DENALI COMMISSION

Analysis of R&R Accounts as Highlighted in the FY2012 Second Half Semi-Annual Report to Congress

June 12, 2013

DENALI COMMISSION
510 L Street, Suite 410, Anchorage, AK 99501, Tel 907.271.1414, Fax 907.271.1415
Toll Free 888.480.4321 www.denali.gov

Executive Summary

The Denali Commission (Commission) is an independent federal agency based on an innovative federal-state partnership designed to provide federal services in the most cost-effective manner possible. The Commission was established by The Denali Commission Act of 1998 (Title III, P.L.105-277, 42 USC 3121), which recognized the need for a coordinated approach to address the vital health and infrastructure needs of Alaska communities, particularly isolated Native villages and other communities lacking access to the national highway system, reliable and affordable power, adequate health care facilities and other contributors to achieving economic self-sufficiency.

By creating the Commission, Congress mandated that the Commission and its partners work together to find new and innovative solutions to the unique infrastructure and economic development challenges in America's most remote communities. The Commission's mission is to partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska's basic infrastructure.

The Inspector General Act Amendment of 1988 (PL 100-504) requires the Commission to maintain an independent Office of Inspector General (OIG), which reports to the Federal Co-Chair and Congress. The Commission's OIG writes two semi-annual reports to Congress each year. In the FY2012 Second Half Semi-Annual Report, concerns were raised regarding a Commission business plan requirement for bulk fuel tank farm projects which required renewal and replacement (R&R) accounts to support the new infrastructure projects. The requirement is not based on statute or regulation, rather it is considered good business practice. The OIG concerns centered around the Commission's oversight of the accounts, more specifically:

- Were the R&R accounts created, have they been funded, and have they been used for their intended purpose?
- By requiring the creation of R&R accounts and periodic submission of financial statements by project owners and operators, has the Commission inadvertently put itself in a position to potentially be held liable for the facilities in perpetuity?
- If the R&R accounts were not established or being utilized as envisioned, has the Commission neglected its commitment to sustainable infrastructure, outlined in Resolution 01-15?

This report addresses the first bullet above, and while the other two concerns are raised here they will not be discussed in this document.

The subsequent sections of this report provide additional background and conclusions from the research completed as a result of the OIG report. In summary, the following conclusions are offered:

- The OIG raised concerns regarding the Commission's management of Renewal and Replacement (R&R) accounts, which are effectively a municipal or tribal enterprise fund, that grantees of certain energy projects were required by the Commission to create and fund (again, the requirement is not based in statute or regulation). After contacting the grantees of these projects, it appears that approximately half have created the accounts.

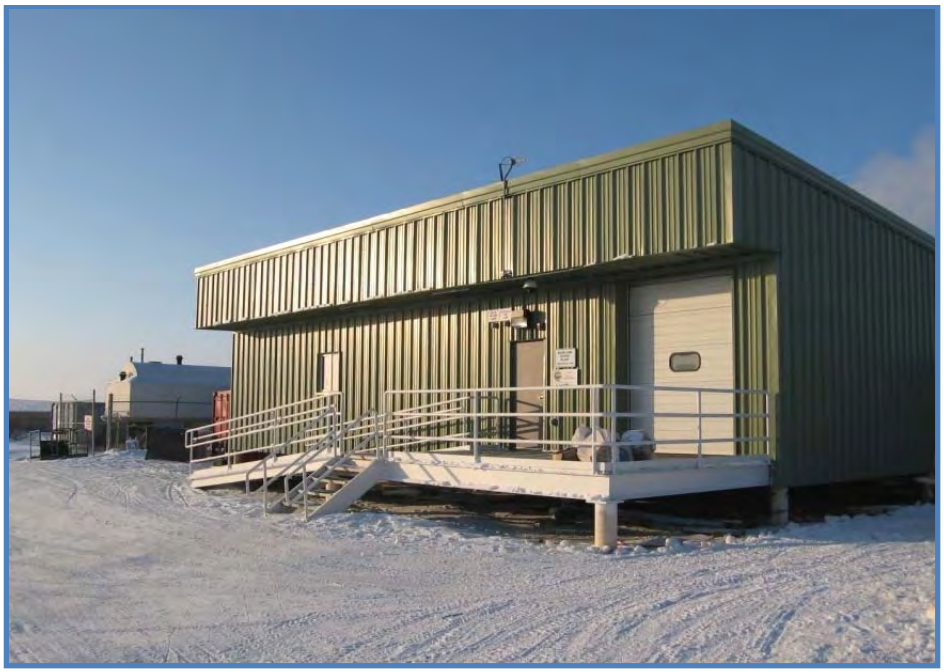
- While the OIG report focused on R&R accounts, the investigation also found evidence of a number of other measures which the Commission has undertaken to promote sustainable infrastructure in rural Alaska, including Operations and Maintenance (O&M) accounts and Spill Response accounts.
- Based on favorable responses from the grantees, the Commission ought to at least encourage grantees to create enterprise accounts to fund the long-term repair and replacement of facilities, and should work with its partner organizations to ensure an optimum and uniform approach to this process.

The following paper outlines at more length the issue at hand, the research process, the findings, and recommendations for the Commission's future approach to the question.

Introduction

The Energy Program was the first program at the Commission. The intent of the program is to provide code-compliant bulk fuel storage and reliable electrification throughout rural Alaska, particularly for communities "off the grid" and not reachable by road or rail. Many village communities across Alaska continue to rely on stand-alone, diesel-powered generation systems for electricity production. In conjunction, bulk fuel facilities are essential for heating, electrical generation, and transportation needs. Most rural Alaska communities receive their goods during the summer via barge service, including heating fuel and fuel for the electrical generators. Consequently, the bulk fuel storage facilities must be sized for storage of at least nine months of fuel, the time span between when rivers freeze over and until they thaw, for uninterrupted service.

Below are representative photos of a Commission funded bulk fuel storage facility and a community power plant.



The Commission's emphasis on sustainability is longstanding and integral to its goals. In September 2001, the Commission passed Resolution No. 01-15 outlining new sustainability guidelines for its infrastructure projects and requiring the completion of business plans before construction funding was awarded on most projects. [1] Prior to this, the Commission had not required business plans. The resolution notes that sustainability is one of the Commission's "core values" and acknowledges that both the U.S. Congress and the Alaska State Legislature had called on the Commission to prioritize sustainability and avoid creating unfunded future liabilities for either the State or U.S. governments. As such, the resolution requires that "before Denali Commission funding is applied to the construction of any infrastructure project there must be a sound business plan."

The Commission has defined sustainability as:

> *"…the ability of a recipient or applicant to demonstrate the capacity, both administratively and financially, to provide for the long-term operation and maintenance of a facility…Sustainability includes all costs associated with management, operation and maintenance, renewal and replacement necessary to maintain a given level of service…"*[2]

A few months later, in April 2002, the Commission released its "Rural Alaska Energy Infrastructure Criteria for Sustainability," which outlines the specific sustainability requirements for energy projects. Along with it, the Commission published two additional papers, one outlining the criteria for bulk fuel facilities and another for electric utility facilities. The requirements related to business plans are:

1. The facility shall be operated "in substantial conformance with a business and work plan under a margin that is consistent with its long-range financial needs."

