

S B

249

Alaska State Legislature

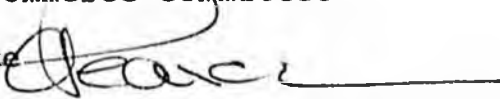
3111 C Street, Suite 150
Anchorage, Alaska 99503
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During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senator Dick Eliason, Chairman
Senate Labor and Commerce Committee

FROM: Senator Drue Pearce 

RE: SB 249 "An Act relating to the Alaska Industrial
Development and Export Authority; and providing for
an effective date."

DATE: April 3, 1989

I request that you schedule a hearing for Senate Bill 249
before the Senate Labor and Commerce Committee.

The purpose of this legislation (and its companion bill CSHB
123) is to promote employment through resource development
projects using the Alaska Industrial Development and Export
Authority.

Attached is a packet of information originally prepared by
AIDEA to explain CSHB 123. Since the two bills are identical,
the information is equally relevant to SB 249.

If you have questions, you may feel free to call me.

DP:jf

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SB 249
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Econ. Dev.
Title: AIDEA BRU: AIDEA
Sponsor: Senator Pearce Components: _____
Requester: Senate Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS. CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULLTIME	-0-	-0-	-0-	-0-	-0-	-0-
PARTTIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Existing staffing and budget of the Authority will be utilized to implement legislation. The primary focus of the Authority will shift from commercial/service sector financing to primary basic industries.

Prepared by: Bert Wagon, Executive Director Phone: 279-1651
Division: Alaska Industrial development & Export Authority Date: 4/3/89
Approved by Commissioner: Larry Mercurieff, Commissioner Phone: 465-2500
Agency: Department of Commerce & Economic Development Date: 4/4/89

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

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PHONE: (907) 465-3600

April 19, 1989

Honorable Jan Faiks
Alaska State Legislature
P.O. Box V
Juneau, AK 99311

Re: SB 249 -- relating to the
Alaska Industrial Development
and Export Authority

Dear Senator Faiks:

Bert Wagon, Executive Director of the Alaska Industrial Development and Export Authority (AIDEA), requested this office to respond to you regarding the meaning of sec. 9 of SB 249. That section purports to put bondholders on notice that the authority has a moral obligation to request the state to assist in the repayment of bonds of AIDEA only for bonds issued before January 1, 1989. Under existing law bondholders are guaranteed that the state will consider appropriating amounts to the authority if the bond reserve fund balance drops to a level that would not allow the authority to make periodic repayment to bondholders.

The amendment set out in sec. 9 does not change the effect of the recognition of a moral obligation conveyed by statute to bonds sold before the effective date of the bill. Existing bonds are based on contracts made between AIDEA and the bondholders. The legislature lacks the power to enact a law that impairs contracts. Alaska Const. art. I, § 15. This constitutional limitation is implemented by the enactment of AS 01.10.-100, which provides in pertinent part:

The repeal or amendment of any law does not release or extinguish any ... right accruing or accrued under such law, unless the repealing or amending act so provides expressly. The law shall be treated as remaining in force for the purpose of sustaining any proper action or prosecution for the enforcement of the right....

The foregoing constitutional and statutory guarantees are sufficient to protect the rights of existing bondholders.

Hon. Jan Faiks
Alaska State Senate
Re: SB 249 -- re AIDEA

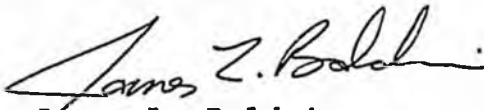
April 12, 1989
Page #2

It is also worth noting that the section does not prohibit holders of future bonds issued by AIDEA from seeking relief from the state in the event of a default. There would be allegations of dire consequences to the state's credit rating if the state fails to bail out the authority. Section 9 is intended to entirely delete any assurance of a moral obligation to repay AIDEA bondholders for bonds issued after the effective date of the bill. This was proposed by AIDEA so that a bondholder would not be able to assert reliance on the state's backing and would make a decision to buy bonds based only on the security provided by the assets of AIDEA.

