

**ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 86/2**

**9088 SENATE TRANSPORTATION**

579

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## OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

Based on a request from the Legislative Budget and Audit Committee, we performed a financial analysis of the Alaska Industrial Development and Export Authority (AIDEA). The purposes of the analysis were as follows:

1. To determine the amount of unrestricted cash and investments that would be available for transfer to the state General Fund in FY 97 through FY 01 beyond that required to meet debt covenants and AIDEA operations.
2. To determine the required debt covenants and the current bond ratings of AIDEA's outstanding debt.

### Scope and Methodology

AIDEA management and staff prepared cash flow analyses of its operations for the period January 1, 1996, through June 30, 2014. The analyses forecast the sources and uses of financial resources of its unrestricted accounts.

We reviewed the estimates on the cash flow analyses to determine if they were consistent with prior financial operations and whether they considered known future transactions. Major assumptions used in the projection of loan and bond issuance activities were reviewed for reasonableness. The Board of Directors' minutes were reviewed for the period July 1995 through February 1996 for discussion of potential loan and project activity.

AIDEA has two bond resolutions that currently affect its operations:

- Pre-1990 debt covenants and
- Revolving Fund bond covenants to become fully in effect when all pre-1990 debt is retired or defeased.

We reviewed these bond resolutions and the individual bond issues' official statements to determine the normal redemption schedule, early redemption provisions, call and in-substance defeasance options, interest rates, and restrictions on AIDEA's assets. The most recent bond ratings by Moody's and Standard & Poor's were obtained.

Also, we obtained and reviewed a copy of the March 1993 report by Bartle Wells Associates entitled *Alaska Industrial Development and Export Authority Review of Financial Position*. Bartle Wells Associates are independent public finance advisors located in San Francisco, California. They were contracted by the Division of Legislative Finance to conduct the review.

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## ORGANIZATION AND FUNCTION

The Alaska Industrial Development and Export Authority (AIDEA or Authority) was created by an act of the Alaska State Legislature in 1967. It is a public corporation of the State, constituting a political subdivision of the Department of Commerce and Economic Development but with a separate and independent legal existence.

The Authority's statutory purpose is to promote, develop, and advance the general prosperity and economic welfare of the people of Alaska. Since AIDEA's inception through 1981, its activities were largely limited to the issuance of nonrecourse, tax-exempt industrial development bonds. In 1980, AIDEA's enabling legislation was amended to enhance its role in economic development through the authorization to issue general obligation bonds.

### Tax Reform of 1986 restricts AIDEA's operations

Changes in the federal tax laws in 1986 restricted AIDEA's ability to use tax-exempt bonds. In order to access the tax-exempt bond market and to strengthen AIDEA, legislation was passed in 1987 that permitted the Authority to conduct its operations through a "Revolving Fund" established under AS 44.88 with a change in designation of the Enterprise Development Fund and the Economic Development Fund as accounts under the Revolving Fund. Amounts deposited in the Revolving Fund may be pledged to the payment of bonds of the Authority or expended for the purposes of the Authority. This allowed the Authority to issue general obligation bonds through its Revolving Fund to assist in financing projects that would be owned by it and leased to another entity for operation.

Further, in 1990, the State's moral obligation under AS 44.88 to fund deficits of the capital reserve funds securing AIDEA's general obligation bonds issued on or before January 1, 1989, was deleted.<sup>1</sup> Then in December 1990, AIDEA issued its first series of Revolving Fund bonds. These were not secured with a capital reserve fund as were previous bond issuances. The bond resolution for this and all subsequent issuances contained more lenient covenants. Thus, AIDEA has two bond resolutions with covenants that govern its financial activities, one related to the pre-1990 indebtedness and one related to bonds issued under the Revolving Fund after 1990. However, the bond resolution covenants related to the pre-1990 debt are more restrictive and prevail as long as any of those bonds remain outstanding. The requirements of both of these bond resolutions are discussed in further detail in the Report Conclusions section.

### Programs used by AIDEA to finance State's economic growth

AIDEA utilizes a variety of financing mechanisms. All of AIDEA's financings and projects must be economically feasible. They must enhance the economy of the State and provide or

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<sup>1</sup>The elimination of the provision was effective for bonds issued by the Authority after January 1, 1989, except for refunding bonds issued to retire bonds that are secured by a capital reserve fund created on or before that date.

maintain jobs for Alaskans. They must also demonstrate the ability to repay the related debts. The following are descriptions of the financing mechanisms used by AIDEA:

- Loan Programs

Loan Participation Program - AIDEA may participate in the permanent financing for manufacturing facilities, public-use projects and business enterprises to the extent of the lesser of 80% or \$10 million of the total loan. As of June 30, 1995, the Authority had \$202.2 million in outstanding loan participations of which \$91.9 million had been funded with unrestricted cash.<sup>2</sup> (Refer to Appendix A for a schedule of loan participations funded with unrestricted cash.)

Business Assistance Program - AIDEA provides a guarantee up to 80% of the principal balance of a loan but not more than \$1 million; however, guarantees for multiple loans to an individual borrower may not cumulatively exceed \$1 million. The program has a \$50 million limitation and no more than \$25 million of guarantee may be for loans in which the amount of the loan guarantee exceeds \$500,000. As of June 30, 1995, the Authority had \$857,000 in outstanding loan guarantees.

A subprogram within the Business Assistance Program is for loans of \$75,000 or less which may be secured or unsecured. To date, the Authority has not been requested to guarantee any unsecured loans.

- Development Finance Program

The Authority may finance, acquire, manage, and operate development projects that it intends to own and operate.<sup>3</sup>

As of June 30, 1995, the Authority owned and operated six projects: DeLong Mountain Transportation System (better known as the Red Dog Project), Skagway Ore Terminal, City of Unalaska Marine Center, Federal Express Aircraft Maintenance Facility, Healy Clean Coal Facility, and the Seward Coal Load-Out Facility.<sup>4</sup> The total investment in these projects was approximately \$328 million.

- Export Assistance Program

This program is designed to foster and facilitate international trade by offering guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans. AIDEA has not received an application under this program.

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<sup>2</sup>The 1986 Tax Reform has precluded the Authority from financing most loan participations through the issuance of tax-exempt bonds. The cost of taxable bonds generally does not make the loan participations economically feasible.

<sup>3</sup>AIDEA leases the project to a private participant or local government. AIDEA establishes the operating requirements and maintenance standards, and retains ownership of the project. The lessee is responsible for operating the project and paying all the operating and maintenance costs. A private participant may have the option to purchase the project in the future from AIDEA at fair market value, while projects done with local governments may revert to the local government at the termination of the lease.

<sup>4</sup>AIDEA has only a 49% interest in this project.

## REPORT CONCLUSIONS

Our analysis indicates that the proposed withdrawals from the Alaska Industrial Development and Export Authority's (AIDEA or Authority) unrestricted cash by the Alaska Legislative Majority's Five-Year Budget Strategy will leave sufficient unrestricted cash and investments for the Authority to meet all debt requirements, meet the industry average debt coverage ratio,<sup>6</sup> and provide for continuing operations. We estimate that the proposed \$130.5 million withdrawal would leave AIDEA a cushion of about \$90.3 million.

<u>Exhibit 1</u>			
Proposed Withdrawals Compared to Estimated Maximum Withdrawals			
(Amounts in Thousands)			
<u>Fiscal Year</u>	<u>Proposed Withdrawals<sup>5</sup></u>	<u>Estimated Maximum Withdrawals</u>	<u>Difference</u>
1997	\$ 21,000	\$ 35,700	\$14,700
1998	26,600	44,200	17,600
1999	26,500	45,050	18,550
2000	28,000	47,600	19,600
2001	<u>28,400</u>	<u>48,280</u>	<u>19,880</u>
Totals	<u>\$130,500</u>	<u>\$220,830</u>	<u>\$90,330</u>

The Estimated Maximum Withdrawals assume continuation of the current level of loans, projects and operational expenses,<sup>7</sup> and a return on investments of 6.4% which is based on the weighted average yield on investments held at December 31, 1995. Using these assumptions and the \$220.8 million in estimated withdrawals, it appears AIDEA would still meet all debt requirements and would meet the industry average ratio for debt coverage of 1.00 in FY 01.

Further, the debt coverage ratio is above the industry average ratio the very next fiscal year, FY 02, and this ratio as well as the debt covenant amounts and ratios continue to grow stronger in the years thereafter. Thus, it appears additional withdrawals could be taken in the years beyond FY 01. However, because of AIDEA's trend toward the financing of large projects and its dependence on the health of the State's economy to maintain low delinquency and foreclosure rates, future loan and project financing activities are difficult to estimate. Due to the potential wide variances between the cash flow projections and actual outcomes, any projections should be viewed with caution and updated on a frequent basis.

The point of noncompliance with bond requirements or the industry average ratio for debt coverage can be estimated through cash flow calculations. The point at which AIDEA's bond ratings are diminished is one of a continuum, beginning with a negative outlook by the rating agencies and ending with a noninvestment grade rating that virtually makes AIDEA's bonds no

<sup>1</sup>Per House Bill 412.

<sup>6</sup>This is the ratio of unrestricted cash and investments plus net loans receivable over bonds outstanding which is an indication of the Authority's ability to pay its major debts (bonds) and is an indicator of its long-run solvency. The ratio is crucial to bond analysts as the Revolving Fund bonds are general obligation bonds backed by the full faith and credit of AIDEA's Revolving Fund. The industry average ratio was obtained from the *ALMANAC of Business and Industrial FINANCIAL RATIOS, 1995*, Leo Troy, Ph.D.

<sup>7</sup>To maintain constant service levels in terms of loans and operational expenses, these amounts were adjusted to reflect assumed inflation of 3% per annum. New projects were assumed to be \$85 million for FY 97 and \$50 million per year thereafter.

longer marketable. A negative outlook by the bond rating agencies may occur with the proposed withdrawals, while with the Estimated Maximum Withdrawals it is even more likely. However, even with the maximum withdrawals, AIDEA remains in compliance with all bond covenants and the industry average ratio for debt coverage is met.

Nevertheless, if more than the \$220.8 million was transferred, before AIDEA's bonding abilities were severely restricted, AIDEA would likely trim its financing activities so that a bond default did not occur. Thus, the real risk relates more to the withdrawals' impact on AIDEA's development activities rather than on its bond ratings. AIDEA would likely decrease the loan program activity it funds with unrestricted cash to avoid problems with its ability to issue bonds. Refer to Appendix A for a listing of loans funded with unrestricted cash between FY 91 and FY 96.

#### Current bond covenants easily met

As discussed in the Organization and Function section, AIDEA has two bond resolutions that govern its financial activity. As long as any pre-1990 indebtedness remains outstanding, the bond covenants related to those bonds are in effect. The current bond covenants in effect are as follows:

- **Minimum unrestricted surplus requirement.** Unrestricted surplus as defined in the bond covenants may not be less than the lesser of \$200 million or the amount of the bonds outstanding, and in no event less than \$100 million.
- **Minimum debt service coverage requirement.** Net income as defined in the bond covenants may not be less than 150% of the annual debt service payments on the outstanding bonds.
- **Liquidity covenant.** AIDEA must maintain in the Revolving Fund cash and government obligations maturing within one year in an amount at least equal to 25% of the unrestricted surplus as defined in the bond resolution.

On January 10, 1996, AIDEA issued a report to the legislature on its unrestricted assets as of June 30, 1995, as required by statute. A cash flow projection for the fiscal years 1996 through 2014 was attached to the report. The assumptions for these cash flow projections are those used by bond analysts in preparing official statements for new bond issuances. The assumptions are ultra conservative in that they assume no new loan or project financing activities, a 4% rate of return on investments, and that operational expenditures will be the appropriated budget amount for the first year with that amount being inflated by 2% for each year thereafter.

AIDEA reported that it would meet its bond covenant requirements according to this cash flow projection. Those covenant requirements are as shown in Exhibit 2 along with the actual results as of June 30, 1995.

<u>Covenant</u>	<u>Requirement</u>	<u>Actual</u>
Minimum Unrestricted Surplus	\$124,600	\$436,200
Liquidity Requirement	\$ 31,100	\$ 64,562
Minimum Debt Service Coverage <sup>1</sup>	150%	265%

The cash flow projections we reviewed began with the December 31, 1995, balances. Cash flow projections were prepared for the remainder of FY 96 through FY 14 with the above described ultra conservative assumptions. We also requested cash flow projections be prepared using the same assumptions but to include projections for additional loan and project financing activities for the same period.

Using these two cash flow projections, we deducted the \$220.8 million in Estimated Maximum Withdrawals. In both cases, the bond covenant requirements were easily met. At the end of FY 01 after the last withdrawal is taken the covenant requirements as compared to the projections were as follows:

<u>Covenant</u>	<u>No New Activity</u>		<u>With New Loans &amp; Projects</u>	
	<u>Requirement</u>	<u>Projected</u>	<u>Requirement</u>	<u>Projected</u>
Minimum Unrestricted Surplus	\$156,345	\$401,546	\$200,000	\$374,387
Liquidity Requirement <sup>2</sup>	\$ 39,086	\$ 39,086	\$ 50,000	\$ 50,000
Minimum Debt Service Coverage	150%	347%	150%	228%

As shown above, AIDEA exceeds its bond covenant requirements in FY 01 after the withdrawals. According to the cash flow projections, the projected amounts and ratios rise once the withdrawals end in FY 01.

Bond covenants may become less restrictive

The pre-1990 bond resolution permits AIDEA to defease the related bonds before their scheduled maturity dates. In addition, the bond issues each may be refunded under the Revolving Fund Bond Resolution. When all of the pre-1990 indebtedness is either defeased or retired, the Revolving Fund Bond Resolution with its bond covenants becomes fully effective.

<sup>1</sup>The actual debt service coverage ratio is the lowest coverage ratio reflected in the cash flow projections included with AIDEA's report to the legislature.

<sup>2</sup>The requirement and projection are the same for analysis purposes. As the projected cash and investments substantially exceed this requirement, we assume that AIDEA would maintain the minimum liquidity balance.

Until that time, only the liquidity covenant of this resolution is effective along with the pre-1990 bond covenants. The Revolving Fund bond covenants will result in the following changes:

- The net income calculation for purposes of determining the debt service coverage ratio includes a portion of the unrestricted investment securities held in the Revolving Fund. This, in effect, increases revenues making it easier for the net income to be 150% of the annual debt service payments on the outstanding bonds.
- The definition of unrestricted surplus is broadened to include the Revolving Fund versus only the equity in the Enterprise Development Account. However, this amount must be reduced by the amount of the liquidity covenant and the loan guarantees outstanding which were not reductions under the pre-1990 indebtedness covenants.

Exhibit 4 assumes the Revolving Fund Bond Resolution covenant requirements become effective in FY 97.<sup>10</sup> Also, this cash flow projection utilizes the weighted average yield for investments held as of December 31, 1995, for the assumed rate of return on investments (6.4%) rather than the ultra conservative rate of 4% used by bond analysts. Using this cash flow projection, we deducted the Estimated Maximum Withdrawals of \$220.8 million. Again, the bond covenant requirements were easily met. At the end of FY 01 after the last estimated withdrawal is taken the covenant requirements as compared to the projections were as follows:

<u>Exhibit 4</u> Projected June 30, 2001 Bond Covenant Requirements Using a 6.4% Rate of Return on Investments (Amounts in Thousands)		
	<u>With New Loans &amp; Projects and Application of New Covenants</u>	
<u>Covenant</u>	<u>Requirement</u>	<u>Projected</u>
Minimum Unrestricted Surplus	\$200,000	\$475,000
Liquidity Requirement <sup>11</sup>	\$ 50,000	\$ 50,000
Minimum Debt Service Coverage	150%	254%

As shown in Exhibits 3 and 4, the withdrawal of \$220.8 million under all three assumptions does not cause AIDEA to be in noncompliance with its required bond covenants. Based on the

<sup>10</sup>AIDEA management is currently considering refunding the outstanding pre-1990 indebtedness if interest rates on bonds remain low enough to make the transaction economically feasible (i.e., current bond interest rates are lower than the rate of the outstanding bonds). The reduction in cost of funds through the refunding of the bond issues is passed on to the borrowers on the loans pledged to the original bond issue. AIDEA management has completed three such refundings between 1993 and 1995 resulting in a reduction of the interest rate on the pledged loans of between 1.70% and 3.43%.

<sup>11</sup>See previous footnote 9.

results of these cash flow projections, it does not appear withdrawals of up to \$220.8 million would severely hamper AIDEA's continued operations. However, due to the large dollar projects financed by AIDEA and its reliance on a healthy state economy for growth and to limit delinquencies and foreclosures, these projections could vary greatly with actual outcomes. Therefore, we recommend the legislature move cautiously in the withdrawal process and we recommend these projections be updated if further withdrawals are considered.

AIDEA's general obligation bonds currently rated at mid-level investment grade

AIDEA received bond ratings from both Moody's and Standard & Poor's as shown in Exhibit 5. According to a *Moody's Municipal Credit Report* dated April 26, 1995, a bond rating of "A" was given to AIDEA's Revolving Fund Bonds.<sup>12</sup> In *Standard & Poor's Creditweek Municipal* dated September 18, 1995, a rating of "A" was given to AIDEA's general obligation bonds with capital reserves (pre-1990 bond issuances) and a rating of "A-" to its general obligation bonds without capital reserves (Revolving Fund bonds).