[1] See attachment.
[2] See www.denali.gov

2. "A renewal and replacement fund will be established and sufficient funds will be accrued to cover the projected costs of major repairs, renovations, renewals, and replacement of major plant components."
3. For the bulk fuel facilities, "adequate revenue will be available to cover all expenses and provide for renewal and replacement of plant to be financed by debt, equity, or a combination of debt and equity."[3]

The Commission's energy program has used a number of different methods to promote sustainability, including the following:

- requiring that grantees participate in the development of a business operating plan, which outlines how they will successfully operate and manage the facility, prior to receiving construction funding;
- requiring the primary operator of each facility to sign a secondary operator agreement, agreeing that if the facility is not operated sustainably and in accordance with the business operating plan, the Commission has the right to select a new, or secondary operator;
- requiring that the grantee commit to funding the facility through the creation of two enterprise bank accounts, an "Operations and Maintenance" (O&M) account and a "Renewal and Replacement" (R&R) account, which are to be financed with local funds;
- through its partnership with the Alaska Village Electric Cooperative (AVEC), requiring recipients of bulk fuel tanks to fund spill reserve accounts, designed to help pay for any costs incurred as a result of an oil spill in the future;
- identifying in the business operating plan available training courses for the operations and maintenance of applicable facilities, as well as municipal training courses; and,
- encouraging the creation of Rural Alaska Fuel Services (RAFS), a not-for-profit corporation designed to help communities operate their tank farms in accordance with state and federal regulations.

When funding bulk fuel storage and electric utility projects, the Commission has worked largely through two major program partners: the Alaska Energy Authority (AEA) and Alaska Village Electric Cooperative (AVEC). AEA is a state-owned corporation whose mission is to reduce energy costs in Alaska. AVEC is a non-profit electric utility, owned by the residents of fifty-five member villages throughout Alaska. In projects which involve one of the partner organizations, they are responsible for coordinating the planning, construction, and funding of the facility in question.

Table 1 below illustrates the amount that the Commission has invested in bulk fuel storage upgrades (BFU) and rural power system upgrade (RPSU) projects with its energy program partners.

Table 1: Energy Program Investment

	BFU	**RPSU**
AEA	$119,473,458	$93,143,841
AVEC	$91,026,771	$36,472,568
Totals	**$210,500,229**	**$129,616,409**
Grand Total	**$340,116,639**	

[3] http://www.denali-oig.org/Images/Denali-OIG-report-Nov-2012.pdf

Business Operating Plan

After passage of the 2001 sustainability resolution, the Commission began requiring business plans. While there are small variations between the plans prepared, particularly between those created in partnership with AEA and those with AVEC, the majority follow a very similar template. Below are the outlines of the typical business plan's approach.

A typical business plan has several sections which include: an executive summary, overview of the community, description of the project, identification of the owner and operator and details of their qualifications, description of training opportunities for operating and maintaining the facility, details the O&M and R&R responsibilities including spreadsheets that reflect a savings schedule and anticipated costs, and regulatory compliance agencies.

Regardless of the type of project, each plan identifies one or more owners and the primary operator, which may be the same entity. The primary operator is responsible for the day-to-day operations and long-term sustainability of the facility, including the annual O&M needs and the long-term R&R needs of the facility. In order to fulfill this responsibility, most of the business plans require the primary operator to create two separate enterprise funds, one to fill each of these roles. These accounts are to be funded by the addition of a small surcharge on the sale of fuel or electricity, for bulk fuel or RPSU projects respectively. In consolidated bulk fuel storage facilities, where there are multiple tanks and more than one owner, a single participant is designated to create the accounts and the other(s) is(are) directed to contribute a certain percent based upon their percentage of tankage.

O&M costs are those that occur regularly, or periodic costs of less than $5,000. For example, normal inspections, small repairs, salaries, and administrative costs are all considered O&M costs. Annual O&M costs are generally estimated to be in the tens of thousands. Many of the plans require a separate bank account for O&M costs, while others merely require separate accounting. The business plans include tables with estimations of annual O&M costs, assumed gallons sold annually, and the per gallon charge that would be needed to cover the annual costs. For example, below are the 40-year O&M cash-flow projections for a representative bulk fuel tank farm facility.