We hope this memorandum serves your purposes.

Sincerely yours,

DOUGLAS B. BAILY
ATTORNEY GENERAL

By: 
James L. Baldwin
Assistant Attorney General

JLB/pjg

cc: Arthur H. Peterson
Assistant Attorney General
Department of Law - Juneau

Bertram M. Wagnon
Executive Director
AIDEA - Anchorage



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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

April 20, 1989

The Honorable Jan Faiks
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

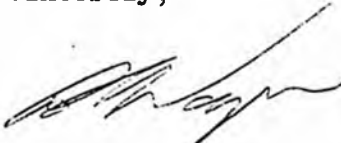
Dear Senator Faiks:

Thank you for furnishing me a copy of your proposed amendment to SB 249. My reading of the amendment is that its net effect would be a "wash" transaction for the Authority. An offer would be made to those borrowers who had loans at banks that were closed by the FDIC and whose loans were subsequently purchased by the Authority. Should this amendment become law, it would be my intention to draft a regulation that would provide for notification of each such impacted borrower and give the borrower a period of time (say, 3 months) to make their decision.

I have noted this amendment is retroactive to January 1, 1988, and you may wish to consider adding Federal Savings and Loan Insurance Corporation to cover closed S & L's and offer these borrowers the same option as FDIC closed banks.

If there is anything I can do please let me know.

Sincerely,



Bertram L. Wagnon
Executive Director

BLW/ss

SENATE BILL 249

"An Act Relating to the Alaska Industrial
Development and Export Authority; and providing for
an effective date."



ALASKA INDUSTRIAL
DEVELOPMENT AND EXPORT
AUTHORITY

The Alaska Industrial Development and Export Authority

PROMOTES EMPLOYMENT THROUGH FINANCING

Since 1981, Authority Financing has resulted in an estimated 13,582 jobs and 804 projects with a value of \$871,932,230.

	Employment per Region	Projects per Region	Dollar Value per Region
Northern	437	27	30,535,250
Interior	1,480	91	99,875,250
Southwest	788	41	52,095,250
Anchorage	7,178	422	458,710,805
Southcentral	1,804	135	97,815,500
Southeast	1,895	85	135,100,000
Total	13,582	804	871,932,230

*HOW WILL
SENATE BILL 249
FURTHER THE AUTHORITY'S
EFFORTS IN PROMOTING
RESOURCE DEVELOPMENT ?*

The Authority will be able to own, operate, or construct facilities

*solely,
by partnership,
by joint venture,
or through other agreements with persons for shared
ownership.*

Example:

To enhance development of the Beluga coal fields, a common transportation system accessible by all lease holders could provide a stimulus for further movement of this project. Financing and/or partial ownership with the lease holders in this common system could reduce the costs of moving the coal to tidewater.

The Authority will be able to provide financial support in the form of

*loans,
guarantees,
equity investments.*

Example:

In reference to the Beluga Coal Fields, the Authority could function as a lender for the project, or could have an equity interest in the coal transportation system in conjunction with others and be repaid by charging fees on the amount of coal transported. Flexibility and a menu of options are necessary as each project will be different and present unique problems to overcome.

In addition to these current statutory bonding limitations:

The Authority cannot issue bonds in a total amount over \$400 million during a 12 month period.

The Authority cannot issue bonds for a particular project within a 12 month period over \$50 million.

Project bonds over \$6 million require location approval from the city or borough where the project will be located.

Project bonds over \$10 million require a public hearing as well as municipal approval.

In all cases, the Authority must find that;

The project is economically advantageous to the State and public welfare.

The project applicant is financially responsible.

Increased demand on public utilities will be satisfied.

The project will provide or retain employment reasonably related to the amount of Authority financing.

The project is feasible enough to repay the bonds or loans.

The bond issuance will not adversely affect the marketability of other state bonds.