While each individual rating agency uses its own symbols to signify the credit risk associated with a security, both agencies classify bond ratings into investment grade and speculative grade. For example, Moody's and Standard & Poor's four investment grade ratings are as follows: Aaa, Aa, A, and Baa; and AAA, AA, A, and BBB, respectively. Any other long-term ratings are considered speculative. Plus and minus signs are used with a rating symbol to indicate the relative position within the rating category.

Maintaining an investment grade level rating is important as many financial investors only buy investment grade securities. If AIDEA's rating was to drop below investment grade, not only would the interest rate increase for a new bond issue, but the marketability of the bonds would be severely impacted.

<u>Exhibit 5</u>		
<u>Bond Ratings of Outstanding Issues</u>		
<u>Type of Bond Issue</u>	<u>Moody's Rating</u>	<u>Standard &amp; Poor's Rating</u>
Variable Demand/Fixed Rate Bonds	A	A
Tax-exempt Umbrella Bonds	A	A
Revolving Fund Bonds	A	A-
Refunding Revolving Fund Bonds	A	A
Project Revenue Bonds	Aaa	AAA

Reaction of the credit rating agencies to the withdrawal of unrestricted cash

In Moody's 1995 credit report cited above, the analyst made the following comment:

*The legislature is currently considering legislation in the course of the state's budget adoption which would transfer \$17 million of the Authority's cash to the general fund. . . . This transfer, if adopted,<sup>13</sup> would create a credit concern*

<sup>12</sup>Moody's had previously issued ratings on AIDEA's other outstanding bond issues.

<sup>13</sup>Governor Knowles vetoed the \$17 million transfer as a source of funding for the FY 96 state operating budget.

*for the Authority as its substantial cash balances have been a traditional source of its credit strength. [Footnote added.]*

The analyst further explains that

*. . . Bonds are general obligations of the Authority, which is very well capitalized. . . the ratio of assets in the form of loans, cash and investments, to bond liabilities is very favorable.*

In Standard & Poor's report the analyst explains the rationale for the bond ratings, in part, as follows:

*The ratings on Alaska Industrial Development & Export Authority's bonds reflect the Authority's large unrestricted cash and investment balances and good annual debt service coverage. . . the maintenance of the Authority's cash balances remains a rating concern, as these monies provide the Authority with the capital and liquidity to continue to make loans and continue its programs. . . Standard & Poor's will continue to monitor the state's commitment to these programs and related cash balances in the future.*

In the Bartle Wells Associates' March 1993 report, Alaska Industrial Development and Export Authority Review of Financial Position, it reported that the rating agencies expressed the following concerns:

*The rating agencies expressed concern about AIDEA's trend toward development projects and the resulting greater exposure to individual projects and leases. The potential for delinquency of a single large project puts greater pressure on AIDEA's finances than delinquencies of several smaller loans. Such concentration increases rating agency concern about AIDEA's cash balance -- and potential withdrawals.*

Bartle Wells Associates stated further in its report

*[t]he withdrawal by the Legislature of funds from AIDEA would be harmful to AIDEA in the future rating of its bonds. Such a withdrawal would result in a direct reduction of interest income, one of AIDEA's major revenue sources, and would establish a negative precedent and expectation by the rating agencies.*

We do not know the degree to which bond ratings would be affected by a withdrawal of the Authority's unrestricted cash. It is safe to assume the more assets that are withdrawn from AIDEA, the greater the likelihood of a decrease in its bond ratings. As previously discussed, one of the factors considered in determining the financial strength of a company is the ratio

of unrestricted cash and investments plus net loans receivable over bonds outstanding. The withdrawal of assets from AIDEA decreases this ratio and may negatively affect the bond rating. Withdrawal of an amount greater than the \$220.8 million discussed above would pull this ratio below the industry average and would likely impact the rating.

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**APPENDIX A**

**Alaska Industrial Development and Export Authority**

**Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)**

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Anchorage	<b>Fiscal Year 1992</b>			
	ARC Partnership	\$3,187,500	\$2,550,000	Northrim Bank Bldg
	Harvey, Sylenda M.	465,000	370,000	Retail
	Alout Corp.	1,150,000	920,000	Office
	Sadler's Furniture, Inc.	2,000,000	1,600,000	Retail
	Chez Braun Partnership	975,000	780,000	Office
	<b>Subtotal - Fiscal Year 1992</b>	<b>7,777,500</b>	<b>6,220,000</b>	
	<b>Fiscal Year 1993</b>			
	Blackhawk, Inc.	3,900,000	3,120,000	Executive Suite Hotel
	Golstein, Robert	1,200,000	580,000	4th Ave. Theater
	Brown, Norman C.	647,500	518,000	Office/Warehouse
	H&S Enterprises Ltd.	800,000	640,000	Office/Warehouse
	Sludnek, Joseph J.	5,033,328	4,025,000	Alyeska Bldg.
	Anchorage Hotel Assoc.	2,573,333	1,595,000	Westmark Hotel
	Tennison, Dorine D.	637,500	420,000	Warehouse
	5430 Partnership	709,110	565,000	Office/Warehouse
	Larson, Robert C. & Norella S.	1,200,000	960,000	Office
	<b>Subtotal Fiscal Year 1993</b>	<b>16,700,771</b>	<b>12,803,000</b>	
	<b>Fiscal Year 1994</b>			
AK Computer Brokers	495,000	395,000	Retail	
Spohnholz, Clifford & Mary	193,200	150,000	Alaska Spring	
AK Club Partners	7,970,000	6,375,000	Health Club	
Bethel Native Corp.	1,065,000	850,000	Office/Warehouse	
Red Robin AK, Inc.	487,500	390,000	Equipment	
Diamond Development Co.	1,650,000	1,320,000	Red Robin Restaurant	
Knight, Russell	136,500	105,000	Retail/Warehouse	
DesJarlais, Gerald J. & Doris E.	618,750	495,000	Summit Paving	

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<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	Sunrise Plaza Partners	350,000	175,000	Retail
	Arms/Natale/Nelson	386,250	305,000	Mini-storage
	Garnbell Investments	1,113,750	890,000	Saturn Dealership
	L&S Industries	435,000	345,000	Club 25 / Landmark Bldg
	Auka Say Co. Profit Sharing Trust	2,300,000	1,380,000	Office
	<b>Subtotal Fiscal Year 1994</b>	<b>17,200,050</b>	<b>13,175,000</b>	
	<b>Fiscal Year 1995</b>			
	Lim, Dong Joon	1,100,000	880,000	Bank Angus Inn
	Johnson, James M. & Janet M.	4,200,000	3,360,000	Johnson's Tire
	Ginnell, David	750,000	600,000	Steel Fabrication Shop
	AK Wild Berry Products, Inc.	1,225,000	980,000	Retail
	AK Club Partners	1,365,000	1,090,000	Health Club
	Barrett Inn, Inc.	6,100,000	4,880,000	Motel
	Federal Express	706,475	706,475	Maintenance Facility
	<b>Subtotal Fiscal Year 1995</b>	<b>15,446,475</b>	<b>12,496,475</b>	
	<b>Fiscal Year 1996</b>			
	Borocki, Stan & Robin	750,000	600,000	Retail/Office
	A&M Motors	1,900,000	1,520,000	RV Dealership
	Hartig, Rhodes, Norman, Mahoney & Edwards	637,500	510,000	Office
	Hickel, Walter H. & Rebeca	1,650,000	1,320,000	Office/Retail
	<b>Subtotal Fiscal Year 1996 (2/29)</b>	<b>4,937,500</b>	<b>3,950,000</b>	
	<b>Total Amount for Anchorage</b>	<b>62,063,196</b>	<b>Total AIDEA Portion 48,644,475</b>	
<b>Bethel</b>	<b>Fiscal Year 1993</b>			
	Omni Enterprises, Inc.	1,000,000	800,000	Grocery Store
	<b>Total Amount for Bethel</b>	<b>1,000,000</b>	<b>Total AIDEA Portion 800,000</b>	

**APPENDIX A**

Alaska Industrial Development and Export Authority

**Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)**

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
<b>Cordova</b>	<b>Fiscal Year 1995</b>			
	AK Commercial Co.	1,958,745	1,565,000	Retail
	<b>Total Amount for Cordova</b>	<b>1,958,745</b>	<b>Total AIDEA Portion 1,565,000</b>	
<b>Dillingham</b>	<b>Fiscal Year 1994</b>			
	Baumgartner, Robert	241,970	190,000	Retail
	<b>Total Amount for Dillingham</b>	<b>241,970</b>	<b>Total AIDEA Portion 190,000</b>	
<b>Dutch Harbor</b>	<b>Fiscal Year 1992</b>			
	Factory Trawler Supply Inc.	5,700,000	4,332,000	Office/Warehouse
	<b>Fiscal Year 1994</b>			
	Harbor Enterprises, Inc.	2,100,000	1,680,000	Warehouse/Office
	<b>Fiscal Year 1995</b>			
	AK Commercial Co. (Dutch Harbor)	3,819,000	3,055,200	Retail
	Atlas Asset Management	5,500,000	2,720,000	Vessel
	<b>Subtotal Fiscal Year 1995</b>	<b>9,319,000</b>	<b>5,775,200</b>	
	<b>Total Amount for Dutch Harbor</b>	<b>17,119,000</b>	<b>Total AIDEA Portion 11,787,200</b>	
	<b>Fairbanks</b>	<b>Fiscal Year 1994</b>		
Construction & General Laborer's Building		1,605,000	1,155,000	Post Office
Beistline, William C. & Marcie A.		787,500	590,000	Office
Ramras, Jay B.		1,350,000	990,000	Retail
<b>Subtotal Fiscal Year 1994</b>		<b>3,742,500</b>	<b>2,735,000</b>	
<b>Fiscal Year 1995</b>				
Floerchinger, Robert & Catherine		300,000	240,000	Yukon Title Co. Inc. Bldg

**APPENDIX A**

Alaska Industrial Development and Export Authority

**Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)**

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	<b>Fiscal Year 1996</b>			
	Pauline Rhodes Trust	225,000	180,000	Shop/Office
	<b>Total Amount for Fairbanks</b>	<b>4,267,500</b>	<b>Total AIDEA Portion 3,155,000</b>	
<b>Homer</b>	<b>Fiscal Year 1993</b>			
	Hennick, Daniel & Elizabeth	657,900	435,000	Retail
	<b>Fiscal Year 1994</b>			
	Circle D.E. Pacific Corp.	3,375,000	2,700,000	Wood Ch'p Equipment
	<b>Fiscal Year 1995</b>			
	Lands End Acquisition Corp.	2,001,404	1,490,000	Motel
	<b>Total Amount for Homer</b>	<b>6,034,304</b>	<b>Total AIDEA Portion 4,625,000</b>	
<b>Juneau</b>	<b>Fiscal Year 1992</b>			
	Space Unlimited, Inc.	220,000	180,000	Mini-storage
	<b>Fiscal Year 1993</b>			
	Douglas Trucking Inc.	448,647	310,000	Warehouse
	<b>Fiscal Year 1994</b>			
	Abel, Don & Lois	1,075,335	845,000	Retail/Lumber Yard
	Dillon, Paul & Findley, Tom	513,750	410,000	Office
	<b>Subtotal Fiscal Year 1994</b>	<b>1,589,085</b>	<b>1,255,000</b>	
	<b>Fiscal Year 1995</b>			
	Western Pioneer Inc.	4,125,000	3,300,000	Fuel Distr. Facility

**APPENDIX A**

**Alaska Industrial Development and Export Authority**

**Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)**

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
	<b>Fiscal Year 1996</b>			
	Hickok, Terry & Patricia	590,000	375,000	Office/Retail
	<b>Total Amount for Juneau</b>	<b>6,972,732</b>	<b>Total AIDEA Portion 5,420,000</b>	
<b>Kenai</b>	<b>Fiscal Year 1993</b>			
	Norville, Allan J.	6,250,000	5,000,000	Carri's - Kenai
	<b>Fiscal Year 1994</b>			
	Swanson, Richard & Judith	898,000	580,000	Office/Warehouse
	Roberts, Daniel & Jacquelyn	276,000	220,000	Kentucky Fried Chicken
	<b>Subtotal Fiscal Year 1994</b>	<b>1,174,000</b>	<b>800,000</b>	
	<b>Fiscal Year 1995</b>			
	Tesoro AK Petroleum Co.	15,000,000	10,000,000	Vacuum Units
	<b>Total Amount for Kenai</b>	<b>22,424,000</b>	<b>Total AIDEA Portion 15,800,000</b>	
<b>Ketchikan</b>	<b>Fiscal Year 1993</b>			
	Carlani Properties	415,000	330,000	Office
	<b>Fiscal Year 1994</b>			
	Creek Street Development Partnership	420,000	330,000	Retail
	Hospitality Unlimited	2,681,900	1,335,000	The Landing
	<b>Subtotal Fiscal Year 1994</b>	<b>3,101,900</b>	<b>1,665,000</b>	
	<b>Total Amount for Ketchikan</b>	<b>3,516,900</b>	<b>Total AIDEA Portion 1,995,000</b>	
<b>Kodiak</b>	<b>Fiscal Year 1994</b>			
	Waldo's Enterprises, Ltd.	1,850,000	1,260,000	Retail
	<b>Total Amount for Kodiak</b>	<b>1,850,000</b>	<b>Total AIDEA Portion 1,260,000</b>	

ALASKA STATE LEGISLATURE

DEPT. OF REVENUE AND GENERAL SERVICES

**APPENDIX A**

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Kotzebue	<b>Fiscal Year 1991</b>			Air Terminal/Hangar
	Baker Aviation, Inc.	675,000	540,000	
	<b>Total Amount for Kotzebue</b>	<u>675,000</u>	<u>Total AIDEA Portion 540,000</u>	
Petersburg	<b>Fiscal Year 1996</b>			Hotel
	Murrison, George S. & Nancy K.	1,031,250	825,000	
	<b>Total Amount for Petersburg</b>	<u>1,031,250</u>	<u>Total AIDEA Portion 825,000</u>	
Seward	<b>Fiscal Year 1993</b>			Vessel
	Kenal Explorer Assoc., Inc.	1,152,765	920,000	
	<b>Total Amount for Seward</b>	<u>1,152,765</u>	<u>Total AIDEA Portion 920,000</u>	
Sitka	<b>Fiscal Year 1992</b>			Office/Warehouse
	Satre Elending Partnership	400,000	320,000	
	<b>Total Amount for Sitka</b>	<u>400,000</u>	<u>Total AIDEA Portion 320,000</u>	
St. Mary's	<b>Fiscal Year 1994</b>			Grocery Store
	St. Mary's Native Corp.	1,280,000	1,020,000	
	<b>Total Amount for St. Mary's</b>	<u>1,280,000</u>	<u>Total AIDEA Portion 1,020,000</u>	
Thorne Bay	<b>Fiscal Year 1996</b>			Retail/Fuel Facility
	Scudero, Jerry & Candace	319,000	255,000	
	<b>Total Amount for Thorne Bay</b>	<u>319,000</u>	<u>Total AIDEA Portion 255,000</u>	
Unalaska	<b>Fiscal Year 1994</b>			Retail
	Moses, Carl E. & Larasa G.	575,000	460,000	
	<b>Total Amount for Unalaska</b>	<u>575,000</u>	<u>Total AIDEA Portion 460,000</u>	

**APPENDIX A**

Alaska Industrial Development and Export Authority

Schedule of Loan Participations Funded with Unrestricted Cash for FY '91 through FY 96 (as of 2/29/96)

<u>Project Location</u>	<u>Applicant Name</u>	<u>Total Amount</u>	<u>AIDEA Portion</u>	<u>Project Description</u>
Valdez	Fiscal Year 1994			
	Derifield, Reta	414,461	330,000	Retail
	<b>Total Amount for Valdez</b>	<b>414,461</b>	<b>Total AIDEA Portion 330,000</b>	
Various	Fiscal Year 1993			
	Imarpiqamut Part.	11,000,000	5,500,000	Vessel
	Fiscal Year 1994			
Peninsula Airways, Inc.	2,561,123	1,875,000	Aircraft	
<b>Total Amount for Various</b>	<b>13,561,123</b>	<b>Total AIDEA Portion 7,375,000</b>		
Wasilla	Fiscal Year 1996			
	Syre, David	2,000,000	1,600,000	Sotkir's Bay Golf Course
	<b>Total Amount for Wasilla</b>	<b>2,000,000</b>	<b>Total AIDEA Portion 1,600,000</b>	
Wrangell	Fiscal Year 1995			
	Harding, Bruce	344,272	200,000	Lodge
	<b>Total Amount for Wrangell</b>	<b>344,272</b>	<b>Total AIDEA Portion 200,000</b>	
<b>Grand Total Amount for All Locations</b>		<b>\$149,201,218</b>	<b>Grand Total AIDEA Portion \$109,086,675</b>	

**APPENDIX A**

**Alaska Industrial Development and Export Authority**

**Schedule of Loan Participations Funded with Unrestricted Cash for FY 91 through FY 96 (as of 2/29/96)**

**Total Amounts All Locations by Fiscal Year**

1991	\$ 875,000	\$ 540,000
1992	14,097,500	11,052,000
1993	37,625,083	26,098,000
1994	39,205,989	29,145,000
1995	46,493,492	33,578,675
1996 (as of 2/29/96)	11,104,154	8,675,000
	<u>\$149,201,218</u>	<u>\$109,086,675</u>

Source: Alaska Industrial Development and Export Authority

200 Years Under the Sun • Exchange, AL 35503  
Tel. (937) 541-3050 • Fax (937) 551-4553

# A I D E A

April  
May  
June  
July  
August  
September  
October  
November  
December

# A I D E A ' S M I S S I O N

"To promote, develop and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment." This was the mandate given to the newly created Authority by the Alaska Legislature in 1967. Twenty years later, in 1987, legislators expanded the powers of the Authority to provide financing guarantees for exports of Alaska goods and changed the name to the "Alaska Industrial Development and Export Authority". In 1993, the Legislature restructured the Alaska Energy Authority (AEA) and turned oversight responsibilities for AEA-owned projects over to AIDEA.