Year	Annual O&M Expense				Assumed Throughput (Gallons)				Per Gallon O&M Payment		
	Corporation	Utility	LKSD	Total	Corporation	Utility	LKSD	Total	Corporation	Utility	LKSD
1	$ 13,883	$ 9,137	$ 1,599	$ 24,618	160,000	105,000	20,000	285,000	$ 0.087	$ 0.087	$ 0.080
2	$ 14,091	$ 9,274	$ 1,623	$ 24,987	164,000	107,625	20,500	292,125	$ 0.086	$ 0.086	$ 0.079
3	$ 14,302	$ 9,413	$ 1,647	$ 25,362	168,100	110,316	21,013	299,428	$ 0.085	$ 0.085	$ 0.078
4	$ 14,517	$ 9,554	$ 1,672	$ 25,743	172,303	113,074	21,538	306,914	$ 0.084	$ 0.084	$ 0.078
5	$ 14,734	$ 9,697	$ 1,697	$ 26,129	176,610	115,900	22,076	314,587	$ 0.083	$ 0.084	$ 0.077
6	$ 14,955	$ 9,843	$ 1,722	$ 26,521	181,025	118,798	22,628	322,451	$ 0.083	$ 0.083	$ 0.076
7	$ 15,180	$ 9,991	$ 1,748	$ 26,918	185,551	121,768	23,194	330,513	$ 0.082	$ 0.082	$ 0.075
8	$ 15,408	$ 10,140	$ 1,774	$ 27,322	190,190	124,812	23,774	338,775	$ 0.081	$ 0.081	$ 0.075
9	$ 15,639	$ 10,293	$ 1,801	$ 27,732	194,944	127,932	24,368	347,245	$ 0.080	$ 0.080	$ 0.074
10	$ 15,873	$ 10,447	$ 1,828	$ 28,148	199,818	131,131	24,977	355,926	$ 0.079	$ 0.080	$ 0.073
11	$ 16,111	$ 10,604	$ 1,855	$ 28,570	201,816	132,442	25,227	359,485	$ 0.080	$ 0.080	$ 0.074
12	$ 16,353	$ 10,763	$ 1,883	$ 28,999	203,834	133,766	25,479	363,080	$ 0.080	$ 0.080	$ 0.074
13	$ 16,598	$ 10,924	$ 1,911	$ 29,434	205,873	135,104	25,734	366,711	$ 0.081	$ 0.081	$ 0.074
14	$ 16,847	$ 11,088	$ 1,940	$ 29,875	207,931	136,455	25,991	370,378	$ 0.081	$ 0.081	$ 0.075
15	$ 17,100	$ 11,254	$ 1,969	$ 30,323	210,011	137,820	26,251	374,082	$ 0.081	$ 0.082	$ 0.075
16	$ 17,356	$ 11,423	$ 1,999	$ 30,778	212,111	139,198	26,514	377,823	$ 0.082	$ 0.082	$ 0.075
17	$ 17,617	$ 11,594	$ 2,029	$ 31,240	214,232	140,590	26,779	381,601	$ 0.082	$ 0.082	$ 0.076
18	$ 17,881	$ 11,768	$ 2,059	$ 31,708	216,374	141,996	27,047	385,417	$ 0.083	$ 0.083	$ 0.076
19	$ 18,149	$ 11,945	$ 2,090	$ 32,184	218,538	143,416	27,317	389,271	$ 0.083	$ 0.083	$ 0.077
20	$ 18,422	$ 12,124	$ 2,121	$ 32,667	220,723	144,850	27,590	393,164	$ 0.083	$ 0.084	$ 0.077
21	$ 18,698	$ 12,306	$ 2,153	$ 33,157	222,931	146,298	27,866	397,095	$ 0.084	$ 0.084	$ 0.077
22	$ 18,978	$ 12,491	$ 2,185	$ 33,654	225,160	147,761	28,145	401,066	$ 0.084	$ 0.085	$ 0.078
23	$ 19,263	$ 12,678	$ 2,218	$ 34,159	227,412	149,239	28,426	405,077	$ 0.085	$ 0.085	$ 0.078
24	$ 19,552	$ 12,868	$ 2,251	$ 34,671	229,686	150,731	28,711	409,128	$ 0.085	$ 0.085	$ 0.078
25	$ 19,845	$ 13,061	$ 2,285	$ 35,192	231,983	152,239	28,998	413,219	$ 0.086	$ 0.086	$ 0.079
26	$ 20,143	$ 13,257	$ 2,319	$ 35,719	234,302	153,761	29,288	417,351	$ 0.086	$ 0.086	$ 0.079
27	$ 20,445	$ 13,456	$ 2,354	$ 36,255	236,645	155,299	29,581	421,525	$ 0.086	$ 0.087	$ 0.080
28	$ 20,752	$ 13,658	$ 2,390	$ 36,799	239,012	156,852	29,876	425,740	$ 0.087	$ 0.087	$ 0.080
29	$ 21,063	$ 13,863	$ 2,425	$ 37,351	241,402	158,420	30,175	429,997	$ 0.087	$ 0.088	$ 0.080
30	$ 21,379	$ 14,071	$ 2,462	$ 37,911	243,816	160,004	30,477	434,297	$ 0.088	$ 0.088	$ 0.081
31	$ 21,700	$ 14,282	$ 2,499	$ 38,480	246,254	161,604	30,782	438,640	$ 0.088	$ 0.088	$ 0.081
32	$ 22,025	$ 14,496	$ 2,536	$ 39,057	248,717	163,220	31,090	443,027	$ 0.089	$ 0.089	$ 0.082
33	$ 22,355	$ 14,713	$ 2,574	$ 39,643	251,204	164,853	31,400	447,457	$ 0.089	$ 0.089	$ 0.082
34	$ 22,691	$ 14,934	$ 2,613	$ 40,238	253,716	166,501	31,714	451,932	$ 0.089	$ 0.090	$ 0.082
35	$ 23,031	$ 15,158	$ 2,652	$ 40,841	256,253	168,166	32,032	456,451	$ 0.090	$ 0.090	$ 0.083
36	$ 23,377	$ 15,385	$ 2,692	$ 41,454	258,816	169,848	32,352	461,015	$ 0.090	$ 0.091	$ 0.083
37	$ 23,727	$ 15,616	$ 2,732	$ 42,076	261,404	171,546	32,675	465,625	$ 0.091	$ 0.091	$ 0.084
38	$ 24,083	$ 15,850	$ 2,773	$ 42,707	264,018	173,262	33,002	470,282	$ 0.091	$ 0.091	$ 0.084
39	$ 24,444	$ 16,088	$ 2,815	$ 43,347	266,658	174,994	33,332	474,985	$ 0.092	$ 0.092	$ 0.084
40	$ 24,811	$ 16,329	$ 2,857	$ 43,998	269,325	176,744	33,666	479,734	$ 0.092	$ 0.092	$ 0.085

R&R costs are those higher than $5,000 and/or occur on a less than annual basis. An R&R bank account was to be established to fund these costs. The account is based on the idea that the grantee ought to be setting aside a small amount of their earnings in order to amass savings to pay for large future expenses. The business plans include guidelines of the expected contributions to the R&R fund as well as a potential schedule of activities to be done. Below are examples of the R&R schedule for a representative bulk fuel tank farm project and the R&R cash flow projections, including the per gallon payment suggested.

Year of Activity	R&R Activity	Present Day Value	Inflated Value	Yearly Inflated Total	Cost Allocation		
					Corporation	Utility	LKSD
					Corporation & Common	Utility & Common	Common Only
5		$ -	$ -	$ -	$ -	$ -	$ -
10	Fence/Gates Upgrade	$ 9,450	$ 10,804		$ 5,726	$ 3,782	$ 1,297
	Tank Appurtenances	6,080	6,952		4,171	2,781	-
	Repair Dispenser	3,500	4,002		4,002	-	-
	Repair Pipeline Components	2,000	2,287		1,212	800	274
	Electrical Upgrade	8,100	9,261		4,909	3,242	1,111
	Tank Inspection	3,150	3,602	$ 36,908	2,161	1,441	-
15		$ -	$ -	$ -	$ -	$ -	$ -
20	Fence/Gate Replacement	$ 19,125	$ 25,378		$ 13,450	$ 8,882	$ 3,045
	Repair Liner/Dike	29,400	39,012		20,677	13,654	4,681
	Tank Appurtenances	6,080	8,068		4,841	3,227	-
	Replace Dispenser	11,260	14,941		14,941	-	-
	Major Electrical	137,900	182,987		96,983	64,045	21,958
	Repair Pipeline Components	2,000	2,654		1,407	929	318
	Tank Inspection	3,150	4,180	$ 277,220	2,508	1,672	-
25		$ -	$ -	$ -	$ -	$ -	$ -
30	Fence/Gates Upgrade	$ 9,450	$ 14,552		$ 7,713	$ 5,093	$ 1,746
	Tank Appurtenances	6,080	9,363		5,618	3,745	-
	Repair Dispenser	3,500	5,390		5,390	-	-
	Repair Pipeline Components	2,000	3,080		1,632	1,078	370
	Electrical Upgrade	8,100	12,474		6,611	4,366	1,497
	Tank Inspection	3,150	4,851	$ 49,710	2,911	1,940	-
35		$ -	$ -	$ -	$ -	$ -	$ -
40	Fence/Gate Replacement	$ 19,125	$ 34,180		$ 18,116	$ 11,963	$ 4,102
	Replace Liner & Pads	58,800	105,088		63,053	34,679	7,356
	Replace Foundation	324,000	579,056		306,900	202,670	69,487
	Tank Appurtenances	6,080	10,866		6,520	4,346	-
	Replace Pipelines & Headers	160,000	285,954		151,555	100,084	34,314
	Major Electrical	137,900	246,456		130,622	86,260	29,575
	Replace Tanks	615,000	1,099,134		659,481	439,654	-
	Replace Dispenser	11,260	20,124	$ 2,380,859	20,124	-	-
		$ 1,605,639	$ 2,744,697	$ 2,744,697	$ 1,563,232	$ 1,000,333	$ 181,132