Senate Bill 249 proposes the following:

The Authority can issue bonds up to \$25 million to assist in the acquisition of a development project without prior legislative approval, as opposed to \$10 million currently.

The State's moral obligation on any future bonds issued by the Authority is eliminated.

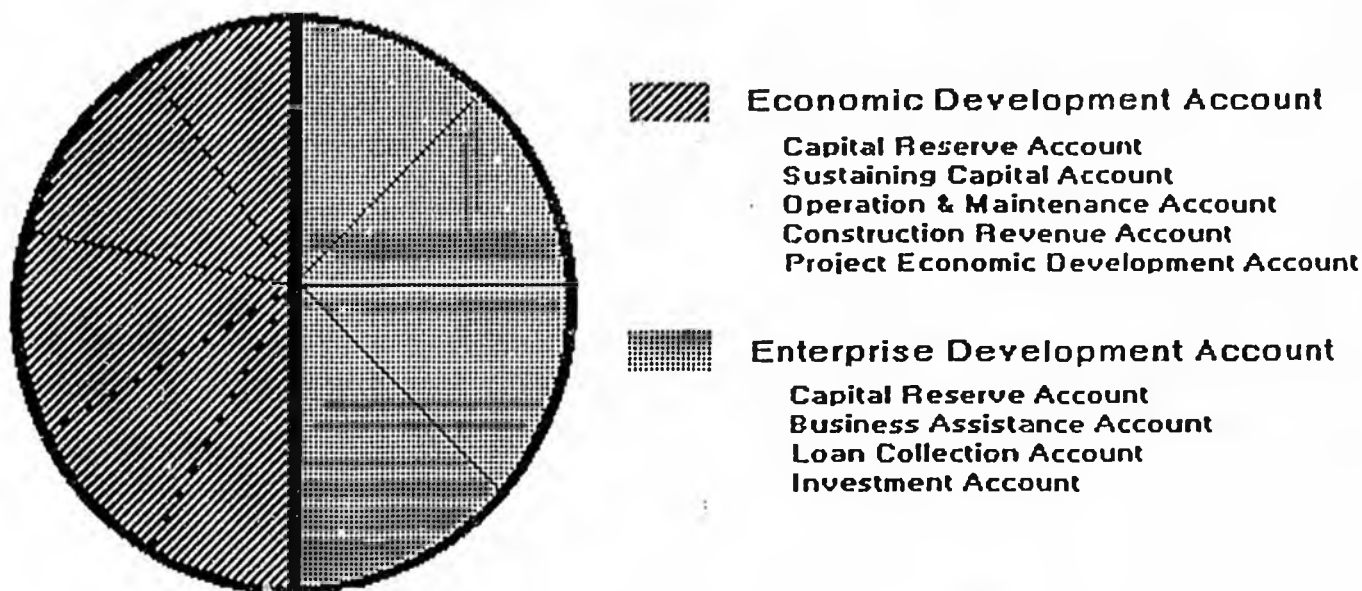
The principle amount of a loan retained by the originator is increased from 10% to 20%.

The Authority can regulate conditions where it will no longer purchase loan participations from a financial institution as a result of excessive delinquencies.

The Authority will be able to utilize assets in pursuing the promotion of resource development projects by revising the scope of the Revolving Fund.

The revolving fund is comprised of two primary accounts: the *Enterprise Development Account* and the *Economic Development Account*. The Enterprise Development account is utilized for daily operations and obligations of the Authority and the Economic Development Account is utilized for major development projects like Red Dog. All accounts are independent and monies cannot be transferred between accounts.

THE REVOLVING FUND



Proposed:

"Pool" all the non-promised monies of both major accounts together to function as a general fund.

Senate Bill 249 proposes the following changes to the Authority's Commercial Business Loan Program to effectively market the program to banking institutions.

The guaranteed portion of the loan is increased from 70% to 80%.

The guarantee will cover \$1 million or less, as opposed to guaranteeing a loan of \$1 million or less.