AIDEA accomplishes its mission by providing various means of financing and by facilitating the financing of industrial, manufacturing, export and business enterprises and facilities within the state. AIDEA also has the authority to own and operate facilities which advance this goal.

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# THE GOVERNOR'S LETTER



DEAR ALASKANS,

As Governor of the State of Alaska, creating jobs for Alaskans and diversifying our economy have been two of my highest priorities. While the oil and gas industry will continue to play a dominant role in our state's economy for many years to come, we know these resources are finite. We must continue to look at other opportunities to keep our economy growing, and nurture businesses involved in tourism, fishing, the development of other natural resources and value-added products.

AIDEA was established in 1967 to advance Alaska's economic prosperity and create jobs for Alaskans. Its overall mission is two-fold: AIDEA help develop the infrastructure the state needs to support private sector development, building such projects as roads, ports, power plants and airport facilities. AIDEA also works with the financial community to provide long-term capital to the state's commercial community, financing businesses large and small.

AIDEA's role has grown and changed over the years. Today it is financially strong and well positioned to help finance Alaska's growth into the 21st century. It remains a strong partner in its work with the Legislature, the state's financial institutions and the business community.

We are pleased to present to you this report on AIDEA's programs and activities over Fiscal Year 1995.

Sincerely,

A handwritten signature in dark ink, which reads "Tony Knowles". The signature is written in a cursive, flowing style.

Tony Knowles  
Governor

## FROM THE EXECUTIVE DIRECTOR

AIDEA played a key role in meeting the state's need for long-term commercial financing in Fiscal Year 1995, funding \$41 million in loan participations.

The volume of commercial loan activity continued to reflect the ongoing growth in the visitor industry. AIDEA helped finance major hotel projects in Southeast, Southcentral and Interior Alaska, committed to finance a new tourist attraction in Juneau, and provided assistance for many smaller projects around the state. An Authority loan participation helped to serve Kodiak's seafood processing industry through the development of an environmentally sound waste disposal facility.

The Authority provided additional funding for the Rural Development Initiative Fund (RDIF) administered by the Department of Community and Regional Affairs. Since its inception, RDIF has helped rural business owners to obtain more than 250 jobs in Rural Alaska. Equally successful has been the program's effectiveness in leveraging additional capital from other sources to help rural businesses.

capital-poor areas of the state. For every dollar provided by RDIF, more than four additional dollars have come from other types of financing. A Q Electronics,

Rome is one example of how RDIF dollars can be leveraged. This small electronics store needed capital to broaden its product line and testing equipment to enhance service capabilities. With a \$15,000 grant from the Bureau of Indian Affairs Business

Development Program and \$9,864 from RDIF, the store's owners were able to secure \$45,000 in financing from a commercial lender. AIDEA guaranteed \$20,000 of the loan.

AIDEA continued its strong support of the state's mining industry. Following a lengthy environmental permitting process, construction began on the Healy Clean Coal Project near Denali National Park. The project will enhance the exportability of the state's vast coal reserves and provide a stable supply of electricity for Alaska's Interior.

The Authority purchased a 49 percent equity interest in the Seward coal facility from Southeast Alaska. The purchase helps



AIDEA SIGNED A NEW CONTRACT WITH STEEL MANUFACTURING CORPORATION, HEALY, ALASKA, FOR THE HEALY CLEAN COAL PROJECT. THE AIDEA LOAN GUARANTEED \$20,000 OF THE \$45,000 LOAN. THE PROJECT WILL ENHANCE THE EXPORTABILITY OF THE STATE'S VAST COAL RESERVES AND PROVIDE A STABLE SUPPLY OF ELECTRICITY FOR ALASKA'S INTERIOR.

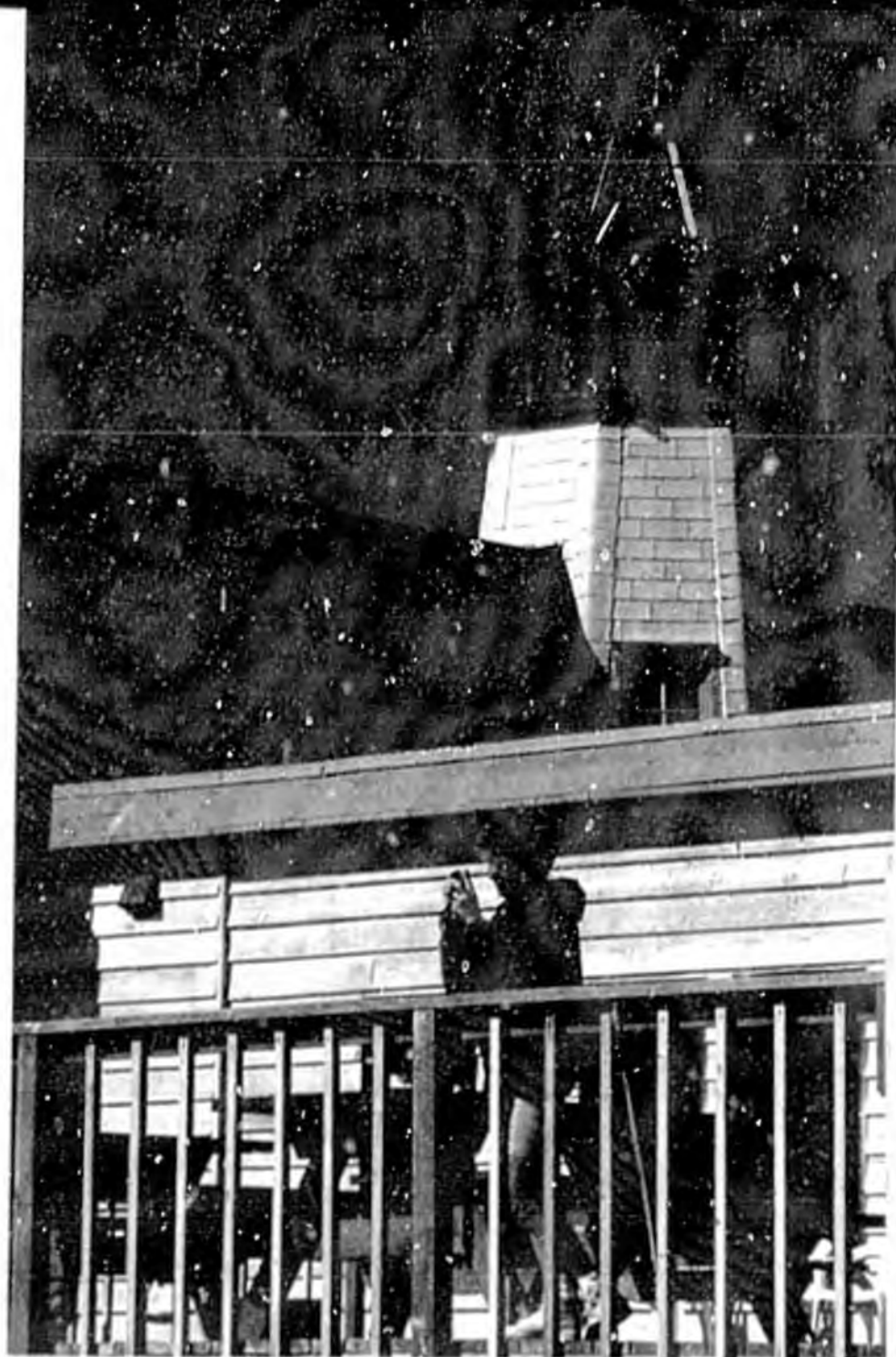


PHOTO COURTESY OF THE ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC SAFETY. THE PHOTO SHOWS A WORKER ON A ROOF OF A BUILDING UNDER CONSTRUCTION AT THE ANCHORAGE INTERNATIONAL AIRPORT. THE PHOTO WAS TAKEN IN 1995. THE PHOTO SHOWS A WORKER ON A ROOF OF A BUILDING UNDER CONSTRUCTION AT THE ANCHORAGE INTERNATIONAL AIRPORT. THE PHOTO WAS TAKEN IN 1995.

preserve 100 industry jobs and keeps intact a contract to export Alaska coal to Korea through 1995.

In August, 1995, AIDEA signed a new contract with Anvil Range Mining Corporation, reactivating the Skagway Ore Terminal, which provides year-round jobs for Alaskans. The facility was closed in 1993 when the original operator filed for protection from creditors and was later liquidated.

In Northwest Alaska, Cominco Alaska Incorporated, operator of the Red Dog Mine, reported significant new ore deposits that may extend the mine's operations by two decades or more. AIDEA has been asked to investigate the feasibility of enlarging the ore concentrate storage building and other port facilities at the Authority-owned Dalton Mountain Transportation System (DMTS). DMTS includes a port and road to support the mine in the Kotzebue area.

The Authority completed a major investment in the state's transportation system when Federal Express moved into its new aircraft maintenance facility at Anchorage International Airport. The facility strengthens

Alaska's position as an international air crossroads by expanding available services. It also creates permanent, high-skill jobs and brings to Alaska a pilot base for MD-80 aircraft, providing a direct infusion of income into the state's economy.

Early in 1995, AIDEA was asked to provide additional financial assistance for MarkAir. The Authority's Board unanimously accepted the recommendation of a special Blue Ribbon Commission that examined the airline's request for a \$40 million loan guarantee. The Commission recognized the many economic benefits MarkAir brought to Alaska, but concluded that the risks associated with the proposed financing were too great and the request did not fall within any of the Authority's statutory or regulatory programs.

Unfortunately, the airline discontinued its Alaska operations, leaving only its subsidiary to operate within the state.

AIDEA looked to the future when it began work with the Alaska Aerospace Development Corporation to study the feasibility of developing a satellite launch

facility on Kodiak Island and a satellite tracking facility in Fairbanks. The Kodiak Launch Complex offers a number of advantages, including its safe, nearly unobstructed Polar launch zones for low Earth orbit satellites. Fairbanks offers advantages for providing satellite tracking, telemetry and data retrieval services with its successful history of launches at Poker Flats, and its state-of-the-art Arctic Region Supercomputing Center.

Coeur d'Alene Mines Corporation has approached AIDEA about the possibility of financing a portion of the Kensington Mine Project. The mine, which is located outside of Juneau, would create 110 jobs, including 360 direct mining positions. Construction is estimated to cost approximately \$185 million, and the mine is expected to be commercially viable for 12 years. AIDEA participation would most likely be in the financing of solid waste disposal facilities ("mine tailings") and power generation facilities.

The City of Craig has approached AIDEA to request financial assistance for an industrial marine

facility. The project concept includes private sector investment at an industrial park facility, similar to AIDEA's involvement in the expansion of the Unalaska Marine Center.

Additionally, when the Alaska Legislature restructured the Alaska Energy Authority (AEA) in 1993, it turned oversight responsibilities for AEA-owned projects over to AIDEA, and directed AEA to transfer day-to-day operations of its projects to the private sector. Local utilities now operate all six of AEA's hydroelectric projects. The Authority continued discussions with Rabbitt utilities on the northern and southern intertie projects, but progress has been slow.

AIDEA appreciates the continued support shown by Alaska's residents, lawmakers, the executive branch and the business community. In the years ahead, we look forward to continuing our mission of advancing the general prosperity of the people of Alaska.

Respectfully submitted,



William H. (Bobby) Snell  
Executive Director

# MAJOR ACTIVITIES



FEDERAL EXPRESS MOVED TO THE AIRCRAFT MAINTENANCE FACILITY AT ANCHORAGE INTERNATIONAL AIRPORT IN THE SPRING OF 1995. THE ALDEA OWNED FACILITY WAS FINANCED THROUGH TAX-EXEMPT BONDS SOLD BY THE AUTHORITY AND WILL BE REPAID BY FEDERAL EXPRESS THROUGH USER FEES.

## DEVELOPMENT PROGRAM ACTIVITIES HEALY CLEAN COAL PROJECT

Construction began in May on the Healy Clean Coal Project near Denali National Park. The \$267 million project consists of a power plant using a combustion system that burns coal from adjacent coal fields in stages to minimize air pollution.

The three-year construction phase will support approximately 200 jobs. Once in commercial operation, the facility will provide Interior Alaska with a stable source of low-priced electricity, create 35 to 40 new jobs in Healy and augment eight coal-powered generators.

The clean coal project grew out of a nationwide competition to test new technologies to help solve the international problem of acid rain. Alaska was selected as one of 14 demonstration sites and received a \$117 million federal

grant to help support the project. The plant will link Alaska coal directly to an environmentally sound technology, thereby increasing the attractiveness of the state's large coal reserves on the export market.

## FEDERAL EXPRESS AIRCRAFT MAINTENANCE FACILITY

Federal Express moved into the aircraft maintenance facility at Anchorage International Airport in the spring of 1995. The ALDEA-owned facility strengthens Alaska's role as an international air crossroads and supports Anchorage International Airport's position as the nation's largest airport in terms of landed cargo weight. It also creates permanent, high-skill jobs.

The facility accommodates wide-bodied aircraft, enabling Federal Express to provide line maintenance on its fleet of jets and offer routine maintenance for other air carriers. Federal

Express operates an international package-sorting facility at Anchorage International Airport, and accounts for more than 270 landings a month.

The facility was financed through the sale of tax-exempt bonds sold by the Authority and invested cash, and will be repaid by Federal Express through user fees.

#### SKAGWAY ORE TERMINAL

With metal prices moving upward, Anvil Range Mining Corporation, owner of the Faro Mine in the Yukon Territory, negotiated a contract with AIDEA for use of the Skagway Ore Terminal. The agreement is the first time an AIDEA development project has evolved into a second-generation use.

The facility serves as a warehouse and ship loading operation for ore concentrates exported from the mineral-rich Yukon Territory and northern British Columbia to



CONSTRUCTION BEGAN IN MAY ON THE HEALY ORE CONCENTRATOR PROJECT NEAR DENALI NATIONAL PARK. THE FACILITY WILL PROVIDE INTERIOR ALASKA WITH A STABLE SOURCE OF LOW PRICED ELECTRICITY INTO THE FUTURE AND CREATE 35 TO 40 NEW JOBS.



AIDEA will provide construction services for the Mount Roberts Tramway in Juneau. A major tourist attraction expected to open in the summer of 1996.

international markets. AIDEA's ownership of the terminal enhances Skagway's ability to compete for the transshipment of ore concentrates and the backhaul of supplies to the mines.

AIDEA purchased the terminal in 1990 to help bring stability to Skagway's major year-round industry and to fund environmental renovations. The facility was closed in 1993 when the original operator filed for protection from creditors and was later liquidated.

#### CREDIT PROGRAM

#### ACTIVITIES

#### Mount Roberts Tramway

Construction began in the Summer of 1995 on the Mount Roberts Tramway, a major addition to the visitor industry infrastructure in Juneau. The tram will carry people from a base facility adjacent to the cruise ship dock to a viewing platform, restaurant, shops and Native Cultural Center at the

1,756-foot level of the mountain. Tram developers expect the project to be completed in time for the 1996 tourist season. Sixty jobs will be created at the facility.

AIDEA will provide \$8.6 million in long-term financing for the project. The tramway and related facilities are owned by the Mount Roberts Development Corporation in a limited partnership with Goldbelt, Inc., the Native Village Corporation for Juneau.

#### CANDIA HOUSE

Petersburg's historic Scandia House reopened in the summer of 1995, just months after it was destroyed by fire. The new 12,000-square-foot hotel contains 21 guest rooms and retail space. AIDEA provided a \$1 million loan participation.

Originally built in 1906, the Scandia House serves Petersburg's growing visitor industry and is listed on the National Register of Historic Properties.

#### A & M MOTORS

An AIDEA loan participation of \$1.5 million helped the state's leading recreational vehicle dealership expand into a new facility in Anchorage. Located adjacent to its headquarters building, A & M's new 17,820-square-foot complex includes a service department, an additional showroom, a large parts department and business offices. A & M has been in business since 1968 and its latest expansion created another six jobs.



AN AIDEA LOAN PARTICIPATION HELPED SAVE HISTORIC SCANDIA HOUSE BUILT IN PETERSBURG, REBUILT IN TIME FOR THE VISITOR SEASON.

#### POTENTIAL DEVELOPMENT PROJECTS

##### CITY OF CRAIG

The City of Craig approached AIDEA to finance and build a public use dock and industrial park. One of the fastest-growing areas in the state, the Prince of Wales Island community wants to improve its seafood and boating services. The proposed development would include a



AIDEA IS STUDYING THE POSSIBILITY OF FINANCING THE KODIAK LAUNCH COMPLEX ON 3,100 ACRES OF STATE OWNED LAND ON KODIAK ISLAND. IF THE PROJECT GOES FORWARD, THE FACILITY WOULD BE THE ONLY TWIN-STRUT TO RUN COMMERCIAL LAUNCH RANGE IN THE NATION.

boat launch ramp, causeway, staging area with a 300-foot dock and a developed industrial park for cannery and fuel service facilities.