Year	R & R Fund Balance										Per Gallon Payment			Assumed Throughput		
	Beg. of Year Balance	Annual Deposit				Principal Received	Debt Service	Renewals/ Replacements	Interest Earnings (Net of Fees)	End of Year Balance						
		Corporation	Utility	LKSD	Total						Corporation	Utility	LKSD	Corporation	Utility	LKSD
1	$ -	$ 13,120	$ 8,610	$ 2,000	$ 23,730			$ -	$ -	$ 23,730	$ 0.082	$ 0.082	$ 0.100	160,000	105,000	20,000
2	$ 23,730	$ 13,650	$ 8,958	$ 2,081	$ 24,688			$ -	$ 712	$ 49,130	$ 0.083	$ 0.083	$ 0.102	164,000	107,625	20,500
3	$ 49,130	$ 14,201	$ 9,319	$ 2,165	$ 25,685			$ -	$ 1,474	$ 76,289	$ 0.084	$ 0.084	$ 0.103	168,100	110,316	21,013
4	$ 76,289	$ 14,774	$ 9,696	$ 2,252	$ 26,722			$ -	$ 1,526	$ 104,536	$ 0.086	$ 0.086	$ 0.105	172,303	113,074	21,538
5	$ 104,536	$ 15,371	$ 10,087	$ 2,343	$ 27,801			$ -	$ 2,091	$ 134,428	$ 0.087	$ 0.087	$ 0.106	176,610	115,900	22,076
6	$ 134,428	$ 15,991	$ 10,494	$ 2,438	$ 28,923			$ -	$ 2,689	$ 166,040	$ 0.088	$ 0.088	$ 0.108	181,025	118,798	22,628
7	$ 166,040	$ 16,637	$ 10,918	$ 2,536	$ 30,091			$ -	$ 3,321	$ 199,452	$ 0.090	$ 0.090	$ 0.109	185,551	121,768	23,194
8	$ 199,452	$ 17,309	$ 11,359	$ 2,639	$ 31,306			$ -	$ 3,989	$ 234,747	$ 0.091	$ 0.091	$ 0.111	190,190	124,812	23,774
9	$ 234,747	$ 18,007	$ 11,817	$ 2,745	$ 32,570			$ -	$ 4,695	$ 272,012	$ 0.092	$ 0.092	$ 0.113	194,944	127,932	24,368
10	$ 272,012	$ 18,735	$ 12,295	$ 2,856	$ 33,885			$ 36,908	$ 4,702	$ 273,690	$ 0.094	$ 0.094	$ 0.114	199,818	131,131	24,977
11	$ 273,690	$ 19,206	$ 12,604	$ 2,928	$ 34,737			$ -	$ 5,474	$ 313,901	$ 0.095	$ 0.095	$ 0.116	201,816	132,442	25,227
12	$ 313,901	$ 19,689	$ 12,921	$ 3,001	$ 35,611			$ -	$ 6,278	$ 355,790	$ 0.097	$ 0.097	$ 0.118	203,834	133,766	25,479
13	$ 355,790	$ 20,184	$ 13,246	$ 3,077	$ 36,506			$ -	$ 7,116	$ 399,413	$ 0.098	$ 0.098	$ 0.120	205,873	135,104	25,734
14	$ 399,413	$ 20,692	$ 13,579	$ 3,154	$ 37,425			$ -	$ 7,988	$ 444,825	$ 0.100	$ 0.100	$ 0.121	207,931	136,455	25,991
15	$ 444,825	$ 21,212	$ 13,920	$ 3,234	$ 38,366			$ -	$ 8,897	$ 492,088	$ 0.101	$ 0.101	$ 0.123	210,011	137,820	26,251
16	$ 492,088	$ 21,745	$ 14,270	$ 3,315	$ 39,331			$ -	$ 9,842	$ 541,260	$ 0.103	$ 0.103	$ 0.125	212,111	139,198	26,514
17	$ 541,260	$ 22,292	$ 14,629	$ 3,398	$ 40,320			$ -	$ 10,825	$ 592,405	$ 0.104	$ 0.104	$ 0.127	214,232	140,590	26,779
18	$ 592,405	$ 22,853	$ 14,997	$ 3,484	$ 41,334			$ -	$ 11,848	$ 645,587	$ 0.106	$ 0.106	$ 0.129	216,374	141,996	27,047
19	$ 645,587	$ 23,428	$ 15,374	$ 3,571	$ 42,373			$ -	$ 12,912	$ 700,872	$ 0.107	$ 0.107	$ 0.131	218,538	143,416	27,317
20	$ 700,872	$ 24,017	$ 15,761	$ 3,661	$ 43,439	$ 148,330		$ 277,220	$ 11,440	$ 626,861	$ 0.109	$ 0.109	$ 0.133	220,723	144,850	27,590
21	$ 626,861	$ 24,621	$ 16,157	$ 3,753	$ 44,532		$ (19,679)	$ -	$ 12,931	$ 704,002	$ 0.110	$ 0.110	$ 0.135	222,931	145,298	27,866
22	$ 704,002	$ 25,240	$ 16,564	$ 3,848	$ 45,652		$ (19,679)	$ -	$ 14,474	$ 783,806	$ 0.112	$ 0.112	$ 0.137	225,160	147,761	28,145
23	$ 783,806	$ 25,875	$ 16,980	$ 3,944	$ 46,800		$ (19,679)	$ -	$ 16,070	$ 866,354	$ 0.114	$ 0.114	$ 0.139	227,412	149,239	28,426
24	$ 866,354	$ 26,526	$ 17,407	$ 4,044	$ 47,977		$ (19,679)	$ -	$ 17,721	$ 951,730	$ 0.115	$ 0.115	$ 0.141	229,686	150,731	28,711
25	$ 951,730	$ 27,193	$ 17,845	$ 4,145	$ 49,183		$ (19,679)	$ -	$ 19,428	$ 1,040,020	$ 0.117	$ 0.117	$ 0.143	231,983	152,239	28,998
26	$ 1,040,020	$ 27,877	$ 18,294	$ 4,249	$ 50,420		$ (19,679)	$ -	$ 21,194	$ 1,131,312	$ 0.119	$ 0.119	$ 0.145	234,302	153,761	29,288
27	$ 1,131,312	$ 28,578	$ 18,754	$ 4,356	$ 51,688		$ (19,679)	$ -	$ 23,020	$ 1,225,699	$ 0.121	$ 0.121	$ 0.147	236,645	155,299	29,581
28	$ 1,225,699	$ 29,297	$ 19,226	$ 4,466	$ 52,988		$ (19,679)	$ -	$ 24,908	$ 1,323,274	$ 0.123	$ 0.123	$ 0.149	239,012	156,852	29,876
29	$ 1,323,274	$ 30,033	$ 19,709	$ 4,578	$ 54,321		$ (19,679)	$ -	$ 26,859	$ 1,424,132	$ 0.124	$ 0.124	$ 0.152	241,402	158,420	30,175
30	$ 1,424,132	$ 30,789	$ 20,205	$ 4,693	$ 55,687		$ (19,679)	$ 49,710	$ 27,882	$ 1,477,670	$ 0.126	$ 0.126	$ 0.154	243,816	160,004	30,477
31	$ 1,477,670	$ 31,563	$ 20,713	$ 4,811	$ 57,088			$ -	$ 29,553	$ 1,564,311	$ 0.128	$ 0.128	$ 0.156	246,254	161,604	30,782
32	$ 1,564,311	$ 32,357	$ 21,234	$ 4,932	$ 58,523			$ -	$ 31,286	$ 1,654,121	$ 0.130	$ 0.130	$ 0.159	248,717	163,220	31,090
33	$ 1,654,121	$ 33,171	$ 21,768	$ 5,056	$ 59,995			$ -	$ 33,082	$ 1,747,199	$ 0.132	$ 0.132	$ 0.161	251,204	164,853	31,400
34	$ 1,747,199	$ 34,005	$ 22,316	$ 5,184	$ 61,504			$ -	$ 34,944	$ 1,843,647	$ 0.134	$ 0.134	$ 0.163	253,716	166,501	31,714
35	$ 1,843,647	$ 34,860	$ 22,877	$ 5,314	$ 63,051			$ -	$ 36,873	$ 1,943,571	$ 0.136	$ 0.136	$ 0.166	256,253	168,166	32,032
36	$ 1,943,571	$ 35,737	$ 23,452	$ 5,448	$ 64,637			$ -	$ 38,871	$ 2,047,079	$ 0.138	$ 0.138	$ 0.168	258,816	169,848	32,352
37	$ 2,047,079	$ 36,636	$ 24,042	$ 5,585	$ 66,262			$ -	$ 40,942	$ 2,154,283	$ 0.140	$ 0.140	$ 0.171	261,404	171,546	32,675
38	$ 2,154,283	$ 37,557	$ 24,647	$ 5,725	$ 67,929			$ -	$ 43,086	$ 2,265,298	$ 0.142	$ 0.142	$ 0.173	264,018	173,262	33,002
39	$ 2,265,298	$ 38,502	$ 25,267	$ 5,869	$ 69,637			$ -	$ 45,306	$ 2,380,241	$ 0.144	$ 0.144	$ 0.176	266,658	174,994	33,332
40	$ 2,380,241	$ 39,470	$ 25,902	$ 6,017	$ 71,389			$ 2,380,859	$ 255	$ 71,026	$ 0.147	$ 0.147	$ 0.179	269,325	176,744	33,666