The Authority is given the power to pay liquidation costs of collateral securing loans that are guaranteed by this program as deemed necessary.

The changes proposed in this legislation will not require additional funding.

SECTIONAL ANALYSIS

Senate Bill 249

"An Act Relating to the Alaska Industrial Development and Export Authority; and providing for an effective date"

DISCUSSION:

The purpose of this legislation is to further the Alaska Industrial Development and Export Authority's efforts in promoting employment through resource development projects. The Authority has historically functioned as a correspondent to Alaskan banks, financing real estate mortgages in the service sector of the economy. This legislation is an attempt to redirect the Authority's efforts to achieve the goal of increased employment through primary sector industrial development. This redirection is an attempt to create new jobs and promote population growth within the State. This in turn will provide assistance to the service sector which currently is suffering from a lack of demand.

The congressional changes to the tax code in 1986 significantly altered the type of projects that can be financed with the proceeds of tax-exempt bonds. The only projects currently eligible are manufacturing plants (through December 31, 1989) and certain facilities referred to as "exempt facilities." Financing for airports, docks, and wharves is still available if the project is owned by a governmental entity. This change in the tax law has reduced the attractiveness and demand for Authority tax-exempt financing.

The definition of a development project in AS 44.88.900(9)(A) limits Authority ownership. The current definition stresses the primary resource industries, and accentuates transportation and infrastructure associated with those projects.

This legislation does not eliminate the essential framework whereby the Authority acts as a correspondent to Alaskan banks. The current banking situation has curtailed many of the existing banks correspondent relationships. It is critical that the Authority remain as an institute correspondent during these difficult times.

Pursuant to its purpose, all provisions of the bill accomplish at least one of the following four objectives.

1. Increase efforts in promoting resource development projects.
2. Amend existing statutes to allow utilization of the Authority's assets in pursuing the promotion of development projects.
3. Conform existing statutes to the 1986 Tax Act.
4. Reorganize, refine, and consolidate statutes of the Authority.

Section 1. AS 44.88.010(a)(9):

Three changes are made in this section: two deletions of dated language that is no longer applicable, and an addition allowing the Authority to participate in different types of ownership.

The deletions conform state law to the federal law changes made as a result of the 1986 Tax Reform Act.

The addition defines the necessary relationship possibilities between the Authority and other persons or entities. Each project will face unique problems, and flexibility is needed to address and overcome them. Without this flexibility, the Authority's effectiveness in promoting resource development projects will be limited.

Section 2. AS 44.88.010(c):

There are two changes in this section: the addition that sets forth the Authority's scope of providing financial support for or with various persons or entities, and the deletion removes language that is unnecessary and could be viewed as applying only to exports.

Section 3. AS 44.88.060:

The two additions in this section establish the scope of the revolving fund. The revolving fund is currently made up of two separate accounts: the Enterprise Development Account where loans are originated and financed through banks, and the Economic Development Account designated for major development projects. The additions allow the Authority to create additional accounts within the unrestricted accounts of the revolving fund, and transfer monies between accounts subject to bond-holder agreements. The investment powers are moved into the revolving fund, allowing it to function as the general fund and be invested in accordance with Title 37.

Section 4. AS 44.88.070:

The addition in this section sets forth the Authority's scope of owning and operating development projects: solely or by partnership, joint venture, or other agreement with another person. This definition is necessary as the projects contemplated will require the flexibility to deal with different forms of ownership and operation.

Section 5. AS 44.88.080(14):

The two additions in this section broaden and conform the Authority's scope of powers with regard to development projects that are not standardized.

Section 6. AS 44.88.090(a):

The deletion in this section removes language that is unnecessary in this legislation as proposed.

Section 7. AS 44.88:

This addition creates a new section, 44.88.095, BONDING LIMITATIONS. It consolidates all the Authority's statutory limitations regarding the issuance of bonds into one section. The provisions do not change and are merely moved from another section with one exception; the Authority will have the ability to issue bonds up to \$25 million as opposed to \$10 million to assist in the financing or operation of a development project without prior legislative approval. Local approval is still required under this section.