#### KODIAK LAUNCH FACILITY

Legislation in 1995 provided AIDEA with authorization to issue up to \$20 million in bonds to finance the development of the Kodiak Launch Complex on Kodiak Island and the Fairbanks Satellite Spaceport. AIDEA is working on the project in conjunction with the Alaska Aerospace Development Corporation. If due diligence finds the proposals financially viable, Alaska could develop the first non-federally run commercial launch range in the United States. As proposed, the Kodiak facility would launch small rockets with satellite payloads up to 8,000 pounds into low earth polar orbit. The satellites would provide communications, remote

sensing and scientific information. The satellite ground station in Fairbanks would handle tracking and telemetry services for the satellites as well as the down-linking of data. The new high-technology private industry would create substantial year-round employment in a field with enormous potential for growth and would position the state to attract other aerospace-related industries.

#### POTENTIAL ENERGY PROJECTS UNDER REVIEW SNETTISHAM HYDROELECTRIC PROJECT

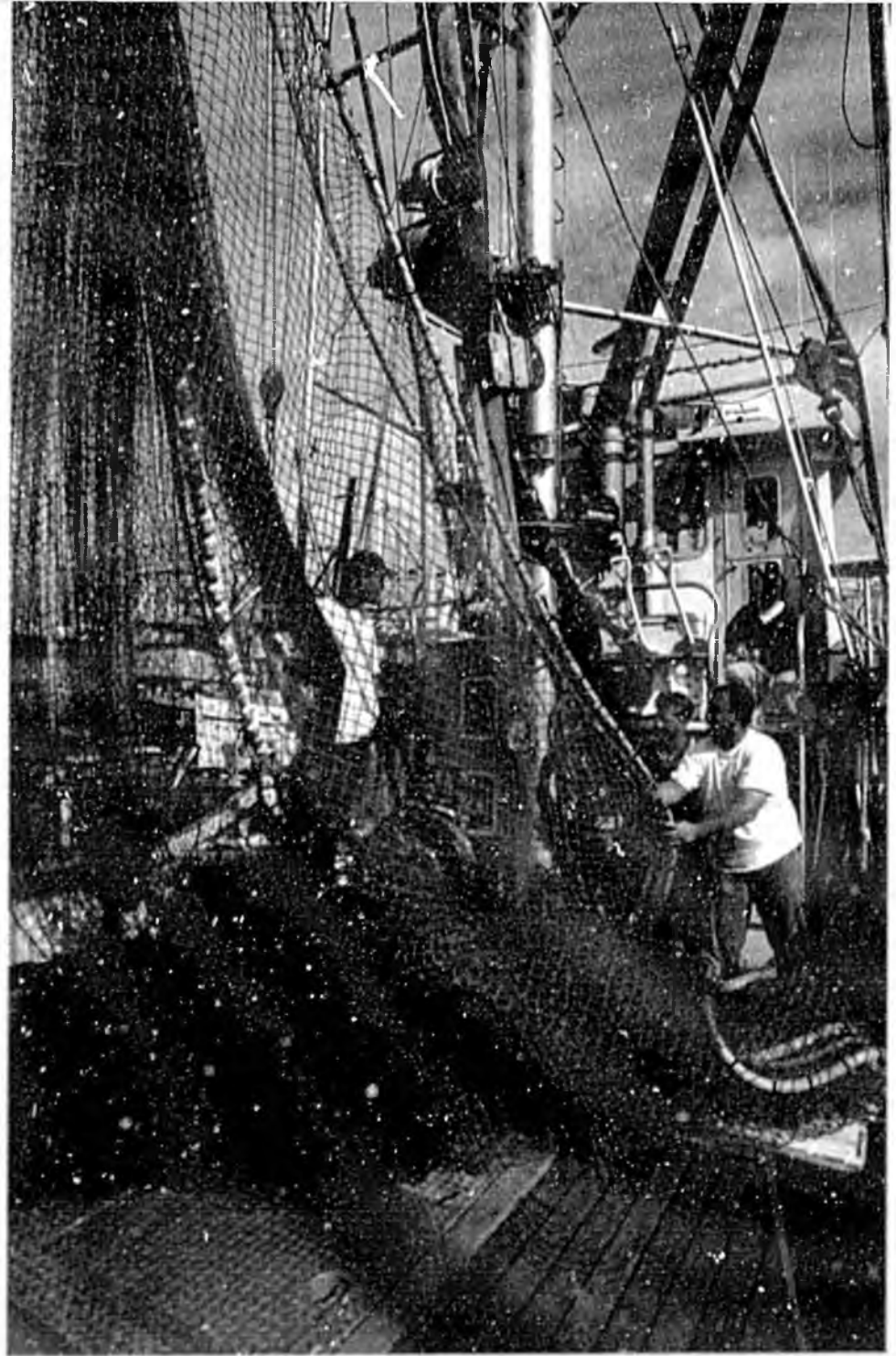
Legislation remains pending in the U.S. Congress authorizing the sale of this 78-megawatt project to the state. Snettisham serves the Juneau-Douglas area and would be operated by Alaska Electric Light and Power. The estimated cost of the project is currently \$75 million.

GOAT LAKE  
HYDROELECTRIC PROJECT

This 6-megawatt project near Skagway would be operated by Alaska Power and Telephone. The estimated cost of the project is \$7 million to \$10 million

UPPER CHELKOOT LAKE  
HYDROELECTRIC PROJECT

An economic and financial feasibility review is under way on this 2.5-megawatt project near Haines, which carries an estimated price tag of \$12 million to \$14 million



THE BRINE ICE HAYS COMPANY OF JUNEAU HAS APPROXIMATED WIDE-TOP LOGS AND BUILT A BRILLIANT WOOD-DECK AND UNDERDECK FOR THE WEST COAST'S LATEST CANTEREST FISHING VESSEL



A & M FLEETWOOD, THE STATE'S LARGEST RECREATIONAL VEHICLE DEALERSHIP, EXPANDED INTO A NEW FACILITY IN ANCHORAGE WITH THE HELP OF AN AIDEA LOAN PROGRAM.

AIDEA provides capital to finance economic growth in Alaska. Projects financed by AIDEA range from multimillion dollar ports to working capital loan guarantees for small businesses. All AIDEA projects and financing must be economically feasible. Projects must enhance the economy of the state and provide or maintain jobs for Alaskans. The projects must also demonstrate the ability to repay their debts. These criteria were set by the Alaska Legislature when AIDEA was established in 1967.

AIDEA's variety of financing mechanisms allows it to provide financing for a wide array of projects. The financing mechanisms are

#### DEVELOPMENT FINANCE PROGRAM

Through this program AIDEA may own and operate projects that bring economic benefits to the people of Alaska. Such projects typically provide infrastructure support

# AIDEA'S PROGRAMS

for resource utilization and development. To qualify for AIDEA financing, a project must be compatible with the local economy and endorsed by the local government. Projects must also be financially feasible. In other words, revenues from user fees and leases must be sufficient to repay the costs of the project. Projects requiring more than \$10 million in financing must receive statewide support through an authorization from the Alaska Legislature. Examples of projects financed through AIDEA's development finance program include the Federal Express Aircraft Maintenance Facility, Healy Clean Coal Project, DeLong Mountain Transportation System (Red Dog mine port and road), Seward Utro Terminal and Unalaska Marine Center. Possible projects currently being considered include an industrial marine center project in Craig and the Kodiak Launch Facility.

## LOAN PARTICIPATION PROGRAM

The loan participation program provides long-term financing to Alaska businesses for new or existing projects, or for the refinancing of existing loans. AIDEA participation may total up to 80 percent of a loan originated by a commercial lending institution, with total participation not to exceed \$10 million. Projects financed to date include a large variety of commercial facilities ranging from office buildings, warehouses and retail establishments to hotels, fishing vessels and manufacturing facilities.

## FINANCIAL ASSISTANCE PROGRAM

The loan guarantee program provides financial institutions up to an 80-percent guarantee on the principal balance of a loan. AIDEA's added degree of support can make project financing a lot more affordable with 80-percent guarantees.



A LOAN PARTICIPATION PROGRAM IS ONE OF 50 AIDEA'S PROGRAMS TO ASSIST WITH THE LOCAL DEVELOPMENT INITIATIVES FINANCED WHICH IS FINANCED BY AIDEA. FINANCED IN 1991, 80% OF THE \$100,000 FINANCED FROM AIDEA TO FINANCE THE PROJECT. FINANCING AIDEA AND AIDEA FINANCED WITH THE AIDEA PROGRAM.



AIDEA HAS BEEN ASKED TO CONSIDER EXPANSION OF THE PORT FACILITIES AT THE COLON. MAINTAIN TRANSPORTATION SYSTEM HOWELL COMPLETION OF A 17 MILE ROAD AND TO TAKE ITS OWN AUTHORITY IDENTIFIED TO SERVE THE RFD. HERE, A SIGNIFICANT NEW DEVELOPMENT MAY BEYOND THE LIFE OF THE RFD. AND THE RFD TARGETED LOCATED FOR EMPLOYMENT. A WORKING

to \$1 million available to borrowers who might not otherwise obtain commercial financing. A streamlined program targeted to assist small businesses and entrepreneurs in rural areas provides guarantees on loans up to \$75,000 which may be unsecured. AIDEA also uses its business assistance program to support the Rural Development Initiative Fund (RDIF). The RDIF was established by the Legislature in 1992 and is administered by the Department of Community and Regional Affairs (DCRA) in conjunction with AIDEA. This loan program is targeted to create employment opportunities in rural Alaska by providing small, basic industries with business capital. Under the RDIF program, DCRA purchases a participation interest in each loan, AIDEA may guarantee a portion of the loan, and the financial institution services the loan. Only 10% may borrow

up to \$100,000 with two or more borrowers eligible for up to \$200,000.

#### EXPORT ASSISTANCE PROGRAM

This program is designed to encourage and facilitate international trade. It provides guarantees to financial institutions that make loans for export transactions. Guarantees may total up to 90 percent of a transaction, or \$1 million.

# INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY:

We have audited the accompanying combined balance sheets of the Alaska Industrial Development and Export Authority Revolving Fund (A Component Unit of the State of Alaska) as of June 30, 1995 and 1994, and the related combined statements of income and retained earnings, changes in equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Alaska Industrial Development and Export Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements related to above present fairly, in all material respects, the financial position of the Alaska Industrial Development and Export Authority Revolving Fund (A Component Unit of the State of Alaska) as of June 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual project groups. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*KPMG Peat Marwick LLP*

August 16, 1995

Anchorage, Alaska

# COMBINED BALANCE SHEETS

JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION AT JUNE 30, 1995

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
<b>Assets</b>				
Cash and cash equivalents, partially restricted (note 5)	\$ 29,533,638	2,001,616	31,535,254	39,727,917
Investment securities, partially restricted (note 5)	230,147,128	125,672,964	355,820,122	409,645,853
Loans receivable	218,177,839	34,705,445	272,973,244	257,572,462
Less allowance for loan losses (note 6)	(16,395,317)	(1,817,357)	(18,212,704)	(16,599,006)
Net loans	201,782,522	32,888,088	254,754,540	241,073,456
Real estate investment in development projects (notes 3 and 8)	38,517,642	180,187,055	218,704,697	219,617,877
Accrued interest receivable	5,475,401	2,537,934	8,013,337	1,497,000
Prepaid bond features (note 7)	—	3,800,924	3,800,924	1,401,451
Investment in development projects (note 8)	109,325,884	—	109,325,884	72,109,759
Interest in state-owned	15,090,929	218,709	15,290,770	12,978,235
Common capital limited partnership investment (note 8)	5,826,061	—	5,826,061	5,814,000
Other	1,141,426	2,459,447	3,600,873	4,943,556
	\$ 658,824,058	409,441,927	1,068,265,985	1,051,029,880
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,057,000	96,000,000	97,057,000	229,000,000
Accrued interest payable	2,102,310	1,714,794	3,817,104	4,628,900
Accounts payable - 27 months	9,605,000	1,000,000	10,605,000	6,774,254
Other	1,000,000	99,117	1,099,117	1,056,117
Equity				
Common stock	203,065,675	141,511,743	344,577,418	300,100,000
Retained earnings	117,279,400	107,300,116	224,579,516	167,077,533
Other	5,110,134	15,000,114	20,110,248	27,400,000
Common stock and retained earnings - 1,000,000,000	\$ 325,455,209	263,811,973	609,266,934	494,577,533

The accompanying notes are an integral part of these financial statements.

# COMBINED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION FOR 1993

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
<b>Earnings</b>				
Interest income				
Loans (note 6)	\$ 19,667,370	2,865,889	22,533,259	21,701,339
Investments	17,618,105	6,909,367	24,527,472	24,340,400
Direct financing leases	955,000	11,256,550	12,211,550	11,923,692
Total interest income	38,240,475	21,031,806	59,272,281	58,965,431
Other income	230,593	-	230,593	529,089
Gain on sale of securities	221,512	-	221,512	-
Total earnings	38,692,580	21,031,806	59,724,886	59,494,520
<b>Expenses</b>				
Personnel	8,021,454	6,942,407	14,963,861	17,177,170
General and administrative	3,674,713	252,618	3,927,331	2,938,519
Bad debt expense	-	175,026	175,026	175,026
Write-downs and net expense associated with other real estate owned	202,036	6,724	208,760	1,460,359
Provision for loan and development project losses	3,500,000	-	3,500,000	2,000,000
Total expenses	15,398,203	7,876,775	23,274,978	23,751,074
Income before extraordinary item	23,294,377	13,155,031	36,449,408	35,743,446
<b>Earnings before provision for income tax and Shareholders' Equity (note 10)</b>				
Share income	23,294,377	13,155,031	36,449,408	35,743,446
Retained earnings at beginning of year	293,007,442	63,740,028	356,747,470	338,581,579
Retained earnings at end of year	\$ 316,291,824	146,895,069	463,186,893	476,325,025

# COMBINED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED JUNE 30, 1995 AND 1994

	Contributed Capital	Retained Earnings	Total
Balance at June 30, 1993	\$ 300,000,000	356,747,470	656,747,470
Share income	-	35,743,446	35,743,446
Contributed capital	4,000,000	-	4,000,000
Dividend of June 30, 1994	100,000,000	(100,000,000)	-
Share income	-	35,743,446	35,743,446
Dividend of June 30, 1995	100,000,000	(100,000,000)	-
Balance at June 30, 1995	\$ 300,000,000	476,325,025	776,325,025

# COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 1995 AND 1994 WITH COMBINING INFORMATION FOR 1995

	Combining Information		Combined	
	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project (note 3)	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 23,893,058	13,568,018	37,461,076	32,511,558
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of premium and discount on investment securities	(232,738)	97,861	(134,877)	1,445,088
Gain on sale of securities	(221,512)	-	(221,512)	-
Provision for loan and development project losses	3,700,000	-	3,500,000	2,000,000
Amortization of prepaid bond insurance	-	175,026	175,026	175,026
Write-downs and net loss on sale of other real estate owned	229,537	22,279	251,816	628,341
Amortization of unamortized income on direct financing leases	(955,600)	(11,256,550)	(12,212,150)	(11,023,692)
(Increase) decrease in accrued interest receivable and other assets	1,291,693	(469,332)	822,361	(1,086,357)
Increase (decrease) in accrued interest and accounts payable	5,442,199	11,765,411	3,676,789	(1,367,074)
Net cash provided by operating activities	29,940,518	127,614	31,324,452	22,492,599
<b>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES:</b>				
Investment in direct financing leases	(4,356,596)	-	(4,356,596)	(13,434,614)
Direct financing lease receipts	2,055,272	11,967,074	14,022,346	13,192,059
Contributions to capital	18,187,580	-	18,187,580	3,867,690
Return of capital to State of Alaska	(50,000,000)	-	(50,000,000)	-
Payments on bonds	(1,910,000)	(1,865,000)	(3,795,000)	(4,145,000)
Net cash provided (used) by capital related financing activities	(59,023,244)	10,062,074	(39,941,150)	482,135
<b>CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES:</b>				
Payments on bonds	(21,867,000)	-	(21,867,000)	(67,000,000)
Issuance of bonds	17,945,000	-	17,945,000	11,435,000
Net cash used by noncapital related financing activities	(3,922,000)	-	(3,922,000)	(55,565,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from maturities of securities	21,510,236	44,201,213	65,711,449	210,672,306
Proceeds from sales of securities	15,283,153	-	15,283,153	-
Proceeds from investment securities	2,754,127	(129,668,933)	(126,914,806)	(173,610,249)
Proceeds from restricted monies	21,421,500	443,201	21,864,701	29,000,000
Loans originated	41,441,675	-	41,441,675	(2,345,000)
Loans to state development projects	(7,997,181)	-	(7,997,181)	(10,116,000)
Loans at fixed rate purchased	-	-	-	(1,718,000)
Net proceeds from origin and other real estate owned	4,000,000	3,000,000	7,000,000	1,160,000
Net investment in venture capital limited partnership	7,065	-	7,065	(3,000)
Net cash provided (used) by investing activities	53,749,013	(85,467,722)	(31,718,689)	6,439,111
Net increase (decrease) and cash equivalents	17,117,287	1,194,367	(1,345,387)	(31,635,140)
Cash and cash equivalents at beginning of year	9,867,343	1,860,574	16,727,917	18,082,761
Cash and cash equivalents at end of year	\$ 26,984,630	3,054,941	15,382,530	(15,552,879)

See notes to financial statements for further information.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

## (1) ORGANIZATION AND OPERATIONS

The activities of the Alaska Industrial Development and Export Authority (Authority) Revolving Fund are authorized pursuant to legislation passed by the Legislature of Alaska (Legislature) which established within the Revolving Fund the Enterprise Development Account and the Economic Development Account for separate and distinct purposes. The Authority is a component unit of the State of Alaska (State), constituting a political subdivision within the Department of Commerce and Economic Development but with separate and independent legal existence. The Authority's mission is to promote, develop and advance the general prosperity of the people of Alaska, to relieve problems of unemployment, and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises and other facilities within the State.

