-	-	-	14,540	103,250	-
1988	-	-	-	-	-	-
1989	-	-	-	-	-	-
1990	-	-	-	-	-	25,000
1991	-	-	-	-	-	7,000
1992	-	-	-	-	-	28,000
1993	-	-	-	-	-	25,265
1994	-	-	-	-	-	11,435
1995	-	-	-	-	-	17,845
	<u>\$ 141,425</u>	<u>\$ 72,675</u>	<u>\$ 70,800</u>	<u>\$ 14,540</u>	<u>\$ 103,250</u>	<u>\$ 114,545</u>

TABLE 3.6

Alaska Industrial Development and Export Authority
Debt Issued and Outstanding

	Date	Amount Issued	Bonds Outstanding 6/30/95
<u>TAX-EXEMPT UMBRELLA BOND PROGRAM</u>			
<u>Economic Development Bonds</u>			
Series 1 through 50	4/1/81	\$ 17,640,000	\$ -
Series 51 through 216	10/15/81	57,505,000	-
Series 217	8/15/82	930,000	-
Series 218 through 231	10/1/82	7,395,000	-
Series 232 through 238	12/1/82	3,335,000	-
Series 239 through 265	11/1/83	11,950,000	-
Series 266 through 299	12/1/83	16,430,000	-
Series 300 through 331	7/1/84	13,120,000	-
Series 332 through 351	12/20/84	13,120,000	-
		<u>141,425,000</u>	<u>-</u>
<u>Consolidated Bonds</u>			
1982 Series A	4/1/82	2,975,000	-
1982 Series B through D	10/1/82	4,465,000	-
1982 Series E through F	12/1/82	7,080,000	-
1983 Series A through F	7/1/83	14,445,000	-
1983 Series G through M	11/1/83	11,650,000	-
1983 Series N through S	12/1/83	7,720,000	-
1984 Series A through I	11/1/84	12,140,000	-
		<u>60,475,000</u>	<u>-</u>
<u>Umbrella Bonds</u>			
1984 Series A and B	10/30/84	12,200,000	6,645,000
1985A (Lots 1 - 8)	5/15/85	15,650,000	-
1985B (Lots 9 - 44)	10/21/85	24,245,000	6,575,000
1985C (Lots 45 - 68)	12/19/85	16,805,000	5,730,000
1986 (Lots 1 - 20)	12/19/86	14,100,000	7,430,000
		<u>83,000,000</u>	<u>26,380,000</u>
<u>TAXABLE UMBRELLA BONDS</u>			
Series 1987	8/6/87	14,540,000	
<u>DEVELOPMENT BONDS</u>			
DeLong Mountain Transportation Projection Revenue Bonds, Series 1987A	2/1/87	103,250,000	96,300,000
<u>REVOLVING FUND BONDS</u>			
Skagway Ore Terminal Port Facility	12/13/90	25,000,000	20,255,000
Unalaska Marine Center	12/10/91	7,000,000	5,670,000
Federal Express Maintenance Facility	9/30/92	28,000,000	27,225,000
Refunding	6/3/93	25,265,000	16,405,000
Refunding	3/30/94	11,435,000	10,790,000
Series A (Refunding)	5/17/95	9,825,000	9,825,000
Series B (Refunding)	5/17/95	8,020,000	8,020,000
		<u>114,545,000</u>	<u>98,190,000</u>
Total Bonds		\$ 517,235,000	\$ 220,870,000

Source: Annual Report and Financial Statements, various years, Alaska Industrial Development and Export Authority.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY



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April 18, 1996

The Honorable Senator Steve Rieger, Chairman
Senate Transportation Committee
Alaska State Legislature
State Capitol
Juneau, AK 99811

RE: CS HB 526 (FIN)

Dear Senator Rieger:

Thank you for hearing House Bill 526 (HB 526) in the Senate Transportation Committee on April 16, 1996. The purpose of this letter is to provide information that was requested during our testimony at the hearing. In addition, at the hearing, Senator Taylor asked several questions regarding the structure of AIDEA's ownership and bonding for the Snettisham Hydroelectric project. I thought it might be helpful to summarize and clarify these issues.

Funding and Ownership of Snettisham Hydroelectric Project

Under HB 526, AIDEA is provided with authority to acquire the Snettisham project. Therefore, if the sale is consummated, AIDEA will be the owner of the project. In order to finance the acquisition, it is the Authority's intent to issue AIDEA bonds for the project. These bonds will be issued by AIDEA and will not be the obligations of the state. The bonds will be supported by a long-term take or pay agreement with the Alaska Electric Light and Power (AEL&P). Under a long-term take or pay agreement, AEL&P will be required to make payments to the Authority sufficient to cover the entire amount of debt service on the bonds issued by AIDEA. In addition, the required AEL&P payment will be sufficient to cover the operation, maintenance and reserve and replacement costs of the project.

At this time, AIDEA plans to issue revenue bonds for the acquisition. The bonds will not be general obligations of the state. Under the bill's provisions, however, AIDEA would be permitted to pledge the "moral obligation" of the state. This means that if for some reason AIDEA reduced the capital reserve fund below its required level (for example, because of an inability to pay debt service on the bonds from pledged revenues, or if AIDEA was not capable of making debt service payments from its assets), that fact would be reported to the legislature.

Senator Steve Rieger
April 18, 1996
Page 2

which would then have the option, but not the legal obligation, of appropriating funds to AIDEA to replenish the capital reserve fund.