It is assumed that the most major R&R activities will be funded partially by debt financing and partially by the R&R fund itself. In years 20 and 40, when the R&R costs are the highest, the community is generally expected to fund 40% of those costs with its R&R funds and to fund the remainder with debt financing. The debt service is then factored into the cash-flow projections as shown in the table above. In a few instances, the required contribution during years 20 and 40 is only 20%.

In setting guidelines for the O&M and R&R accounts, the plans make a number of financial assumptions, about factors like the annual inflation rate, annual investment rate, cost of fuel, and bank fees. The primary operator is expected to reevaluate these assumptions after the first year of operation and create new O&M and R&R budgets and payment schedules. Thus, the Commission's guidelines should be seen as flexible and dependent on a number of different variables. The primary operator is also required to develop an updated budget annually for both O&M and R&R, and to arrange for an annual financial audit. They must also provide an annual report to the Denali Commission and the partner agency, summarizing O&M and R&R activities and projections.

Attached to the business plan are a number of separate documents: the Secondary Operator Agreement, the facility lease agreement, site control documents, the grant agreement between the program partner and subgrantee if applicable, and sometimes sample documents on how to create an R&R fund. All but the site control documents are relevant to this discussion.

The Secondary Operator Agreement reiterates that the primary operator will operate the facility consistent with the terms of the business plan, with the stipulation that if the operator fails to do so and threatens the "long-term economic sustainability of the facility", the Commission may, "in the exercise of its sole discretion," choose a secondary operator who will then take over operation of the facility. As explained in the Executive Summary of the business plan, the Secondary Operator Agreement "includes language requiring the Plan to be followed," including funding the O&M and R&R accounts.

In the facility lease, signed by the owner and primary operator, the latter commits to "materially comply with all the terms and conditions of the Business Operating Plan and the Secondary Operator Agreement."

The grant agreement, between the grantee and the partner organization (either AVEC or AEA), does not, however, include any requirement to follow the business plan guidelines. It does stipulate that if the grantee does not use the facility for its intended use, they may be required to reimburse the partner organization, which would then reimburse the federal government, for cost of the facility.

AEA generally includes in its business plans information on how to establish an R&R account. This information has appeared in the form of two different but similar documents which list a number of banks which it says "the Denali Commission has negotiated terms with…that will allow for the unique guidelines" required for the R&R accounts. Prior to 2005, the document listed First National Bank of Alaska and Wells Fargo Bank of Alaska. During 2005, it was changed to list First National Bank of Alaska, West Star Escrow, and the Alaska Municipal League/Joint Insurance Association. A former Commission Chief of Staff recalled negotiating the accounts listed prior to 2005. Neither current nor former Commission staff, nor current or former AEA staff were aware of why the list was altered. The plans also allow that accounts may be created at other banks so long as they meet the

requirements for the accounts. AVEC did not include any such guidelines in the business plans it helped grantees to prepare.

In addition to the O&M and R&R accounts, AVEC included a requirement for a third account in its business plans for bulk fuel projects, a spill response fund. This account is designed to pay for all clean-up costs incurred by fuel spills. All participants in the project, including the owners and the primary operator, pay into the fund until a set amount has been saved, generally $200,000. At that point, the account and necessary balance were to be reassessed.