In addition to the Revolving Fund, the Authority administers certain activities of the Alaska Energy Authority which are not included in the accompanying financial statements.

**Enterprise Development Account** A summary of programs available under the Enterprise Development Account is as follows:

- A loan participation program under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the issue of 80% of \$10,000,000 of the permanent financing for manufacturing facilities, public-use projects and business enterprises. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.
- An export assistance program designed to foster and facilitate international trade by offering guarantees to financial institutions which provide exporters with pre-shipment and post-shipment loans.
- A business assistance program providing up to a 75% guarantee of the principal balance to the financial institution making a loan. The maximum guarantee amount of any loan is \$1,000,000.
- A venture-capital program whereby the Authority has invested in a venture-capital partnership (the Titans Fund) with the purpose of inducing venture capitalists to invest in the state of Alaska investment opportunities. However, the Titans Fund is permitted to make investments outside of Alaska.

**Economic Development Account** Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Certain owned and operate projects undertaken through the Economic Development Account include:

- The Dalton Mountain Transportation System (Red Dog Project) which consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, one of the largest zinc deposits in the world, located in the Dalton Mountains in north eastern Alaska (see 3).
- Acquisition and development of a public use terminal port facility in Seward, Alaska, the Seward One Terminal (Seward Terminal). The Seward Terminal was financed by a \$21,000,000 bond issue completed in December 1992. The purchase of a public use port site to be a terminal and a fuel facility (Seward Fuel Farm) was financed using funds of the Enterprise Development Account.
- Construction of improvements to the Umanak Terminal Marine Center (Unalaska Project), a public port facility located in the Aleutian Islands. The Unalaska Project was financed by a \$7,000,000 bond issue completed in December 1992.
- Construction of an aircraft hangar and maintenance facilities at the Anchorage International Airport Federal Express Project. The Federal Express Project was financed by a \$20,000,000 bond issue completed in September 1992.
- In fiscal year 1993, the Authority received a \$5,500,000 appropriation made by the 1993 Legislature, received a grant with matching funds from the U.S. Department of Energy, and received approval by the 1993 Legislature to issue up to \$85,000,000 of bonds to assist in the development of a coal-fired power plant in Healy, Alaska known as the Healy Clean Coal Project (Healy Project). The Healy Project will receive approximately \$127,000,000 of funding from the U.S. Department of Energy, Clean Coal Technology, III Demonstration Grant Program. An additional \$1,000,000 had been received from the U.S. Department of Energy. In May 1993, the Authority purchased a 50% interest in the Healy Clean Coal Project for approximately \$1,000,000. The purchase was subject to specific conditions including the completion of a demand note and registration of a certificate of sale and a separate guarantee.
- The Authority is authorized to issue up to \$10,000,000 of bonds to finance the acquisition, construction and equipping of a hangar to be located at the Anchorage International Airport which would have provided aircraft maintenance, freight storage and cargo handling and operations and a parking lot to be located at Healy, Alaska. Alaska Airlines, Inc. (Alaska Airlines) Alaska Airlines owned plots to build the facility. However, the Authority continues to have the legal authority to build the facility.
- The Authority also has funding authority of \$4,000,000 for a new project located at the Anchorage International Airport (the potential cost of this facility project is \$10,000,000). Authority involvement is \$1,000,000 for a public facility in the Unalaska System through a public facility development fee derived and paid to Unalaska, Unalaska System Borough and \$3,000,000 for the construction of a new terminal building and a fuel processing facility to be constructed at Anchorage.
- The Authority is also authorized to issue bonds to issue \$1,000,000 to finance the acquisition, development and construction of a fuel tank located in Seward and the Healy, Alaska and the Healy, Alaska terminal building and a fuel processing facility.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

**Other.** The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction between a business enterprise and a purchaser of the bonds. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or other funds of the business enterprise. Changes in federal tax laws have significantly reduced the Authority's ability to provide tax-exempt financing under this program and to date there has been little or no demand for taxable financing. The Authority is authorized to issue revenue bonds to finance the construction of power transmission facilities to be owned by electric utilities in a collective amount not to exceed \$185,000,000.

**Financial Statement Presentation.** In the accompanying financial statements, the column entitled Enterprise Development Activities and Unrestricted Economic Development Projects includes the Enterprise Development Account, the Seward Terminal, the Unalaska Project, Federal Express, Seward Coal Leasement and Healy Projects of the Economic Development Account.

The column entitled Restricted Economic Development Project includes the Red Dog Project of the Economic Development Account (note 3). The amounts reflected in this column are restricted assets of the Revolving Fund and are not available to meet general claims against the Authority.

The combined financial statements include all of the activities of the Enterprise Development and Economic Development Accounts.

## 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Cash and Cash Equivalents.** For purposes of the statement of cash flows, cash and cash equivalents consist of cash and highly liquid investments.

**Investments.** Investments are recorded at cost, adjusted for the amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income.

**Loans and Interest Income.** Loans are primarily secured by first deeds of trust on real estate located in Alaska and are typically insured against advanced loss principal payments collected. Interest income is accrued as earned. Accrued interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are structured. Future collections of interest on these loans are recorded as interest income when received.

**Net Investment in Direct Financing Loans.** The Authority issues various projects pursuant to certain agreements as more fully described in note 8, which are recorded in the accompanying financial statements as direct financing loans. Interest income related to direct financing loans is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the loans.

**Allowance for Loan Losses.** The allowance for loan losses represents management's judgment as to the amount required to absorb potential losses on the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, regional conditions and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

**Allowance for Lease Reserves.** The allowance for lease reserves represents management's judgment as to the amount required to absorb potential unfavorable direct financing lease term options. The factors used by management to determine the allowance required include historical lease delinquencies, property values, regional conditions and other factors. Management's opinion is that the allowance for lease reserves is required as of June 30, 1995.

**Depreciation Expense.** Depreciation expense is calculated over the life of the related fixed asset using the straight-line method.

**Other Real Estate Owned.** Other real estate owned represents property acquired through foreclosure on loans insured by deed of trust mortgages that failed to meet the requirements of the program and is available for sale. Other real estate owned is recorded at the lower of the cost less accumulated depreciation and current value or the property at the time of foreclosure, the property with an excess of loan balance over fair market value, the debt, the carrying amount less loss. Upon sale, depreciation is a deduction in the value of the property, general losses are charged and credited to general assets of the current period.

**Verdey Capital Limited Partnership Investment.** The Authority's Verdey Capital Limited Partnership investment represents an investment in the Verdey Fund. The investment is accounted for at the lower of cost or market.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

**Income Taxes**—The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Authority is a political subdivision of the State performing an essential governmental function and is therefore exempt from federal and State income taxes.

**Furniture and Equipment**—Purchases of furniture and equipment are expensed as such items are the property of the State.

**Appropriations and Grants**—Appropriations and grants are recorded as additions to contributed capital when received.

## 15. RESTRICTED ECONOMIC DEVELOPMENT PROJECT

**DeLong Mountain Transportation System**—In 1984, the Legislature addressed the possibility of lending support to the development of lead and zinc mining in the DeLong Mountain area in northwestern Alaska through the facilities of the Authority by establishing the Economic Development Account. The 1985 Legislature enacted legislation providing authorization to proceed with the Red Dog Project and to issue bonds for financing. The Red Dog Project consists of a road and port to serve transport needs and to permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit (one of the largest zinc deposits in the world) and other mineral deposits expected to be developed in the area. To assist in providing funding for the Red Dog Project, the Legislature appropriated \$12,000,000 cash and net loans totaling \$131,511,300, previously participated in or made by the State's various borrowings in Alaska under seven economic assistance programs. When moneys are released from the pledge to bondholders of the DeLong Mountain Transportation Project Revenue Bonds, they revert to the Authority's unrestricted program under legislation passed in 1984 which required the payment of \$50,000,000 by the Authority to the State's General Fund during fiscal year 1995.

On July 31, 1995, the Authority entered into a contract with Comarco American Incorporated (Comarco) providing for the financing and construction, operation and maintenance of the DeLong Mountain Transportation System. The agreement provides that Comarco pays for the use of the DeLong Mountain Transportation System consisting of fifty-two miles of road and a port facility on the Alaskan coast, constructed and operated by the Authority. The annual tolls are the amount necessary to amortize the cost of the Red Dog Project over a thirty-year period at an interest rate of 5%. Toll payments began January 1, 1995. Certain payments to be made by Comarco are secured by letters of credit. The agreement with Comarco is a loan secured on the Authority's bonds and does not finance a loan.

On August 7, 1990, the Authority entered into an agreement with SAA Regional Corporation, Inc. providing for a thirty-year purchase of bonds for the proposed port and road. A portion of the amount, \$1,100,000, was paid by the Authority for the entire lease term.

On March 31, 1987, the Authority issued \$100,000,000 of DeLong Mountain Transportation Project Revenue Bonds to finance the project of the Red Dog Project which is a public port facility. All assets and free cash of the Red Dog Project are restricted to cover the Red Dog Project and are pledged to the repayment of the DeLong Mountain Transportation Project Revenue Bonds.

## 16. ADDITIONAL INFORMATION REGARDING TABLES AND ANALYSIS ACTIVITIES

Additional information regarding cash flows and financial activities for the six-month period (6/30/95) and fiscal year ending (6/30/95) are as follows:

	Economic Development Activities and Investments		Restricted Economic Development	
	Unrestricted Investment	Restricted Investment	Investment	Investment
At June 30, 1994				
Interest received on loans and investments	\$ 1,174,000	10,000,000	1,174,000	10,000,000
Investment	1,041,200	10,000,000	1,041,200	10,000,000
At June 30, 1995				
Market value from sales of investments				
Investment in development projects	\$ 1,041,200		1,041,200	1,041,200
Loans receivable included in the financial statements	1,041,200		1,041,200	
Other receivables (paid) and other liabilities (owed)	1,041,200	10,000,000	1,041,200	10,000,000
Net cash (liability) included	1,041,200	10,000,000	1,041,200	10,000,000

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

## (5) INVESTMENT SECURITIES

Major components of investment securities, the maturity distribution and carrying value at June 30, 1995 and 1994 (with combining information for 1995) follow:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
<b>U. S. TREASURY SECURITIES MATURITY:</b>				
Within one year	\$ 35,028,199	10,852,606	45,880,805	119,105,514
After one but within five years	77,600,358	106,973,794	184,574,152	156,171,061
After five but within ten years	2,996,891	2,951,778	5,948,669	-
After ten but within twenty-five years	922,094	-	922,094	-
	116,547,542	120,778,178	237,325,720	275,276,575
<b>U. S. GOVERNMENT AGENCIES MATURITY:</b>				
Within one year	22,171,196	3,047,520	25,218,716	51,077,774
After one but within five years	78,433,749	1,847,246	80,281,056	76,712,444
After five but within ten years	12,944,630	-	12,944,630	6,519,047
	113,549,575	4,894,816	118,444,402	134,309,274
	\$ 230,147,124	125,672,994	355,820,122	409,585,849

At June 30, 1995, the market value of investment securities was as follows:

Enterprise Development Activities and Unrestricted Economic Development Projects	\$ 230,147,124
Restricted Economic Development Project	125,672,994
	\$ 355,820,118

All investments and related Enterprise Development agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 subcategory risk, the lowest subcategory risk classification as defined by Governmental Accounting Standards Board Statement No. 1 and Technical Bulletin No. 97-1.

Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolution. A summary of restricted amounts at June 30, 1995 and 1994 (with combining information at June 30, 1995) follows:

		Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Capital Reserve Funds	Restrictions: Self-issued bonds payments - bonds	\$ 762,000	4,457,575	16,463,008	17,441,000
Enterprise Funds	Unrestricted bonds Self-issued bonds	47,000	-	47,000	51,000
Enterprise Reserve	Funds held by Authority Self-issued bonds	1,494,000	-	6,000,000	1,000,000
Enterprise Fund	Reserve held by Authority wastewater treatment The City of Anchorage, Alaska	-	-	-	1,000,000
Enterprise Reserve Fund	Guarantee bonds - bonds	2,000,000	-	1,000,000	1,111,000
Enterprise Fund	Enterprise bonds - bonds not so used - bonds maturity bond holding	-	-	-	7,000,000
Enterprise Funds	Self-issued bonds payments - bonds	-	118,822,000	118,822,000	134,200,000
		\$ 2,264,000	4,576,575	16,463,008	19,552,000

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Certain investment securities and repurchase agreements have been designated by the Board of Directors or otherwise for various purposes. A summary of designated amounts in the Enterprise Development Activities and Unrestricted Economic Development Projects at June 30, 1995 and 1994 follows:

	Designation	1995	1994
Business Assistance Fund	Guarantee business loans	\$ 5,162,853	5,261,886
Healy Project Funds	Construction costs	-	59,631,821
		\$ 5,162,853	64,893,707

## (6) LOANS

The Authority grants secured commercial real estate and other loans to businesses throughout the State of Alaska. Although the Authority has a diversified loan portfolio, the borrowers' ability to honor their credit agreements is generally contingent upon economic conditions in the State.

Loans outstanding at June 30, 1995 and 1994 (with remaining obligation at June 30, 1995) are classified as follows:

Loan program type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1995		1994	
	#	Amount	#	Amount	#	Amount	#	Amount
Aggregated	75	\$ 10,261,821	729	\$ 34,795,445	614	\$ 45,034,494	1,075	\$ 56,723,313
Loan participation								
Jointly outstanding	151	\$2,002,178	-	-	151	\$2,002,178	157	\$3,441,000
Jointly funded	68	24,371,412	-	-	68	28,371,347	70	30,083,200
Internally funded	67	\$1,954,900	-	-	67	\$1,954,900	55	\$2,201,048
OFF-Loan financing	67	2,130,834	-	-	67	21,102,244	68	21,651,200
Other	51	2,984,898	-	-	51	2,544,904	65	2,688,800
	411	\$ 24,717,003	729	\$ 34,795,445	1,214	\$ 72,472,744	1,490	\$ 93,797,561

Delinquency of loans at June 30, 1995 and 1994 (with remaining obligation at June 30, 1995) are:

Loan type	Enterprise Development Activities and Unrestricted Economic Development Projects		Restricted Economic Development Projects		1995		1994	
	#	Amount	#	Amount	#	Amount	#	Amount
Current	392	\$ 22,839,225	693	\$ 31,929,025	603	\$ 69,885,154	1,064	\$ 93,641,000
30 days delinquent	68	14,923	574	1,668,811	14	2,145,000	112	3,823,500
60 days delinquent	64	1,621,200	204	1,011,111	10	444,000	57	1,454,000
90 days delinquent	61	25,710,074	221	2,204,509	67	10,400,000	122	11,440,000
	585	\$ 49,175,522	1,192	\$ 34,795,445	794	\$ 82,874,154	1,355	\$ 109,358,500

Loans which are more than 90 days delinquent have been classified as nonaccrual. Interest on nonaccrual loans has been accrued based on recorded to \$4,900,000 and \$5,514,000 at June 30, 1995 and 1994, respectively. Loans on nonaccrual status which amount to \$1,000,000 in these loans are related to \$1,000,000 in 1995 and \$1,000,000 in 1994. The amount of interest accrued and collected in nonaccrual was \$1,000,000 in 1995 and \$1,000,000 in 1994.

Loans which are 90 days delinquent have been reclassified as restricted. \$1,000,000 and \$1,000,000 at June 30, 1995 and 1994, respectively. Accrued interest on these loans would have been received on these nonaccrual loans \$1,000,000 for 1995 and \$1,000,000 for 1994. The amount of interest accrued and collected in restricted loans was \$1,000,000 for 1995 and \$1,000,000 for 1994.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

**(7) ALLOWANCE FOR LOAN LOSSES**

An analysis of changes in the allowance for loan losses for the years ended June 30, 1995 and 1994 (with combining information at June 30, 1995) follows:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Balance at beginning of year	\$ 14,746,705	1,852,301	16,599,006	16,729,388
Provision for loan losses	1,701,655	-	1,701,655	1,000,000
Reversals of loans charged off	26,403	14,943	41,346	42,749
Losses charged off	(89,416)	(33,887)	(123,303)	(1,289,318)
Additions to allowance for purchased loans	-	-	-	116,187
 Balance at end of year	 \$ 16,385,347	 1,833,357	 18,218,704	 16,599,006

**(8) NET INVESTMENT IN DIRECT FINANCING LEASES AND DEVELOPMENT PROJECTS**

The Authority leases the Unalaska Project under terms of an agreement recorded as a direct financing lease, which transfers the Unalaska Project to the City of Unalaska after all financial obligations have been met. Minimum payments under the agreement are the amounts required to pay the annual debt service costs of the \$7,000,000 Revolving Fund Bonds issued December 10, 1991. The annual minimum lease payments range from \$742,000 to \$789,000.

The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility is placed in service. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the \$27,000,000 Revolving Fund Bonds issued September 30, 1992.

Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the East Day Project to the Authority over fifty years at an interest rate of 6.5%.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

The components of the Authority's net investment in direct financing leases at June 30, 1995 and 1994 (with combining information at June 30, 1995) are:

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
Minimum lease payments receivable	\$ 68,434,743	541,038,763	609,473,506	600,767,043
Less:				
Unearned income	29,917,101	360,851,708	390,768,909	380,749,166
Allowance for lease receivables	-	-	-	2,000,000
Net investment in direct financing leases	\$ 38,517,642	180,187,055	218,704,607	218,017,877

At June 30, 1995, future minimum lease payments receivable for each of the five succeeding fiscal years are:

Year ending	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	Combined
June 30, 1996	\$ 3,259,000	11,958,000	15,217,000
1997	3,678,000	11,958,000	15,636,000
1998	3,676,000	11,958,000	15,634,000
1999	3,671,000	11,958,000	15,629,000
2000	3,669,000	11,958,000	15,627,000

The Authority, under the terms of a Terminal Access Agreement recorded as a direct financing lease, had provided Curragh, Inc. (Curragh) with certain nonexclusive, priority rights in connection with the Starway Terminal. In 1993, Curragh instituted proceedings in Toronto, Ontario, Canada, under the Companies Creditors Arrangement Act (CCAA) and an ancillary proceeding under Section 304 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Alaska. Curragh has been liquidated and substantially all of Curragh's assets have been sold. As a result of Curragh's liquidation, the Authority reclassified the direct financing lease receivable of \$20,207,771 to investment in development projects in the accompanying financial statements in 1994. In August 1995, the Authority entered into an agreement with a Canadian mining company to use 75% of the Starway Terminal for the next seven years for an annual minimum user fee of \$2,582,500 per year; the contract contains optional renewal clauses for two additional seven-year terms. The Authority believes that additional users will be found for the remaining 25% of the Starway Terminal and that the new user will become another user of the Starway Terminal will be found at the end of the seven-year term, and that the recoverability of its investment is assured.

The Authority will lease the Hoah Project to Golden Valley Electric Association, Inc. under a power sales agreement provided for a minimum annual payment of approximately \$4,451,000 beginning when the project is operational, currently scheduled for January 1, 1996.

The Authority will lease user fees in consideration of its interest in the Seward Coal Load-out facility. The user will continue to operate the facility at its own expense.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

**(9) BONDS PAYABLE**

The composition of bonds outstanding at June 30, 1995 and 1994 (with combining information at June 30, 1995) follows (maturity date information is as of June 30, 1995)

	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	1995	1994
<b>VARIABLE DEMAND-FIXED RATE BONDS</b> 7.5% and 7.7%, issued October 30, 1984, maturing through 2004	\$ 6,645,000	-	6,645,000	7,300,000
<b>TAX EXEMPT UMBRELLA BONDS:</b>				
8.7% to 9.3%, issued June 12, 1985	-	-	-	10,365,000
7.7% to 8.125%, issued October 21, 1985, maturing through 2006	6,575,000	-	6,575,000	7,785,000
7.9% to 8.5%, issued December 19, 1985, maturing through 2006	5,730,000	-	5,730,000	6,550,000
8.0% to 8.75%, issued December 19, 1985, maturing through 2012	7,430,000	-	7,430,000	7,790,000
<b>REVENUE FUND BONDS</b>				
7.1% to 7.95%, issued December 13, 1980, maturing through 2010	20,255,000	-	20,255,000	21,035,000
6.45% to 7.3%, issued December 10, 1981, maturing through 2009	5,670,000	-	5,670,000	6,025,000
5.1% to 6.5%, issued September 30, 1982, maturing through 2014	27,225,000	-	27,225,000	28,000,000
4.9% to 6.2%, issued May 17, 1985, maturing through 2007	8,020,000	-	8,020,000	-
<b>REVENUE REVENUE FUND BONDS:</b>				
4.9% to 6.2%, issued June 3, 1983, maturing through 2010	16,405,000	-	16,405,000	23,250,000
4.7% to 5.9%, issued March 30, 1984, maturing through 2009	10,790,000	-	10,790,000	11,435,000
4.7% to 6.2%, issued May 17, 1985, maturing through 2007	9,825,000	-	9,825,000	-
<b>GENERAL MUNICIPAL TRANSPORTATION PROJECT REVENUE BONDS:</b>				
6.1% to 7.0%, issued March 17, 1987, maturing through 2017	-	99,000,000	99,000,000	99,000,000
	\$ 125,520,000	99,000,000	224,520,000	229,710,000

All of the 1995 Variable Demand-Fixed Rate (maturity and bearing date) bonds outstanding at June 30, 1995 are secured by the general and special tax revenues of the Enterprise Development Account and the Unrestricted Economic Development Account. The 1994 Variable Rate bonds are fully secured by cash proceeds of capital revenue bonds and pledged payments to terms of the bond (maturity) contracts. At June 30, 1995, all assets of the Enterprise and the Economic Development Accounts are restricted for use in the Enterprise Project and are pledged to the repayment of the Enterprise Municipal Transportation Project Revenue Bonds which are additionally secured by bond insurance proceeds.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

At June 30, 1995, principal portions of the bonds payable mature as follows:

Year ending June 30	Enterprise Development Activities and Unrestricted Economic Development Projects	Restricted Economic Development Project	Combined
1996	\$ 6,630,000	2,000,000	8,630,000
1997	7,145,000	2,120,000	9,265,000
1998	7,710,000	2,250,000	9,960,000
1999	8,160,000	2,395,000	10,555,000
2000	8,390,000	2,550,000	10,940,000
2001-2005	48,565,000	15,640,000	64,205,000
2006-2010	29,200,000	22,105,000	51,305,000
2011-2015	9,070,000	31,305,000	40,375,000
2016-2017	-	15,935,000	15,935,000
	\$ 124,570,000	\$46,300,000	220,870,000

Enterprise Development Account bond resolution covenants effective June 30, 1995 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus to be less than the lesser of \$200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than \$100,000,000. At June 30, 1995, the Authority has estimated that projected future coverage for any year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of the Healy Project, and excluding the effect of other proposed projects and future construction expenditures. At June 30, 1995, unrestricted surplus was \$436,200,000.

#### (10) BOND REFINANCING AND DEFEASANCE

On May 17, 1995, the Authority issued \$9,825,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all of a bond issue. The refunding resulted in debt service payments approximately \$2,500,000 less than the refunded bonds over the next fifteen years. There was an economic gain of approximately \$1,400,000. Economic gain is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

On March 30, 1994, the Authority issued \$11,435,000 of Refunding Revolving Fund Bonds for the purpose of redeeming all of a portion of three bond issues. The refunding resulted in debt service payments approximately \$4,500,000 less than the refunded bonds over the next sixteen years. There was an economic gain of approximately \$2,900,000. The financial statements reflect a \$473,526 extraordinary loss on refunding for the year ended June 30, 1994.

The Authority recognized an extraordinary loss of \$1,827,562 for the year ended June 30, 1994 from the March 30, 1994 defeasance of \$23,840,000 of bonds. The loss resulted from the deposit of United States Treasury securities costing \$26,663,000 (including accrued interest receivable) into an irrevocable trust, necessary to effect the defeasance transaction. The defeasance resulted in decreased interest expense of \$469,000 in fiscal year 1994 and total future debt service savings of \$36,563,000 over the remaining lives of the bonds defeased (assuming each had been paid out in accordance with their original repayment schedule).

The investment securities deposited into the irrevocable trust and interest earned thereon are sufficient to pay when due the principal or redemption price and interest on the defeased bonds. The bonds mature, or are subject to redemption, at 102% of the principal amount redeemed plus accrued interest prior to maturity on April 1, 1996 and 1997, depending on the particular bond. The source of funds used to purchase the investment securities for the defeasance was the Authority's unrestricted investments. Defeased bonds, aggregating \$19,785,000 and related interest payable at June 30, 1995, remain outstanding but are excluded from the Authority's balance sheet, as are the investment securities.

#### (11) RETIREMENT PLAN

The Authority and its employees participate in the State of Alaska Public Employees' Retirement System (PERS), which is a multiple-employer retirement system offering a defined-benefit pension plan to its participants. All full-time employees are required to participate. Employees are required to contribute 6.75% of their salary to the plan. The Authority is required to contribute an amount that is actuarially determined on an annual basis; the contribution rate for 1995 was 15.17%. The combined contribution requirement for the year ended June 30, 1995 was \$307,040. Covered payroll for the year ended June 30, 1995 was approximately \$1,400,000, consisting substantially all of the Authority's payroll.

# NOTES TO COMBINED FINANCIAL STATEMENTS

JUNE 30, 1995 AND 1994

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age fifty-five or early retirement age fifty for employees hired after June 30, 1986, the normal retirement age is sixty and the early retirement age is fifty-five. The normal annual pension benefit is equal to 2% of the member's highest three-year average monthly compensation for the first ten years of service, 2.25% for the second ten years of service and 2.5% thereafter. All service earned prior to July 1, 1986 is calculated using the 2% multiplier. Employees with thirty or more years of credited service may retire at any age and receive a normal benefit. Major medical benefits are provided without cost to all retirees first hired before July 1, 1986. Members first hired after June 30, 1986 may elect major medical benefits.

The pension benefit obligation, the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The following is information related to the State as an employer taken as a whole and as at June 30, 1994, the most recent actuarial valuation (in millions):

PROJECTED BENEFIT OBLIGATION:		
Current retirees	Terminated participants	\$ 1,294
Current employees		1,008
		2,631
Net assets available for benefits		2,412
Unfunded pension benefit obligation		\$ 219

## 122) COMMITMENTS AND CONTINGENCIES

**Commitments.** As June 30, 1995, the Authority held approximately \$40 million of treasury and participation bonds maturing which had not yet been recorded or applied. Additionally, the Authority had approximately \$94.77 million of investments in trust for the construction of two intercity projects. The major asset liability account is located in the accompanying financial statements.

**Environmental Issues.** The Authority has identified certain parties and alleged liability under both common and contract law, with and without, undergoing environmental assessments. The Authority's policy is to incur no liability when the liability is not clearly established and the costs are reasonably estimable. As June 30, 1995, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

**Other Commitments and Contingencies.** The Authority, from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the retention of audit and legal services, adequate. It is noted in the accompanying financial statements, however, that the Authority is not a defendant in any legal proceedings and is not a party to any contract disputes. In the opinion of management, the financial statements of the Authority will not be affected materially by the future course of any legal proceedings, contingent liabilities and commitments.

## 123) Other Financial Statements

### 123.1) STATE OF ALABAMA

The Authority, the Employment and Export Authority is a joint venture of the State of Alabama performing an essential governmental function and as such is not subject to federal estate income taxation. In accordance with AS 44-6-150 of the Authority will not be subject to federal estate income tax on the nature and extent of the tax exemption of the Authority's property.

All tangible personal and real property owned by Authority (personal and real property) owned by the Authority will be subject to the Mississippi State tax on real property (Mississippi State real property tax).

All other property taxes associated with real property, personal property, and other property owned by the Authority will be subject to the Alabama State tax on real property (Alabama State real property tax).

### 123.2) Other Financial Statements

**Chairman:** Harry J. Butler, Inc., President and Chairman (1995)  
**Vice-Chairman:** Walter H. Butler, Inc., President and General Manager (1995)  
**Other Board Members:** Walter H. Butler, Inc., President and General Manager (1995)  
 Walter H. Butler, Inc., President and General Manager (1995)  
 Walter H. Butler, Inc., President and General Manager (1995)

This report was prepared and reviewed by the Board of Directors of the Authority on June 30, 1995.

This report was prepared and reviewed by the Board of Directors of the Authority on June 30, 1995. This report was prepared and reviewed by the Board of Directors of the Authority on June 30, 1995.

**HCR**

**9**

# FISCAL NOTE

No. 1  
 Bill Version: CS HCR 9(TRA)  
 (H) Publish Date: 2/22/95

STATE OF ALASKA  
 1995 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: Alaska School Bus Driver Appreciation Day  
 \_\_\_\_\_  
 Sponsor: House Transportation Committee  
 Requester: House Transportation Committee

Department Affected: Education  
 BRU: Executive Administration  
 Component: Commissioner's Office

COMPONENT SERIAL NO. \_\_\_\_\_ 185

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	00	00	00	00	00	00

CAPITAL \_\_\_\_\_

REVENUE FUND SOURCE: \_\_\_\_\_

**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTTA						
Other						
<b>TOTAL</b>	00	00	00	00	00	00

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY95) impact: \$ 00

**ANALYSIS: (Attach a separate page if necessary)**

House Concurrent Resolution 9 designates the first Friday in May as "Alaska School Bus Driver Appreciation Day". This resolution will have no fiscal impact on the Department of Education.

Prepared by: Sheila Peterson, Special Assistant Phone: 465-2803  
 Division: Commissioner's Office Date: February 11, 1995  
 Approved by Commissioner: *Mike Maher* Mike Maher, Acting Commissioner  
 Agency: Education Date: \_\_\_\_\_

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COMMITTEE COPY

# SENATE COMMITTEE REPORT

DATE: 2/28/95

FURTHER:

DATE TURNED INTO OFFICE: 3/23/95

Transportation Committee considered CS HCR 9(TRA)

Relating to Alaska School Bus Driver Appreciation Day.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- 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:**

technical change  
new: SCR° \_\_\_\_\_

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Al Adams</i>	<input checked="" type="checkbox"/>	<i>[Signature]</i>	<input checked="" type="checkbox"/>		
<i>Lyle Green</i>	<input checked="" type="checkbox"/>				
CHAIR: <i>Steve Thi</i>	<input checked="" type="checkbox"/>				

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

Department	Date	Zero	Fiscal
<i>Education</i>	<i>2/11/95</i>	<input checked="" type="checkbox"/>	

APPROPRIATION -- no fiscal note

\*Include fiscal notes accompanying Governor's bill

# Alaska State Legislature

House of Representatives



Transportation Committee

## SPONSOR STATEMENT

### HCR 9

Relating to Alaska School Bus Driver Appreciation Day.

House Concurrent Resolution 9 acknowledges the dedication and efforts by the many school bus drivers across the state. Most of us encounter school bus drivers consistently throughout the school year. It is our hope that this resolution will serve as a constant reminder to all Alaskans of the tremendous responsibility we have entrusted them with.



## Alaska School Bus Safety Committee

---

February 8, 1995

Representative Gary Davis  
Rm 15 State Capitol  
Juneau, AK 99801-1182

Dear Representative Davis:

On behalf of the Alaska School Bus Safety Committee, I would like to extend our support of HCR #9 relating to Alaska School Bus Driver Appreciation Day.

School bus drivers hold one of the toughest jobs in the state while receiving very little recognition for their efforts. It is certainly not the hourly wage that keeps good drivers returning year after year! Like the mailman, they perform their duties come rain, sleet or snow, and (unlike the mailman) they do it with their backs to as many as 80 young people at one time. They are on the job as early as 5:00 am in the morning, greeting our young people and giving them safe transport to school.

Those of us in the school bus transportation business appreciate the State's recognition of our bus drivers and their contribution to the health and well-being of our most precious commodity. Thank you for your efforts.

Sincerely,

Penny Little  
Alaska School Bus Safety Committee

Letter of Support

**"School Bus Safety Is A Lifetime Reward"**

**HCR**

**29**

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HCR 29

Revision Date: 2/27/96 Dept. Affected: DOT&PF  
 Title: Student Contest to Name New Ferry BRU: Office of the Commissioner  
 Component: Commissioner's Office  
 Sponsor: Representative Williams  
 Requester: House Transportation COMPONENT SERIAL NO. 530

**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						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
-----------------------------	------------	------------	------------	------------	------------	------------

<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
-------------------------------	------------	------------	------------	------------	------------	------------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF.MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY96) cost: \$ 0.0

**POSITIONS**

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

This resolution would have no fiscal impact on the Department of Transportation and Public Facilities. The department supports the concept of establishing a contest to name the new marine highway vessel.

Prepared by: Sam Kito III Phone: 455-3900  
 Special Assistant  
 Division: Office of the Commissioner Date: 2/27/96  
 Approved by: [Signature] Date: 2/27/96  
 Commissioner  
 Agency: Department of Transportation and Public Facilities

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First Committee of Referral

DATE: 3/22/96

FURTHER:

DATE TURNED INTO OFFICE: 4/12/96

The Transportation Committee considered CS FOR HCR 29(TRA) am

Providing for a contest among the elementary school students of Alaska to name the new ferry of the Alaska marine highway system.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ ( )
- 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>Derek Green</i>	<input checked="" type="checkbox"/>	<i>[Signature]</i>	<input checked="" type="checkbox"/>		
<i>Edwin I. Taylor</i>	<input checked="" type="checkbox"/>	<i>[Signature]</i>			
CHAIR: <i>[Signature]</i>	<input checked="" type="checkbox"/>	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):\*

Department	Date	Zero	Fiscal
DOT/PF	3/7/96	<input checked="" type="checkbox"/>	

APPROPRIATION -- no fiscal note

\*Include fiscal notes accompanying Governor's bill

# Alaska State Legislature



Representative William K. Williams

## Committees:

- House Resources  
Co-Chairman
- World Trade &  
State Federal Relations
- Transportation
- Rules
- Oil & Gas

During Session:  
State Capitol  
Juneau, AK 99801-1182  
(907) 465-3424  
Fax (907) 465-3793

In Ketchikan  
352 Front Street  
Ketchikan, AK 99921  
(907) 247-4672  
Fax (907) 225-8546

RECEIVED APR 09 1996

## Sponsor Statement

### House Concurrent Resolution Number 29

HCR 29 was introduced to encourage the participation of elementary students across the state in naming the new Alaska marine highway vessel.