Tax Exempt Bond Cap

Each year the State of Alaska can issue up to \$150 million of Tax Exempt Private Activity Bonds ("bond cap"). An eligible governmental issuer must apply to the State Bond Committee to receive an allocation of the bond cap. Only private activity bonds require use of the bond cap allocation. A governmentally owned port or dock, such as the Authority's expansion of the Red Dog transportation system, does not require use of the bond cap.

As AIDEA understands the State Bond Committee allocation system, all current year allocations that have not actually been used during the year for the issuance of bonds expire in December. This gives the State Bond Committee the ability to allocate bond cap to be carried forward to future years. The Bond Committee generally meets in December and allocates any non-utilized current year cap to eligible governmental issuers which have applied for portions of the unused amount. Any unused allocation can be carried forward and used during the next three calendar years. For example, any carryforward of the 1996 bond cap must be used by the end of 1999, or it will lapse.

In order to carryforward unused bond cap, the issuer that received the allocation must file a form with the Internal Revenue Service specifying the amount and purpose of the carryforward. Once an eligible purpose has been chosen for the carryforward, it cannot be changed to another eligible purpose. The types of carryforwards that Alaskan issuers have elected include qualified student loan bonds, solid waste disposal facilities and facilities for the local furnishing of electric energy or gas.

For the years 1994 and 1995, the only state issuers who have used bond cap or received carryforwards of unused cap are the Alaska Student Loan Corporation and AIDEA. In both years, the Authority received \$100 million to be carried forward. To date, only \$8 million of AIDEA's carryforward has been utilized. The Authority continues to have \$155 million of carryforward allocated for solid waste disposal facilities. This allows for the financing of the Healy Clean Coal Project and the tax exempt portions of other projects such as the Kensington and Fort Knox mine projects.

The Snettisham project will require the use of a portion of the State's bond cap. AIDEA has carryforwards available for the Snettisham project totaling \$37 million, assuming the bonds are issued by December 31, 1997. The difference between the \$37 million carryforward and the actual bond issuance will require additional bond cap allocation.

To AIDEA's knowledge, there has been no State Bond Committee allocation of the 1996 cap. Historically, the State Bond Committee has been able to manage the annual \$150 million cap and carryforwards to provide allocations to all projects requiring cap.

Senator Steve Rieger

April 18, 1996

Page 3

Interest Rates For Taxable Loan Participations Financed Directly From AIDEA Assets.

- Interest rates for taxable loan participations financed directly from Authority assets are set as follows:

Fixed Rate: Depending on the term of the loan, fixed rate is based on 20 or 30 year Treasuries, plus 2.75%, set within seven (7) days of AIDEA funding of the loan.

Variable Rate: Based on a 90-day commercial paper plus 2.6%, and is adjusted quarterly.

- Rates for loan participations which qualify for tax-exempt financing are set as follows:

Cost of Funds (current bond market) plus a maximum of 1.5%.

The loan interest rate is equal to the cost of funds to the Authority, plus an amount necessary to pay for allocable expenses of operations which include loan servicing, loan loss and administrative expenses.

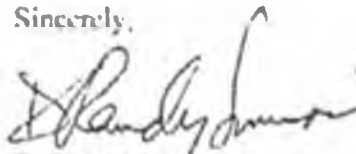
The Authority's cost of funds is determined through periodic inquiries to underwriters to determine the interest rate AIDEA would have to pay if it were to issue bonds.

Interest Rates on Loans Guaranteed By the Authority.

Under AIDEA's Business Assistance Program (loan guarantee), statutes require that the interest rate the bank sets for the loan may not exceed 2.75%. Since inception AIDEA has guaranteed 21 loans under the Business Assistance Program. The interest rates charged by the bank on guaranteed loans have varied from 1% over prime (provided on a loan guarantee in conjunction with the Rural Development Initiative Fund (RDIF) program), up to 2.75% over the prime rate as published in the Wall Street Journal.

We hope we have answered the Committee's questions completely. If additional information is required, please do not hesitate to contact me.

Sincerely,



D. Randy Simmons
Development and Finance Manager

Senator Steve Rieger

April 18, 1996

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cc: The Honorable Senator Taylor
The Honorable Senator Green
The Honorable Senator Lincoln
The Honorable Senator Adams
William R. (Riley) Snell

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**ALASKA INDUSTRIAL
DEVELOPMENT
AND
EXPORT AUTHORITY**

**FINANCIAL ANALYSIS
March 28, 1996**

Control Number
08-4527-96

Prepared by:
The Division of Legislative Audit

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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March 28, 1996

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached analysis is submitted for your review.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY FINANCIAL ANALYSIS

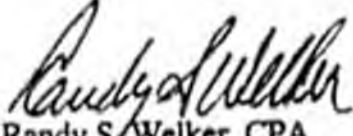
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The accompanying analysis was prepared in response to a committee request to review the assets of the Alaska Industrial Development and Export Authority (AIDEA) and restrictions on those assets. We will provide any additional analysis or detail deemed necessary as the legislature continues its review of the unrestricted assets of AIDEA.

The fieldwork procedures utilized in the course of developing the conclusions and discussion presented in this analysis are discussed in the Objectives, Scope, and Methodology section.

We would like to acknowledge the cooperation and professionalism of AIDEA's staff during our review.


Randy S. Welker, CPA
Legislative Auditor