Section 8. AS 44.88.105(a):

The deletion in this section eliminates the ceiling on bonds regarding the establishment of capital reserve funds. It also eliminates the state's moral obligation to supplement a capital reserve fund created after January 1, 1989 should it ever fall below the required amount.

With this elimination of moral obligation, bonds of the Authority issued after January 1, 1989, will stand on their own and do not contingently obligate the State in any form whatsoever. Since 1981 all bonds have had the benefit of the State's moral obligation. It is now appropriate that the Authority stand on its own financially with respect to future bond issues. Of course, the Authority's bonds that are already outstanding and were issued with the moral obligation will continue to have that benefit.

Section 9. AS 44.88.105(d):

This addition is in conjunction with the changes of section 8 and sets forth the date, January 1, 1989, after which no additional moral obligation bonds could be issued.

Section 10. AS 44.88.155(b):

The change in this section allows the Authority to establish accounts within the enterprise development account considered appropriate by the Authority.

Section 11. AS 44.88.155(c)

The deletion in this section is in conjunction with the changes in section 3, it simply moves the investment powers into the revolving fund.

Section 12. AS 44.88.155(d):

There are two changes and one deletion in this section.

The first change allows the Authority to participate in the financing of projects that previously have been beyond the Authority's financial scope. Increasing the loan limit on a project from \$10 million to \$25 million will allow the Authority to participate in larger projects strictly as a correspondent. Several tourism-related projects have been beyond the \$10 million limit. This change would allow Authority participation in these projects.

The second change requires that the principle amount of a loan held by the originator be increased from 10% to 20% as long as the loan is outstanding. This would promote caution when banks contemplate selling their loans to the Authority. They will be responsible for holding a more significant portion of the credit and hopefully act accordingly.

The deletion will allow the Authority to become active in purchasing the guaranteed portion of federal SBA loans from banks. The revised investment statute, AS. 37.10.071, will permit the Authority to invest its funds in the guaranteed portion of federal SBA loans once the program restrictions are removed from statute. This flexibility is essential. The SBA modifies its program periodically, and casting the program in statute does not provide enough flexibility to maintain a market presence in these guarantees.

Section 13. AS 44.88.165:

The statute regarding loan delinquencies is repealed and reenacted. It allows the Authority to regulate conditions whereby it may discontinue purchase of loan participations from a financial institution because of excessive loan delinquencies. This revision is necessary to allow more financial institutions to participate in the authority's loan programs.

Section 14. AS 44.88.172(a):

The additions to this section establish the Economic Development Account within the Revolving Fund. They set forth the scope for which the Economic Development Account will be used.

The changes to the following three sections affect the Authority's commercial business loan guarantee program. These changes are necessary to make this program more marketable to banking institutions.

Section 15. AS 44.88.535(b):

The guaranteed portion of the loan is increased from 70% to 80%

Section 16. AS 44.88.545:

The guaranty will cover \$1 million or less, as opposed to guaranteeing a loan of \$1 million or less.

Section 17. AS 44.88.560:

The Authority is given the power to provide for the payment of the interest on costs of collateral securing loans that are guaranteed under this program when the Authority considers it to be in its best interest to do so.

Section 18. AS 44.88.900(4):

This section clarifies the definition of "development" project by referring to the resource development oriented plants and facilities described in the definition of "project," including transportation related facilities as set forth in section 19.

Section 19. AS 44.88.900(9):

There is one addition and deletion in this section. The addition includes certain transportation facilities in the definition of a project, while the deletion eliminates the obsolete language from the tax code prior to the 1986 Tax Reform Act.

Section 20. Repealed statutes:

AS 44.88.090(g), 44.88.160, 44.88.172(c), 44.88.175, and 44.88.176 are reenacted in substantially the same form and placed in Section 6, Bonding Limitations.

AS 44.88.090(i) is repealed to allow the Authority to issue bonds after January 1, 1990.