Vessels of the Alaska marine highway system are, by law, required to be named after glaciers in the state. With the introduction of this resolution I hope to involve the elementary students of Alaska in this process. This will give teachers in the state a vehicle to implement lessons about transportation systems in the state, geography of the state and the legislative process.

The information contained in the resolution outlines the importance of the Alaska marine highway to the state economy. The christening of a new vessel illustrates the continuing dedication to the system by the state. Because the Alaska marine highway impacts the economy of the entire state, I believe it is important to involve the entire state in the naming of this new vessel. I encourage you to support this legislation.

construct, reconstruct, relocate, or extend a federal-aid airport, airstrip, or private air facility requiring the written approval of the commissioner, as provided in this section.

The commissioner may not approve the construction, reconstruction, or extension of a highway under this section if it would constitute a hazard to the traveling public or if it would otherwise not be in the public interest. The commissioner shall adopt regulations to implement the purposes that are consistent with standards established by other agencies. (§ 2 ch 90 SLA 1966)

— Formerly AS 36.30, amended in 1981.

## Chapter 60. Ferry Terminal Facilities.

	Section
Maintenance of facilities	50. Approval of department required for construction
Facilities to highways	60. Existing facilities not affected
Facilities not affected	70. Definitions

The department shall construct, purchase, or lease ferry terminal facilities at locations it selects for the loading and unloading of vehicles under their own power, on and off ferries. The department shall repair and maintain these facilities. Construction of facilities under this section are governed by AS 36.30 (AS 36.30 Code). (§ 3 ch 189 SLA 1959; am § 19 ch 106 SLA 1959)

**Notes.** — The 1986 amendment to the last sentence of this section is hereby general. — For jurisdiction on the subject matter, see 1964 Op. Atty. Gen. 11883. — 35 Am. Jur. 2d 1008.

**Connection of facilities to highways.** The department shall connect ferry terminal facilities with local highway facilities. (§ 3 ch 189 SLA 1959)

**Sec. 19.60.030. Regulations.** The department may adopt regulations governing the use of ferry terminal facilities by the public that it considers necessary and proper in the public interest. (§ 3 ch 189 SLA 1959)

**Sec. 19.60.040. Private enterprise not affected.** A person may construct a ferry terminal facility upon obtaining the approval of the department as to its location. A ferry terminal facility constructed by a person other than the department is subject to reasonable regulations governing its use that the department considers necessary and proper in the public interest. (§ 3 ch 189 SLA 1959)

**Sec. 19.60.050. Approval of department required for construction.** A ferry terminal facility may not be constructed without the approval of the department. (§ 3 ch 189 SLA 1959)

**Sec. 19.60.060. Existing facilities not affected.** A ferry terminal facility in existence and serving the public on January 1, 1959, is not affected by this chapter. (§ 3 ch 189 SLA 1959)

**Sec. 19.60.070. Definitions.** In this chapter:  
(1) "department" means the Department of Transportation and Public Facilities;  
(2) "ferry" means a vessel used in the common carriage of passengers and self-propelled vehicles in intrastate commerce. (§ 2 ch 189 SLA 1959)

### NOTES TO DECISIONS

Applied in *Cole v. State, Dep't of Transp. & Pub. Facilities*, 621 F. Supp. 3 (D. Alaska 1984).

## Chapter 65. Alaska Marine Highway System.

Section  
20. Naming of vessel or facility

**Sec. 19.65.010. Duty station or port change for employees of the Alaska marine highway system.** [Repealed, § 52 ch 59 SLA 1982.]

**Sec. 19.65.020. Naming of vessel or facility.** (a) A vessel or facility of the Alaska marine highway system constructed or acquired by the Department of Transportation and Public Facilities under AS 19.60 — AS 19.65 may be given a name only by law.

(b) A maritime vessel shall bear the name of an Alaska glacier.

**HJR**

**41**

FISCAL NOTE

REQUEST:

Revision Date: Original Affected Agency: \_\_\_\_\_  
 Title: Jones Act Exemption for Bulk Commodities BRU: \_\_\_\_\_  
 Sponsor: Rep. Williams Components: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 2001
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL

REVENUE

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

Estimated FY 95 Impact: 0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

Prepared By: World Trade and State/Federal Relations Cmte. Date: 4/11/95  
 Division: \_\_\_\_\_ Phone: \_\_\_\_\_  
 Approved By: *Ramona Barnes*  
 Agency: Representative Ramona Barnes, Chair Date: 4/11/95

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# Alaska State Legislature



Representative William K. Williams

## Committees:

House Resources  
Co-Chairman  
World Trade &  
State Federal Relations  
Transportation  
Rules  
Oil & Gas

During Session:  
State Capitol  
Juneau, AK 99801-1182  
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Fax (907) 465-3793

In Ketchikan:  
352 Front Street  
Ketchikan, AK 99901  
(907) 247-4672  
Fax (907) 225-8546

## SPONSOR STATEMENT

### HJR 41 — JONES ACT EXEMPTION

Alaska is a great storehouse of the world's finest coal. Because of its high quality and Alaska's strategic geographic location, Alaska coal is well positioned to help meet the growing Pacific Rim demand. Part of that demand is likely to develop in Hawaii and on the west coast of the mainland United States. Particularly important is the growing need for high rank blending coal in the Pacific Northwest.

Unfortunately, the restrictions of the Jones Act create a financial barrier to an Alaska response to markets located in the United States. Under current conditions, Alaska suppliers of coal will be non-competitive with Asian coal shipments to U.S. ports. This harms both Alaska and the United States balance of trade.

HJR 41 asks Congress to carve out of the Jones Act an exemption for Alaska bulk commodities, thus allowing Alaska coal suppliers to respond to new opportunities in the world market for coal. There are currently no U.S. manufactured vessels capable of servicing large scale movements of Alaska coal. Therefore, a Jones Act exemption is an important part of any effort to market Alaska coal, especially since the effort is likely to include markets in the western U.S. and Hawaii.

HJR 41 will send a strong message of support from the legislature to the Alaska coal industry. It will lend support to the Alaska congressional delegation's ongoing effort to represent Alaska interests in Congress. HJR 41 is consistent with state policy set forth in Title 44 which requires the governor to use "best efforts and all available means to persuade the United States Congress to repeal" the Jones Act.

HJR 41 makes good sense for Alaska. I urge its immediate passage.

## Sec. 44.17.040. Department staffs.

## NOTES TO DECISIONS

**Appointment of special prosecutor.** — Neither the Alaska Constitution (Article III, section 22) nor the legislation permitting the establishment of the Department of Law (44.17.010, 44.17.040) limits or deprives the attorney general of the power to appoint a special prosecutor when, in the wide discretion granted, the attorney general believes such an appointment to be in the public interest; the

proper appointment of a special prosecutor in circumstances where the attorney general believes he and the Department of Law are disqualified by a conflict of interest is within the attorney general's discretionary control over the legal business of the state. *State v. Breeze*, Ct. App. Op. No. 1343 (File No. A-4840, 48, 49), P.2d (1994).

## Chapter 19. Office of the Governor.

## Article

1. Powers and Duties (§ 44.19.035)
3. Rural Affairs Commission (§§ 44.19.101 — 44.19.105)
5. Involvement of Young People in Government (§§ 44.19.123 — 44.19.130)
6. Office of Management and Budget (§§ 44.19.144, 44.19.145)
7. Alaska Coastal Policy Council (§ 44.19.151)
8. Yukon-Taiya Commission (§§ 44.19.181 — 44.19.188)
9. Alaska Research Policy Act (§§ 44.19.251 — 44.19.265)
10. Telecommunications Information Council (§ 44.19.504)

## Article 1. Powers and Duties.

## Section

35. Jones act repeal

**Sec. 44.19.035. Jones act repeal.** The governor shall use best efforts and all appropriate means to persuade the United States Congress to repeal 46 U.S.C. 861, et seq., known as the Jones Act. (1983 Initiative Proposal No. 2, § 4; am § 22 ch 126 SLA 1994)

**Effect of amendments.** — The 1994 amendment, effective July 1, 1994, deleted the former second and third sentences, relating to the governor's annual

report concerning the harmful impact of the Jones Act on Alaska commerce and the required time for submission of the report, respectively.

## Article 3. Rural Affairs Commission.

## Section

- 101 — 105. [Repealed]



APR 16 1995

Charlie Boddy  
Vice President Of Governmental Relations

April 12, 1995

The Honorable Bill Williams  
Co-Chairman, House Resources Committee  
Capitol Building - Room 128  
Juneau, Alaska

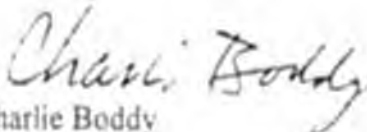
Subject: HJR-41 - A Resolution Supporting an exemption from the Jones Act for bulk commodities, such as coal and coal derived fuels, produced in Alaska.

Chairman Williams:

Usibelli Coal Mine Incorporated would like to take this opportunity to wholeheartedly endorse, and recommend for passage the above referenced House joint resolution. It is very encouraging to see the Alaska legislature recognize an urgent need to provide support to one of the State's evolving resource industries. This assistance is essential if we are to maintain a competitive position in our expanding export market opportunities.

I have enclosed an article from the December 16, 1991 issue of the National Coal Association's "Coal Voice" that discusses the timeliness of rethinking and possibly restructuring the U S maritime policies.

If we can be of further assistance to the committee on this or any other matter, please don't hesitate to call. With best regards, I remain,  
Sincerely,

  
Charlie Boddy

enclosures

ja041295

# Coal News

December 16, 1991 • No. 5073

## U.S. Maritime Policies Should Be Replaced

Our nation's maritime policies have been justified on the basis of two objectives—to enhance America's foreign commerce, and to maintain fleets of vessels and crews necessary for military sealift needs. These policies have failed miserably and should be abolished and replaced. The facts don't lie.

### Column 1

### By Sen. Grassley

In 1950, our U.S.-flag fleet consisted of 1,050 vessels, 56,629 seafaring jobs, and carried 43 percent of America's foreign trade. Today, not even 100 vessels remain in the ocean-going fleet, with fewer than 10,000 jobs, and carrying less than 4 percent of our foreign commerce.

Has America's foreign commerce depended upon the policies and programs supporting our U.S.-flag merchant marine? Obviously not. And, in fact, our foreign commerce has thrived in spite of our wasteful policies. From 1950 to 1985, our foreign trade skyrocketed from 117 million metric tons to 541 million metric tons.

This leaves our U.S.-flag policies dangling precariously on the national defense justification . . . a justification exposed as a complete failure . . . a complete myth . . . by the recent Persian Gulf War. We now see the U.S. Maritime Administration arguing that "maritime support

(See COLUMN 1, page 3)

Charles E. Grassley is the Republican senator from Iowa. His committee memberships include agriculture, budget and finance.



## Study Sees High Cost for Reducing CO2 Emissions

Reducing carbon dioxide (CO<sub>2</sub>) emissions by instituting a carbon tax or other type of user fee would result in excessive costs and questionable results, according to a study released last week.

The report, "The Cost of Controlling Carbon Dioxide Emissions," said that to avoid pos-

"Policymakers need to consider the near term economic implications of large scale carbon dioxide reductions."

—W. David Montgomery  
energy economist

sible global climate change by stabilizing CO<sub>2</sub> emissions would require a carbon tax of \$200 per ton or more and would produce annual losses of 1.7 percent of the gross national product (GNP).

If such a tax were levied, it would equal about \$120 per ton of coal, \$26 per barrel of oil and \$3.20 per thousand cubic feet of natural gas. If this tax were instituted, the GNP loss would be approximately \$95 billion.

While scientists continue work to reduce uncertainties concerning global climate and revise estimates about future climate change, policymakers need to consider the near term economic implications of large

scale carbon dioxide reductions," said Dr. W. David Montgomery, a leading energy economist and a vice president of Charles River Associates. Montgomery prepared the report for the American Petroleum Institute (API), a member of the Global Climate Coalition.

The economic benefits of decreasing factors contributing to global climate change might not appear until the end of the 21st century and could amount to no more than 0.5 percent of GNP, the study says.

In arriving at his analysis, Montgomery reviewed four economic technology studies that use engineering calculations to assess potential energy efficiency gains. These and other technology-based studies offer limited guidance on effective CO<sub>2</sub> emissions policy, according to the study.

"Each of the models offers a  
(See REPORT, Page 2)

### WHAT'S INSIDE:

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Cook Makes '02 Predictions	4

## COLUMN I - By Sen. Grassley

(Continued from page 1)

advocates must take their military argument and turn it toward the economic defense of our country."

One of the most over-used defense arguments is that we must maintain a commercial seafaring force able to man our vessels during time of war. That's nonsense. I say we either devote a certain number of Navy personnel, or create a reserve to handle cargo sealift needs at a fraction of the cost.

What does it cost to maintain those 10,000 seafaring jobs? The Maritime Administration breaks down these jobs into three categories: 2,024 seafaring jobs supported by cargo preference, 2,333 by operating differential subsidies and 5,000 by the Jones Act.

### Cargo Preference's Cost

The Congressional Budget Office determined cargo preference cost American taxpayers \$825 million in fiscal 1991, and operating differential subsidies cost \$225 million. Therefore, cargo preference forces American taxpayers to spend more than \$400,000 per job for our high-priced commercial seafarers.

What do those 5,000 jobs supported by the Jones Act cost Americans? The U.S. International Trade Commission released a study showing that the Jones Act costs American consumers and businesses more than \$10 billion a year. That translates into \$2 million per seafaring job.

Military sealift officials told my office that at the outbreak of the Persian Gulf War, the union contracts for our seafarers contained no provision for war zone bonuses. So these high-priced union seafarers who have been living high off the hog all these years thanks to Uncle Sam, rush to add war zone bonuses requiring that they get double pay while in the war zone.

As an example, if a captain of a commercial U.S.-flag vessel makes \$14,000 per month, he would have received a war zone bonus of \$14,000.

If a commercial captain received \$14,000 in a war bonus, what did a Navy captain get? \$150!

But for U.S.-flag maritime supporters, price is no object. Americans, however, concerned about deficit spending are concerned. And Americans concerned about revitalizing the economy certainly care about a \$10 billion drag on the economy that destroys 2,000 jobs in agriculture, forestry, mining and other industries.

It is something to think about during our recess. It will be something to act upon when we return for the second session of the 102nd Congress.

## Report Says Coal-Fired Utilities' Mercury Emissions 'Insignificant'

A new study published by the Center for Clean Air Policy claims that coal-burning power plants are one of three major sources contributing to atmospheric mercury in the United States, accounting for about one-third of emissions.

However, these levels are insignificant compared to existing atmospheric quantities, the report adds.

Mercury emissions transform into a gas and can travel by wind hundreds of miles.

"Electric Utilities and Long Range Transport of Mercury and Other Toxic Air Pollutants" says the worldwide contribution of fossil fuel is estimated to be about 5,000 tons a year from burning coal, natural gas and the refining of petroleum products.

The study does note that a major source of mercury is the natural degassing of the earth's crust, which is estimated to be on the order of 25,000 to 150,000 tons per year. It also

is estimated that man-made sources of mercury average 8,000 to 10,000 tons a year.

According to the report, "the jury is still out on just how large a national emission reduction is needed to protect sensitive resources."

The report recommends the Environmental Protection Agency consider base potential regulations of utility mercury emissions on a national emissions cap and trading system similar to the recently enacted acid rain control requirements.

Other suggestions included that state and federal governments enact policies promoting cost-effective energy efficiency improvements; the expansion of the Department of Energy's clean coal technology program to help identify and develop technologies to reduce mercury emissions and requiring electric utilities to report and make public estimates of their toxic emissions.

## Bush Lights National Christmas Tree

President and Mrs. Bush were on hand for the lighting of the National Christmas Tree last week as part of the annual National Christmas Pageant of Peace celebration.

For the second year in a row, NCA has participated in the 67-year tradition by providing the 17 smaller pine trees surrounding the national tree. The trees represent each state and U.S. territory.

The blue spruce trees were grown on land mined and reclaimed by R&F Coal Co., a subsidiary of Shell Mining Co.

"It's wonderful to start the Christmas season in such a positive way," Interior Secretary Manuel Lujan Jr. said during a planting ceremony last month. "We are the chief

stewards of the land at Interior and coal makes us look good as they continue the good practice of reclaiming the land."

The pictured tree is in front of NCA's office building accompanied by a sign describing coal's contribution to the pageant and inviting passersby to visit the tree display.



# Alaska pays dearly for punitive Jones Act

Discrimination against Alaska's interests is nothing new when it comes down to congressional action. Most would agree that in recent years economic prospects for Alaska were dealt severe body blows by Jimmy Carter's invoking of the Antiquities Act followed by passage of the Alaska National Interest Lands Conservation Act of 1980. The latter, to be sure, is a flawed polyglot of prejudicial land ownership and management units.

One infamous act of Congress has been in effect for almost 70 years during which time Alaska and her citizens have been grossly discriminated against. I refer to the Merchant Marine Act of 1920 or Jones Act, the impact of which has, over the years, greatly increased living costs for Alaskans while minimizing the economic return on Alaska resource products such as oil shipped south.

In essence the Jones Act reserves American river, coastal and contiguous shipping to American flag carriers. The act created a monopoly and shielded Jones Act-protected vessels from competitive forces. The protection afforded by the Jones Act is a subsidy of the difference between open-market



There's a reward here do not necessarily represent those of the Daily News-Miner

rates and those of Jones Act carriers borne not by the federal government but by the people of Alaska. Since Alaska is most affected by the Jones Act, it follows that Alaskans are disproportionately paying the subsidy. Despite the inequities of this law there is only a remote possibility of the repeal of all or part of the act. This is because for most senators and congressmen it is simply not an issue of concern.