In at least one clear instance, the Commission funded a look backward at the success of the business plans and the extent to which they had been put into practice. Between 2004 and 2008, the Commission funded a $220,000 project through AEA to monitor communities' progress on meeting the requirements of the business plans they had agreed to. AEA contracted with Aurora Consulting to visit a number of these communities, meet with their representatives, and prepare monitoring reports, called a Business Plan Monitoring and Usage Report. More than two dozen of these reports were completed and can be found on the Commission's project database. One of the areas addressed was whether the community had created O&M and R&R accounts, making these reports very valuable to the current project. The findings of these reports and of this investigation will be discussed at more length below.

The Commission has also funded a number of projects as part of its human capital program, training grantees in the proper operations and maintenance of their facilities. Funded through the U.S. Department of Labor, the trainings include bulk fuel tank farm operations, power plant operations, bulk fuel business, electrical utility business, and utility clerk, among others. The total investment in training specific to tank farm operations and maintenance has been almost $3.5 million and over 1100 individuals have received training.

OIG Report

The Commission's OIG filed a semi-annual report to Congress in November 2012 that stated the Commission had failed in its oversight of the bulk fuel R&R accounts. The report expressed concern that the accounts had potentially not been created or had been created, but were not being used correctly. In either event, the OIG wrote that by not ensuring the creation and maintenance of these savings accounts, the Commission has lapsed in its goal of funding sustainable infrastructure. As a result, the OIG's report recommended that Congress deny reauthorization to the Commission until "the fate of the missing bank accounts" was resolved.

The OIG is concerned with the search for these bank accounts and the implications of their not being found. The OIG report suggests that millions of dollars, possibly up to $100 million, has gone "missing in action". Interestingly, the OIG specifically focuses its search and report on the approximately 60 small communities that received funds to upgrade bulk fuel tank farms through AEA, neglecting a number of other projects which had similar, if not identical, requirements relating to O&M and R&R accounts. The OIG report also focuses solely on the R&R accounts, as opposed to including the O&M accounts and spill response reserve funds as well.

From the OIG report, it appears that the OIG spoke with Commission staff, AEA staff, Rural Alaska Fuel Service (RAFS), and the four financial institutions mentioned in the AEA sample R&R documents. The discussions with RAFS, the banks, and AEA did not produce records of the creation of R&R accounts, with AEA stating that it was their understanding that the Commission was responsible for monitoring of the R&R accounts. Commission staff produced bank statements for two accounts, but stated that there was no regularized monitoring process for the accounts. Based on all this, the OIG concludes that it cannot provide "an inventory of the accounts or even some conclusions concerning their existence."

The OIG suggests some possible answers to the first concern, the question of the missing accounts:

- The grantees created the accounts and have run them appropriately, but the Commission is unaware of them.
- The accounts were created but have since been forgotten.
- The accounts were created but have since been wasted.
- The grantees disregarded the requirement entirely.

The OIG largely dismisses this last claim and seems to favor the conclusion that the accounts were created but have since been either forgotten or wasted, both outcomes which he sees as equally problematic.

In response to the OIG report, Commission staff completed an in-depth investigation, and subsequently this report, to resolve the questions and concerns that were raised. Although the OIG report focuses only on about 60 R&R accounts, created for bulk fuel projects with which the Commission partnered with AEA, this report looks in totality at all projects for which an R&R account was required, of which there are 77, and additionally asks whether grantees created other required accounts also aimed at furthering sustainability. The remainder of this report will answer the OIG's questions of whether the accounts were ever created and if they have been properly maintained, used, and overseen.

Process

The Commission used a uniform process in its search for the O&M and R&R accounts required in the business operating plans. The Commission began by compiling a list of all bulk fuel and rural power system upgrade (RPSU) projects that had been funded since its creation. After removing pre-construction projects and projects that were never constructed or were discontinued, there remained a total of approximately 180 singular infrastructure facilities.

Not all of the 180 included the creation of R&R and/or O&M accounts in their business plans, however. Some of the projects were undertaken prior to the business plan requirement. In other cases, the Commission did not require the accounts given the financial sustainability of the planned owner and/or operator of the facility. For example, AVEC was able to show that it was a well-established and financially stable organization, and so the Commission had confidence that it would be able to maintain and repair the facilities it owned (in full) without a requirement for separate accounts. Other such organizations included many of the school districts which received fuel tanks. Additionally, a number of the projects originally included in the list were still in construction during

the investigation process for this report, and so had likely not yet created their R&R or O&M accounts.

After paring the list down to those completed projects whose business plans included a requirement for an R&R and/or O&M account, there remained 77 singular infrastructure facilities. Table 2 below summarizes some of the basic characteristics of those facilities.

Table 2: Basic Facility Characteristics

	Bulk Fuel	RPSU	Combination	Totals
AEA	38	25	3	**66**
AVEC	11	0	0	**11**
Total	**49**	**25**	**3**	**77**

For each individual project, the paper and electronic files kept by the Commission and its partner organizations, AEA and AVEC, were reviewed. For each project, the business plan, the secondary operator agreement, the grant agreement, the AEA business plan monitoring and usage report if one was done, and any relevant correspondence were reviewed, as well as any other information available in the project files.

In reviewing the files on each project, there were four primary questions. First, what was the specific nature of the project? Second, what were the requirements for the project as far as creating O&M and/or R&R accounts? Third, what communities or organizations were responsible for creating and maintaining those accounts and what was their contact information? And fourth, was there any evidence in the file that any accounts were created and/or are still being funded today?

After a review of all of the files available on each project, Commission staff contacted the operators and owners of the facilities, over both email and telephone, in order to determine whether they have accounts at the present time and if they were using the funds in those accounts for their intended purpose of funding operations, maintenance, and repairs.

Unfortunately, not all of the grantees of the various projects were able to be reached. Some grantees who were reached were unsure whether they had the accounts or not and were unable to respond before the end of the research phase of this report on March 8, 2013. Thus, the summary of findings below focuses only on the 67 projects whose owners and/or operator were able to provide information. This includes 10 of the 11 AVEC projects and 57 of the 66 AEA projects.

The following section presents the results of this research. It is important to remember when reviewing these findings that almost all the data has been self-reported by the grantees themselves.

Results

The following tables detail the account findings by two categories. Table 3 illustrates the results by program partner and type of account set up and Table 4 by project category and type of account.

Table 3: Results by Program Partner

	R&R Account	O&M Account	Both Accounts	Spill Response Account	No Account	Total Responded
AEA Projects	27	21	19	n/a	28	57
AVEC Projects	8	6	5	8	1	10
Total	35	27	24	8	29	67

Table 4: Results by Project Category

	R&R Account	O&M Account	Both Accounts	Spill Response Account	No Account	Total Responded
RPSU Projects	10	10	9	n/a	10	21
Bulk Fuel Projects	23	15	13	8	18	43
Combination Projects	2	2	2	n/a	1	3
Total	35	27	24	8	29	67

R&R Accounts:

Of the 35 R&R accounts identified, 30 provided an account balance that when combined totaled $1,194,077.87, although this is an approximate number as many communities did not report an exact balance. One of these accounts covers two projects operated by the same grantee, which was allowed for in that business plan. Two grantees created R&R accounts but stated they have not been able to fund them. The average balance of the 30 accounts is $39,802.60, with a high of $132,200. Overwhelmingly, the high cost of fuel was cited as a limiting factor in their ability to either create or properly fund an R&R account. For the reader, the price of fuel has typically tripled in cost in the past 10 years. Others were not aware of the requirement at all. Seventeen grantees, unprompted, indicated their interest in creating an R&R account and learning how to properly fund one.