AS 44.88.105(e) and (g) relate to the moral obligation provisions, that under this legislation, would terminate on January 1, 1989. The provisions of 44.88.105(e) duplicate those added by section 10, AS 44.88.155(d)(7)(A) of this legislation.

AS 44.88.157 creates a loan insurance account and permits the Authority to insure loans purchased under its general financing provisions. This section is unnecessary because it has not been used since its inception.

AS 44.88.159(c), 44.88.212(a), and 44.88.900(3) refer to AS 44.88.158, the small business enterprise loan account that is repealed under this legislation.

AS 44.88.158 provides authority that is already given in the investment powers (AS 37.10.071) in the revolving loan fund.

The deletion in section 10, page 8, line 10 will allow the Authority to become active once again in purchasing the guaranteed portion of federal SBA loans from banks. The revised investment statute, AS 37.10.071, will permit the Authority to invest its funds in the guaranteed portion of federal SBA loans once the program restrictions are removed from statute. This flexibility is essential. The SBA modifies its program periodically, and casting the program in statute does not provide enough flexibility to maintain a market presence in these guarantees.

AS 44.88.172(b) does not allow use of the Authority's assets for resource development projects and is repealed.

Section 21:

This section provides for an immediate effective date.

1 IN THE SENATE

BY PEARCE

2

SENATE BILL NO. 249

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the Alaska Industrial Development
and Export Authority; and providing for an effective
date."

7

8

9

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

10

* Section 1. AS 44.88.010(a)(9) is amended to read:

11

(9) the achievement of the goal of full employment, and of

12

establishment and continuing operation and development of industrial,

13

manufacturing, export, small business, and business enterprises in the

14

state [, INCLUDING, WITHOUT LIMITATION, FACILITIES FOR TRANSPORTATION,

15

FACILITIES FOR POLLUTION CONTROL AND WASTE DISPOSAL, FACILITIES FOR

16

THE LOCAL FURNISHING OF GAS, FACILITIES FOR WATER, FACILITIES FOR

17

INDUSTRIAL PARKS, MASS COMMUTING VEHICLES, FACILITIES FOR LOCAL DIS-

18

TRICT HEATING OR COOLING, PARKING FACILITIES, OR A STORAGE OR TRAINING

19

FACILITY RELATING TO A PLANT OR FACILITY,] will be accelerated and

20

facilitated by the creation of an instrumentality of the state with

21

powers to incur debt, to own and operate facilities, to enter into

22

partnership, joint venture, and other agreements with other persons

23

with respect to the ownership, operation, or construction of facil-

24

ities, and to make and insure loans to finance, and to assist private

25

lenders to make loans to finance, the establishment, operation, and

26

development of industrial, manufacturing, export, small business, and

27

business enterprises [, INCLUDING, WITHOUT LIMITATION, FACILITIES FOR

28

TRANSPORTATION, FACILITIES FOR POLLUTION CONTROL AND WASTE DISPOSAL,

29

FACILITIES FOR THE LOCAL FURNISHING OF GAS, FACILITIES FOR WATER,

1 FACILITIES FOR INDUSTRIAL PARKS, MASS COMMUTING VEHICLES, FACILITIES
2 FOR LOCAL DISTRICT HEATING OR COOLING, PARKING FACILITIES, OR A STOR-
3 AGE OR TRAINING FACILITY RELATING TO A PLANT OR FACILITY];

4 * Sec. 2. AS 44.88.010(c) is amended to read:

5 (c) It is further declared to be the policy of the state, in the
6 interests of promoting the health, security, and general welfare of
7 all the people of the state, and a public purpose of the state, to
8 accomplish the objectives set out in (b) of this section through the
9 provision of financial support, in the form of loans, guarantees,
10 equity investments, or other methods provided in this chapter, for or
11 in cooperation with, or through joint venture, partnership, or other
12 agreements with, public [FEDERAL, STATE,] and private institutions
13 [FOR THE PURPOSE OF INCREASING THE EXPORT OF ALASKA GOODS, TALENT, RAW
14 MATERIALS, AND SERVICES].