Supporters of the Jones Act have for years stressed the argument that a strong United States owned merchant marine is needed in times of national emergency and hostilities. In reality the desired effect has not occurred because, whereas, the world's merchant fleet tonnage has risen almost 10

times since World War II, the U.S. flagged merchant fleet has halved in size! If there is merit to the national defense concern, there is surely a question of equity to be addressed. It seems only fair to me that the expense of the subsidy for the luxury of maintaining the Jones Act should be borne by the entire country, not just a few adversely impacted areas such as Alaska.

How exactly does Alaska suffer at the hands of the Jones Act? One of the most dramatic impacts is on oil revenues. The shipping costs associated with Jones Act tariffs decrease the "wellhead" price for Alaska oil. Each extra dollar incurred because of inflated Jones Act rates decreases the wellhead price by the same amount. It doesn't take a genius to figure out that we—every single Alaskan—are big losers because it is the wellhead price upon which state royalties and taxes are levied. At 28 cents on the dollar, the revenue losses attributable to the Jones Act rapidly add up. In recent years it has been stated by the Alaska Statehood Commission that the Jones Act alone was responsible for reduction in the wellhead value of Alaska crude of between \$20 million and

\$650 million, representing a royalty revenue loss to Alaska in the order of \$60 million to \$190 million per year. Alaska certainly pays dearly for this punitive and anachronistic act of Congress.

In the tourism stakes, it is not so much Alaska as Seattle that loses big because of the Jones Act. With the exception of the state ferry system, all the ships that cruise the Inside Passage and Alaska waters leave from Vancouver rather than Seattle. This is because these largely foreign-owned, foreign built and foreign crewed vessels are prevented by the Jones Act from operating out of Seattle. The net result is a loss to the Seattle economy of tens of millions of tourist dollars each year and perhaps as much as \$100 million in purchases of supplies and services by the cruise operators.

Some rather impressive numbers are involved in any discussion of the Jones Act representing, in some instances, enormous losses to you and me—the people of Alaska.

Alaska coal could be another commodity adversely affected by the Jones Act. Few may realize that Hawaii could, but for the Jones Act, develop into an important

market for coal. Hawaii is of course a major beneficiary of Alaska tourist dollars and it is a natural market for Alaska's resources, including coal. Hawaii is experiencing rapid demand growth for electricity with the focus for new generation capacity favoring coal rather than higher-cost oil or liquid natural gas. New coal fired generating capacity is under construction and plans have been made to convert oil fired boilers to burn coal. In the past, coal has been imported into the Islands from Canada and Australia, essentially because U.S. coal is priced out of the market through the Jones Act. Recently a Canadian supplier has been awarded a 13 year contract to supply 1.2 million tons of coal per year beginning in 1992 to a cogeneration plant in Oahu. The reality of such situations highlight the absurdity of the Jones Act.

There is no doubt that Alaska and her people could benefit enormously from relief from this iniquitous Jones Act.

John Sims served as director of the state Office of Mineral Development and is presently vice president of marketing for Puffell Coal Mine, Inc.

# CORRECTION

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State of Alaska

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John  
Sims

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There is no doubt that Alaska and her people could benefit enormously from relief from this inequitable Jones Act.

John Sims served as director of the State Office of Mineral Development and is presently vice president of marketing for United Coal Mine, Inc.



# ALASKA MINERS ASSOCIATION, INC.

501 W. Northern Lights Blvd., Suite 203, Anchorage, Alaska 99503 FAX: (907) 273-7997 Telephone: (907) 276-5347

April 25, 1995

Honorable Steve Riegler  
Chairman  
Senate Transportation Committee  
State Capitol  
Juneau, AK 99811

RE: House Joint Resolution 41, Exemption from the Jones Act

Dear Senator Riegler,

On behalf of the Alaska Miners Association I wish to go on record in support of House Joint Resolution 41 which opposes application of the Jones Act to Alaska bulk commodities and requests that the Congress pass legislation exempting Alaska bulk commodities from the Act. These bulk commodities include coal, coal derived fuels, gravel, crushed stone, dimension stone, metal concentrates, iron ore, etc.

Alaska has a cost disadvantage when compared with other parts of the country and the Jones Act results in an even greater burden. At the same time, Alaska has an abundance of these bulk commodities and the existence of the Jones Act forms an artificial barrier to our trade with the other states.

Although the effect on coal may be obvious, similar negative effects exist for other commodities. These would include gravel, crushed stone and dimension stone that may otherwise be sold into other states, especially Hawaii and to metal concentrates being shipped into the Pacific Northwest for processing.

Even though a Midrex iron ore reduction plant was not sited in Alaska, the State's ability to compete for the siting of such a plant would benefit from elimination of the Jones Act restrictions. The environmentally preferred processed iron ore from such plants, if located in Alaska, could be marketed to the steel mills and foundries in Oregon and California with significant benefits to the environment in those locations.

Thank you for your consideration of this Resolution and we urge its passage.

Sincerely,

Steven C. Barrell, P.E.  
Executive Director

cc: Representative Williams  
Senator Ted Stevens  
Senator Frank Murkowski  
Congressman Don Young

**HJR**

**42**

**FISCAL NOTE**

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. HJR 42 AM

Revision Date: \_\_\_\_\_ Dept. Affected: DOT&PF  
 Title: Relating to Regulation of Water Camers BRU: Office of the Commissioner  
 Serving Alaska: \_\_\_\_\_ Component: Commissioner's Office  
 Sponsor: House Transportation Committee  
 Requester: House Transportation Committee COMPONENT SERIAL NO. 530

**Expenditures/Revenues (Thousands of Dollars)**

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
<b>CHANGE IN REVENUES ( )</b>						

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

The Department of Transportation and Public Facilities supports the intent of this legislation. It is the desire of the Department to have a Federal agency responsible for oversight and regulation of the shipping industry which integrally connects Alaska to the lower 48 states. If there is a reorganization of Federal DOT, maintaining local district and regional offices is important. The established communication links should remain in place.

Prepared by: Sam Kcho III Phone: 485-3904  
 Division: Commissioner's Office Date: 4/17/95  
 Approved by Commissioner: [Signature] Date: 4/26/95  
 Agency: Department of Transportation and Public Facilities

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# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. HJR 42

Revision Date:	Dept. Affected: <u>Dept. of Transportation &amp; PF</u>
Title: <u>Relating to Regulation of Water Carriers</u>	BRU: <u>Office of the Commissioner</u>
Serving Alaska	Component: <u>Commissioner's Office</u>
Sponsor: <u>House Transportation Committee</u>	
Requester: <u>House Transportation Committee</u>	COMPONENT SERIAL NO. <u>530</u>

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES</b>						
---------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
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<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ 0.0

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** *(Attach a separate page if necessary)*

The Department of Transportation and Public Facilities supports the intent of this legislation. It is the desire of the department to have a Federal agency responsible for oversight and regulation of the shipping industry which integrally connects Alaska to the Lower 48 states.

This legislation has no anticipated fiscal impact to the State DOT&PF

Prepared by: Saor Kito III  
 Division: Commissioner's Office  
 Approved by Commissioner: [Signature]  
 Agency: Department of Transportation and Public Facilities

Phone: 465-3904  
 Date: 4/17/95  
 Date: 4/15/95

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# SENATE COMMITTEE REPORT

DATE: 4/26/95

FURTHER:

DATE TURNED INTO OFFICE: 4/27/95

Transportation Committee considered HOUSE JOINT RESOLUTION NO. 42 am  
 Relating to regulation of water carriers serving Alaska.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- 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 change  
 new: SCR<sup>o</sup> \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Philip L. Taylor</i>	✓		
		<i>Syda Green</i>	✓		
CHAIR: <i>Steve Thur</i>	✓				

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal

DOT PF	4/2/95	✓	

**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

DOT PF	4/2/95	✓	

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# Alaska State Legislature

## House of Representatives



### Transportation Committee

## SPONSOR STATEMENT

### HOUSE JOINT RESOLUTION 42

Relating to regulation of water carriers serving Alaska.

House Joint Resolution 42 urges Congress to transfer the current regulatory system for water transportation between Alaska and the Lower 48 from the Interstate Commerce Commission to the United States Department of Transportation.

Congress is currently considering legislation that would repeal the existing authority of the Interstate Commerce Commission to regulate water carriers. Considering Alaska's significant dependence on water transportation, the abolishment of this regulating authority would eliminate the current forum for shipper complaints and tariff filing.

HJR 42 appears to have garnered wide support from both the shippers and their clients. It seems that this particular form of regulation has not been overly intrusive and benefits all parties concerned.



April 19, 1995

The Honorable Gary Davis  
Alaska House of Representatives  
Mail Stop 3101, Room 420  
Juneau, Alaska 99801

Re: House Joint Resolution No. 42

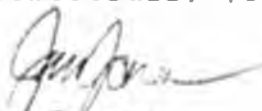
Dear Representative Davis:

We support efforts to transfer the current regulatory system for water transportation between Alaska and the 48 contiguous states from the ICC (should it be abolished) to the Department of Transportation (HR 42).

We believe that certain controls on tariff filings and a mechanism to deal with complaints should be preserved. The shipping public and transportation carriers need this stability.

Lynden Transport, Alaska West Express, and Alaska Marine Lines (Lynden subsidiaries), all support HR 42.

Respectfully yours,



Jim Jansen  
President

JJ:inc

# SeaLand

STUART R. BREIDBART

SeaLand Service, Inc  
150 Allen Road  
Liberty Corner, New Jersey 07938

Vice President, Law and  
Regulatory Affairs  
(908) 604-3202  
(908) 604-3110 (Fax)

VIA FAX (907-465-3835)

April 7, 1995

Mr. Darin Morgan  
Office of Alaska State Representative  
Cery L. Davis

Re: Regulation of Carriers Serving Alaska

Dear Mr. Morgan:

Thank you for providing us with the opportunity to review the draft House Joint Resolution relating to regulation of water carriers serving Alaska.

Confirming our telephone conversation, Sea-Land supports the proposal to transfer the current regulatory system for transportation between Alaska and the 48 contiguous states from the Interstate Commerce Commission to the U.S. Department of Transportation.

If you have any questions or if we can be of assistance, please contact me or Jim McKenna, our Alaska General Manager in Anchorage. Jim can be reached at 907-263-5600.

Sincerely,



SRB/bc

cc: ANCHORAGE - J. McKenna

LETTERS OF SUPPORT

Mailing Address: P.O. Box 2566, Elizabeth, New Jersey 07207  
(908) 558-6000



# TOTEM OCEAN TRAILER EXPRESS, INC.

1100 OLIVE WAY, SUITE 1100 • SEATTLE, WASHINGTON 98101

P.O. BOX 24908 • SEATTLE, WASHINGTON 98124

PHONE 206 428-4343 • FAX (206) 628-9245

Robert P. Magee  
President

March 8, 1995

The Honorable Don Young  
United States House of Representatives  
2331 Rayburn House Office Building  
Washington, DC 20515-0201

VIA FAX 202-225-0425

Attention: Chris Fluhr

Dear Congressman Young:


I understand that the House Committee on Transportation and Infrastructure will soon be marking up legislation that could repeal all regulation of the Alaska trade. I believe this would be a serious mistake and urge you to support efforts to transfer the current regulatory system for Alaska from the Interstate Commerce Commission to the Department of Transportation.

TOTE is committed to serving the needs of Alaskans. Our Alaskan customers — particularly small businesses — tell us that they want to preserve tariff filing and the other essential elements of the current regulatory system in Alaska. Our customers are willing to pay a fair price for good service, and we believe we provide them with excellent service. Our customers also believe that the rates they pay should not be subsidizing someone down the street or across the ocean, and that publicly filed tariffs are the best way to achieve that objective. I have to agree with that.

I also agree with you that we do not need additional federal bureaucracy, but water transportation to Alaska is an area where there is a clear need and necessary role for the federal government. The ICC has provided regulation that has not been overly intrusive, but has assured fairness and provided a forum for shipper complaints. It should not be expensive to transfer the current system. There is no good reason that it should take more than one full time Department of Transportation employee to take over the entire system as it relates to Alaska.

Last fall TOTE supported the Alaska delegation in its successful efforts to retain tariff filing by water carriers in the Alaska, Hawaii, Puerto Rico and Guam trades, even though tariffs were eliminated in the lower-48. That was sound public policy then and it still is. I again urge you to preserve the current ICC regulatory system for Alaskans and to transfer it to the Department of Transportation. Please contact me if you have any questions or if I can provide you with any additional information.

Very truly yours,

  
Robert P. Magee  
President & CEO

# ALASKA MOVERS ASSOCIATION

224 MINNESOTA DRIVE, ANCHORAGE, ALASKA 99503

April 9, 1995

Honorable Don Young  
United States House of Representatives  
2331 Rayburn House Office Building  
Washington, DC 20515-0231

Attn: Chris Fluhr

Dear Congressman Young:

The Alaska Movers Association (AMA) is concerned about the planned demise of the ICC as it relates to the regulation of water carriers in the Alaska trade.

The AMA represents agents and van lines serving the Alaska moving industry. The majority of its members are small Alaska owned businesses.

We are concerned because of the oligopolistic market power of the two major water carriers and their ability to manipulate freight rates without proper governmental checks.

The ICC has required the filing of tariffs by Sealand and TOTE and this process has to some extent prevented oligopolistic market price control by these carriers.

We believe that both carriers are good corporate citizens and that neither one intends to abuse their economic power. However, we feel that some tariff protections is in the best interests of the Alaska consumer. The ICC has provided industry with the legal protection necessary to publish tariffs and we feel that this is still important for Alaska.

We believe that these functions of the ICC can be given to the FMC or the DOT and we would appreciate your looking into it.

Sincerely,

Greg Wakefield,  
President

cc: Jeff Neek TOTE



# Anchorage Cold Storage Company

A DIVISION OF THE ODOM CORPORATION

Fine Foods and Beverages

40 WEST FRONT AVENUE	13000 LPGA - DENALI	ENTERPRISE ST
ANCHORAGE, ALASKA 99501	ANCHORAGE, ALASKA 99507	ANCHORAGE, ALASKA 99507
PHONE 273-0500	PHONE 273-0500	PHONE 273-0500

April 10, 1995

Honorable Ted Stevens  
 United States Senate  
 522 Hart Building  
 Washington, DC 20510-0201

Dear Senator Stevens

I am writing you to urge opposition to any legislation that would repeal ICC regulations of water carriers in the Alaska trade.

The Odom Corporation does business throughout the entire state of Alaska depending on water freight carriers in one form or another to get these goods from the lower 48. To Anchorage we receive as many as 75 van loads a week from Tacoma. As you can imagine, freight cost affects the bottom line of our business. You may or may not know that in the late '50's my father, Mill Odom, got involved and later owned the Alaska Freight Lines Company. His purpose in doing this was to prevent the Alaska Steam Ship Company from having a lock on the majority of the business in the freight coming to Alaska, and he didn't want to be at the mercy of one shipping company.

I'm afraid without ICC regulations that the larger of the two dominant freight haulers would undercut freight rates to a point where the lesser freight company could not operate profitably. This may leave us in the unfavorable position of having only one major shipper servicing Anchorage. On the other hand, it could be argued that the shippers could raise prices to whatever the market would bear. This could be just as devastating a situation - not just for wholesalers like myself paying higher freight rates - but retailers and consumers paying as well. When there's only two main players in the market, it doesn't leave you with any other alternative but to pay their asking price.

I hope you take all this into account when considering your vote on any legislation regarding ICC.

Sincerely,

ANCHORAGE COLD STORAGE COMPANY

William L. Odom  
 Executive Vice President

WLO/mj

# ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnowacka Drive • Anchorage, Alaska 99503 • PHONE (907) 276-1149 • FAX (907) 274-1846

April 12, 1995

Hon. Don Young  
United States House of Representatives  
2331 Rayburn House Office Building  
Washington, DC 20515-0201

Attn: Chris Fiehn

Dear Congressman Young, "Mr. Chairman"

I am writing on behalf of the three-hundred companies that represent the membership of Alaska Trucking Association. The purpose of this letter is to encourage you to oppose any legislation that would repeal ICC regulation of water carriers in the Alaska market.

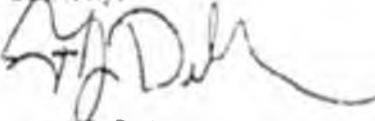
The goods needed by Alaskans, are brought up by ships and distributed by trucks throughout the state of Alaska. Alaska Trucking Association members deal on a daily basis with all the major water carriers in the state. It is our belief as an association that the lack of ICC oversight would be detrimental to the citizens and the economy of Alaska.

Transportation's systems do not fair well under conditions of unbridled competition. The overall importance of transportation would seem to indicate oversight of such transportation operations as a legitimate government function.

The filing of tariffs and the fact that there is someone for a small shipper or trucker to turn to if there is a dispute further bolsters the argument for continued ICC oversight.

Please have your staff contact me Den if I can be of any further assistance on this issue and again please oppose any legislation that would repeal ICC regulation of water carriers in the Alaska market.

Sincerely,



Frank J. Dillon  
Executive Director,  
Alaska Trucking Association

P.S. If it cannot continue to be regulated by ICC perhaps there is another existing agency that could shoulder the task.