The OIG's report suggested that the dollar figure potentially unaccounted for could be as high as $100 million. However, this estimate does not reflect how R&R accounts were meant to be funded. Given that the projects in question were constructed between 2001 and 2012, they are a rough average of six years old. At the end of its sixth year, a typical R&R account which had followed the guidelines would be expected to have a balance of somewhere between $60,000 and $80,000. Multiplying the high end of this range by the total of 77 projects with a requirement for the R&R account gives a total potential balance of just over $6 million, significantly less than the OIG's suggestion. However, owners and operators were encouraged to alter the guidelines annually, as fuel prices and other factors changed. Even at the end of their forty to fifty year life span, the vast majority of accounts would only be expected to cover at most forty percent of the costs of replacing each facility, or $1.2 million towards a $3 million project.

While the $1.1 million in the R&R accounts identified is less than the highest possible balance, the accounts have still been fairly successful. One grantee just spent $16,000 from their R&R account to repair the generators on their power house, while another has used $30,000 to help repair the damage

done to their tank farm by flooding. Both these repairs, and more, were funded by the R&R accounts. Many of the grantees that did not report an R&R account have still been funding some R&R activities, whether through a different type of savings account or a general checking account. In the largest example of this, one grantee with neither an O&M nor an R&R account recently funded the overhaul of both of its two larger generators, at a cost of $75,000 each, through its general fund.

Of the several grantees who received funding for both a bulk fuel and an RPSU project, only two established an account for one and not the other. One of these grantees created both an R&R and an O&M account for its power house but said it was not able to do the same for its fuel facility due to the high cost of fuel. The other grantee did the reverse, although no explanation was provided in that instance.

At least one grantee had created their account prior to receiving Commission funding for an upgrade and thus becoming subject to the requirement to create an R&R account. That grantee noted that they were able to receive higher interest returns by investing some money into a separate savings account, as recommended by the Commission business plans.

O&M accounts:

Of the 27 O&M accounts identified, a combined balance of $1,142,672.27 was reported for 23 accounts, although this is an approximate number as many of the communities did not report an exact balance. One of these accounts covers two projects operated by the same grantee, which was allowed for in that business plan. This figure also does not include three O&M accounts for which a balance was not disclosed. The mean of the 23 accounts is $49,681.40, with a high of $315,122.22. The latter balance is for an electric utility whose general checking account functions as an O&M account. One grantee created an O&M account but has not been able to fund it.

Those communities without a dedicated O&M account have still been funding their facilities, often through the organization's general account. Many of them have used separate accounting, meaning they have a line item in their budget dedicated to O&M needs of the facility, if not an entirely separate account. Many of the smaller communities, in particular, stated that managing multiple accounts for their different facilities was overly burdensome. One staff person said that the Commission ought to limit its regulation of the facility operators as much as possible. Others were eager to satisfy the requirement for an O&M account, but had not known of its existence or how to go about doing so.

Spill Response Accounts:

Eight grantees reported establishing a spill response account, as required by AVEC in its business plans. The 6 which reported a balance had a combined total of $187,462.80, or an average of $31,243.80. The highest balance was $104,000, which interestingly belonged to a grantee which had not established either an O&M or an R&R account, citing the high cost of fuel.

Financial Institutions:

Table 5 below shows the distribution of the banks and financial institutions used by the owners and operators for each account in the instances when that information was reported.

Table 5: Financial Institutions

Institution	R&R Accounts	O&M Accounts	Spill Response Accounts
Wells Fargo	9	10	2
Key Bank	7	4	2
First National	5	7	-
Alaska USA	2	1	-
Capitol One	1	-	-
Denali State Bank	1	1	-
Alaska Municipal League (AML)*	2	1	1
Key Bank escrow thru AML*	1	-	-
AML Investment Pool*	1	-	-

*Institution names are listed as reported by communities. It is assumed that the accounts noted with an asterisk are all held at AML Investment Pool.

Different Approaches by AEA and AVEC:

One clear trend that emerges from the data is the variation between whether accounts were created for projects done in partnership with AEA and projects done in partnership with AVEC. While AVEC managed projects were more likely to have responded to the survey and to have had either an O&M or an R&R account than AEA managed projects, the AEA managed projects had larger average balances. One part of this disparity is likely a result of the different approaches taken by the two agencies to the requirement.

AVEC approached the R&R and O&M accounts as a binding requirement of the business plan. Their business plans contained resolutions passed by the communities and organizations promising to create the funds and they played a more active role after construction was completed in encouraging communities to fund their accounts. AVEC also included in its files agreements between grant participants agreeing to share the costs of funding O&M, R&R and spill response accounts, in cases where there were shared facilities.

AEA believes that the responsibility to oversee and administer the O&M and R&R accounts rests with the Denali Commission. AEA staff confirmed this in conversation and it appears to be manifested in the fact that far fewer of these communities have created the accounts, or were even aware of the requirement. Additionally, if grantees did not feel required to create the accounts, it makes sense that those who did create them would fund them at a higher level. The grantee would likely not create an account which it did not expect to be able to fund adequately.

Monitoring Plans:

As discussed earlier, the Commission funded one follow-up project through AEA to evaluate the degree to which grantees were complying with their business plans. The project resulted in over two dozen reports on different bulk fuel and RPSU projects managed by AEA, with a total of 38 different participants. Of these participants, 55% had established O&M budgets and 60% had established separate O&M accounting if not an actual distinct account. In addition, 35% had created an R&R account and deposited money into it. As the project's close-out report notes, "the business plans and

monitoring do not result in a perfect outcome. There are however vast improvement in the facility operators' capacity to operate and maintain the facility in a business-like manner." The project also included funding to help educate the grantees about funding their O&M and R&R accounts appropriately.

Of the 26 projects reviewed in the 2004 AEA study, the current investigation received responses from 21 grantees. While the results were fairly similar, one grantee which had both accounts at the time of the monitoring plan being done in 2004 was no longer aware of any such accounts. A couple others still had their R&R accounts but no longer were using a separate O&M account.

Of the same 26 reports done, none found that the grantee was operating in perfect compliance with the business plan. It is worrisome that the Commission and AEA were made aware of the issues a number of grantees were having in adhering to the business plans, and in fact spent almost a quarter of a million dollars on identifying those issues, but do not appear to have attempted to remedy the situation.