15 * Sec. 3. AS 44.88.060 is amended to read:

16 Sec. 44.88.060. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTH-
17 ORITY REVOLVING FUND. The Alaska Industrial Development and Export
18 Authority revolving fund is established in the authority. The revolv-
19 ing fund consists of appropriations made to the revolving fund by the
20 legislature, money or other assets transferred to the revolving fund
21 by the authority, and unrestricted payments on loans made or purchased
22 by the authority. Unless otherwise expressly stated, the accounts
23 created in this chapter are accounts in the revolving fund. The
24 authority may create additional accounts either in the revolving fund
25 or outside the revolving fund. Subject to agreements made with the
26 holders of the authority's bonds or with other persons, the authority
27 may transfer amounts in an account in the revolving fund to another
28 account in the revolving fund. Amounts deposited in the revolving
29 fund may be pledged to the payment of bonds of the authority or ex-

1 pended for the purposes of the authority under this chapter. The
2 authority has the powers and responsibilities established in AS 37.-
3 10.071 with respect to the investment of amounts held in revolving
4 fund.

5 * Sec. 4. AS 44.88.070(2) is amended to read:

6 (2) owning and operating, either solely or by partnership,
7 joint venture, or other agreement with another person, the enterprises
8 and other facilities described in AS 44.88.172;

9 * Sec. 5. AS 44.88.080(14) is amended to read:

10 (14) to acquire, manage, and operate projects, and to enter
11 into agreements with other persons for shared ownership, operation, or
12 construction of projects, as the authority considers necessary or
13 appropriate to serve a public purpose or to exercise its powers under
14 this chapter;

15 * Sec. 6. AS 44.88.090(a) is amended to read:

16 (a) The [SUBJECT TO (g) OF THIS SECTION, THE] authority may
17 borrow money and may issue bonds, including but not limited to bonds
18 on which the principal and interest are payable

19 (1) exclusively from the income and receipts or other money
20 derived from the project or development project financed with the
21 proceeds of the bonds or derived from the exporter or exporting trans-
22 action financed, guaranteed, or insured with the proceeds of the
23 bonds;

24 (2) exclusively from the income and receipts or other money
25 derived from designated projects or development projects or other
26 sources whether or not they are financed, insured, or guaranteed in
27 whole or in part with the proceeds of the bonds; or

28 (3) from its income and receipts or other assets generally,
29 or a designated part or parts of them.

1 * Sec. 7. AS 44.88 is amended by adding a new section to read:

2 Sec. 44.88.095. BONDING LIMITATIONS. (a) The authority may not
3 issue bonds in a 12-month period in an amount that exceeds
4 \$400,000,000.

5 (b) The authority may not issue revenue bonds, other than re-
6 funding bonds, to purchase a loan for a project under AS 44.88.155 -
7 44.88.159, to acquire a development project or an interest in a devel-
8 opment project under AS 44.88.172 - 44.88.177 or to provide money to
9 finance, guarantee, or insure an exporting transaction under AS 44.-
10 88.300 - 44.88.390 in an amount greater than \$50,000,000 during any
11 12-month period unless the issuance is included separately in the
12 estimates required in the report of the authority under AS 44.88.-
13 210(b) and unless the legislature, by law, approves the issuance.