Conclusions

In sum, it is clear that the OIG report raised an important question about the Commission's lack of oversight of the R&R accounts. A review of Commission documents turned up the annual reports of only seven grantees for the 77 projects surveyed. And only five of those reports included evidence of an R&R account. The Commission clearly did not adequately follow through on its commitment in the business plan to monitor the accounts.

This does not mean, however, that the R&R accounts themselves were not a good policy idea. It is sound financial advice to encourage setting aside some savings in order to help pay for extremely large future expenses. Even if the Commission no longer requires the accounts, it can still advise the communities that creating them is a good idea and offer training and other assistance in teaching grantees how to create and properly fund the accounts. Although the Commission has offered trainings, it is clear from the responses of the grantees that there is still a large need in this area.

Nonetheless, many of the grantees established the required accounts, have funded them appropriately, and used the money to maintain their facilities. With over $1.1 million in R&R accounts, it is clear that at least some significant progress has been made to helping ensure sustainability in these rural communities.

Additionally, despite the OIG's contention, the Commission has furthered sustainability through a number of other methods in addition to the R&R accounts. This one weakness in oversight does not detract from the totality of the Commission's efforts. Indeed, as this report documented, grantees have used a number of other methods to fund the costs of maintaining their facilities.

It is important that in instances where multiple participants have operational and repair responsibilities that there is an understanding and agreement as to what each party's contribution will be. AVEC's practice of having the multiple grantees sign agreements with each other, as opposed to one mandated by the Commission, seems like a possible solution which should be explored.

On the topic of O&M accounts, the Commission ought to encourage grantees to utilize either separate accounts or separate accounting, recognizing that particularly in some smaller communities, having multiple accounts is unfeasible and an unnecessary inconvenience. Separate accounting and budgeting can serve essentially the same purpose.

In sum, the following conclusions are offered:

1. The OIG report raises legitimate concerns regarding the Commission's management, or lack thereof, of R&R accounts. The Commission's oversight has been lacking in this area and it should address that weakness as it moves forward.
2. Nonetheless, after contacting 67 of the 77 grantees of these projects, it appears that 35 of the 67 that were reached have created R&R accounts.
3. Based on favorable responses from the grantees, the Commission and its partners ought to offer more training and support for its grantees, both past and future, in helping them understand and comply with the requirements and recommendations of the business plan.
4. If the Commission chooses to remove the requirement for R&R and O&M accounts from the business plan, it ought to consider at least encouraging grantees to create enterprise accounts to fund the long-term repair and replacement of facilities, and should work with its partner organizations to ensure a regularized approach to this process. Additionally, if the Commission ultimately removes the requirement from future project business plans, past project recipients should be notified of the change.

DENALI COMMISSION
510 'L' Street, Suite 410
Anchorage, Alaska 99501

(907) 271-1414
Fax (907) 271-1415
Toll Free 1-888-480-4321
http://www.denali.gov

RESOLUTION NO. 01-15
A RESOLUTION REGARDING SUSTAINABILITY FOR DENALI COMMISSION FUNDED INFRASTRUCTURE PROJECTS

WHEREAS, the Commission is charged with developing infrastructure to serve rural Alaskan communities, with preference given to those that are economically distressed and with particular regard to health and safety needs; and

WHEREAS, the Commission recognizes that healthy and safe communities depend on sustainable infrastructure; and

WHEREAS, one of the Commission's GUIDING PRINCIPLES states that projects must be sustainable, and sustainability is one of the Commission's CORE VALUES; and

WHEREAS, the U.S. Congress, through legislation drafted by Senator Ted Stevens, has directed the Commission to ensure that all infrastructure projects demonstrate sustainability as a prerequisite for Denali Commission funding; and

WHEREAS, both the U.S. Congress and the Alaska State Legislature have strongly advised the Denali Commission to avoid the creation of un-funded future liabilities for either the State or Federal governments; and

WHEREAS, the cost of constructing, operating, maintaining, renewing, and replacing infrastructure in rural Alaska is considerably more expensive than infrastructure in urban Alaska or the 48 contiguous states; and

WHEREAS, most communities in rural Alaska are economically distressed with unemployment levels several times the national average, and with income levels a fraction of the national level; and

WHEREAS, the high cost of services in rural Alaska and the operation and maintenance of rural infrastructure is currently assisted by a number of programs including the Power Cost Equalization Program, Low Income Heating and Electric Assistance Program, Remote Maintenance Worker Program, Rural Utility Business Advisor Program, government subsidized loans, and other means; and

WHEREAS, operating efficiencies and cost reduction can be achieved through a variety of means including, simplification and standardization, increasing the scale or regionalization of utility systems or other infrastructure system in order to achieve the

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required management capacity, and combining fuel orders to acquire economies of scale; and

WHEREAS, consistent application of sound business principles is a fundamental prerequisite to sustainable infrastructure or services; and

WHEREAS, life cycle cost of infrastructure increases dramatically when sustainability principles are not applied:

NOW THEREFORE BE IT RESOLVED, that the Denali Commission reconfirms its commitment to sustainability for Commission funded infrastructure projects as a CORE VALUE and as a GUIDING PRINCIPLE with the following understanding:

- Sustainability, by definition, includes **all** costs associated with management, operation and maintenance, renewal and replacement (after the design life has been achieved) necessary to maintain an acceptable level of service.
- The high cost of infrastructure in rural Alaska makes it infeasible for the total costs of all services in all communities to be borne by local users, however, **to the extent feasible**, user rates should include all costs necessary to achieve sustainability.
- All practical steps should be taken, including simplification of projects, standardization of infrastructure, combining of utilities, regionalization of utility management structures, bulk purchase of fuels, training and development of management personnel and other actions that reduce the cost of sustainable infrastructure.
- Before Denali Commission funding is applied to the construction of any infrastructure project there must be a sound business plan that clearly shows how the infrastructure will be operated and maintained and that demonstrates how all costs, which are necessary to assure a sustainable project or level of service, will be covered.
- All parties to the Commission within their spheres of responsibility, as individual entities or in collaborative efforts, will seek to reduce the cost of sustainable rural utilities and support subsidies that are demonstrated as necessary to ensure that basic infrastructure and essential services are available in rural Alaska at an affordable cost.

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A RESOLUTION REGARDING SUSTAINABILITY FOR DENALI COMMISSION FUNDED INFRASTRUCTURE PROJECTS

CERTIFICATION

We, the undersigned, hereby certify that the Denali Commission is comprised of seven members (or their duly appointed alternate), of whom six, constituting a quorum, were present at a meeting duly and regularly called, noticed, convened and held this 20th day of September, 2001, and that the foregoing Resolution was duly adopted at said meeting by the affirmative vote of seven members (Jeff Staser voting proxy for Jim Sampson), and opposed by 0 members, and that said Resolution has not been rescinded or amended in any way.

DATED this 20th day of September, 2001

SIGNED: _____
Jeff Staser,
Federal Co-Chair

_____
for Fran Ulmer,
State Co-Chair