14 (c) Before entering into a lease or other agreement under
15 AS 44.88.090(e) regarding a project for which the authority agrees to
16 issue bonds in an amount in excess of \$6,000,000, there must be filed
17 with the authority a certified copy of a resolution of the governing
18 body of the political subdivision of the state, if any, in which the
19 project is to be located, consenting to the location of the project.
20 The consent need only refer to the general nature of the project
21 ultimately to be acquired, as set out in a request of the proposed
22 project applicant. Before entering into a lease or other agreement
23 under AS 44.88.090(e) regarding a project, the authority shall find,
24 on the basis of all information reasonably available to it, that

25 (1) the project and its development under this chapter will
26 be economically advantageous to the state and the general public
27 welfare and will contribute to the economic growth of the state;

28 (2) the project applicant is financially responsible;

29 (3) provision to meet increased demand upon public facili-

1 ties that might result from the project is reasonably assured; and

2 (4) the project will provide, or retain, employment reason-
3 ably related to the amount of the financing by the authority, con-
4 sidering the amount of investment per employee for comparable facil-
5 ities and other relevant factors.

6 (d) Before adopting a resolution approving a project to be
7 financed under AS 44.88.172 for which bonds must be issued, the au-
8 thority shall, on the basis of all information reasonably available to
9 it, make findings, with respect to the project, as described in
10 (c)(1) - (4) of this section, and also find that

11 (1) the project is economically and financially feasible
12 and able to produce revenue adequate to repay the bonds or loans with
13 which it is financed;

14 (2) the project complies with applicable law; and

15 (3) issuance of the bonds is not expected to adversely
16 affect the ability of the state or any political subdivision of the
17 state to market other bonds.

18 (e) Before entering into an agreement to finance or to develop a
19 proposed project with a cost in excess of \$10,000,000 financed under
20 AS 44.88.172 for which bonds must be issued, the authority shall
21 obtain the approval of each Regional Resource Advisory Council
22 appointed under AS 44.88.174 or municipality in the area in which the
23 proposed project is to be located. Approval under this subsection
24 must be evidenced by a certified copy of a resolution of the council
25 or of the governing body of the municipality. Before considering a
26 resolution regarding the approval or rejection of the development or
27 financing of a proposed project under this subsection, a Regional
28 Resource Advisory Council shall conduct a public hearing in the
29 region. If a proposed project is located in a municipality, the

1 governing body of the municipality shall conduct a hearing on the
2 proposed project.

3 (f) Without prior legislative approval, the authority may not
4 issue bonds in an amount greater than \$25,000,000 to assist in the
5 financing of a development project under AS 44.88.172 - 44.88.177.

6 * Sec. 8. AS 44.88.105(a) is amended to read:

7 (a) For the purpose of securing one or more issues of its bonds,
8 the authority may establish one or more special funds, called "capital
9 reserve funds", and shall pay into those capital reserve funds the
10 proceeds of the sale of its bonds and other money which may be made
11 available to the authority from other sources for the purposes of the
12 capital reserve funds. A capital reserve fund may be established only
13 if the authority determines that the establishment of the fund would
14 enhance the marketability of the bonds [, AND IF THOSE COSTS OF A
15 PROJECT, AS DEFINED IN AS 44.88.900, WHICH ARE TO BE FINANCED WITH THE
16 PROCEEDS OF THE BONDS, DO NOT EXCEED \$10,000,000]. Money in a capital
17 reserve fund, except as provided in this section, may be used as
18 required only for (1) the payment of the principal of, and interest
19 on, bonds or of the sinking fund payments with respect to those bonds;
20 (2) the purchase or redemption of the bonds; or (3) the payment of a
21 redemption premium required to be paid when the bonds are redeemed
22 before maturity. However, money in a capital reserve fund may not be
23 withdrawn if the withdrawal would reduce the minimum in the capital
24 reserve fund to less than the capital reserve minimum requirement, except
25 for the purpose of making payment, when due, of principal, interest,
26 redemption premiums on the bonds, and sinking fund payments when other
27 money of the authority is not available for the payments. Income or
28 interest earned by, or increment to, a capital reserve fund, from the
29 investment of all or part of the fund, may be transferred by the

1 authority to other funds or accounts of the authority if the transfer
2 does not reduce the amount of the capital reserve fund below the
3 capital reserve fund requirement.

4 * Sec. 9. AS 44.88.105(d) is amended to read:

5 (d) With respect to a capital reserve fund created under this
6 section on or before January 1, 1989, the [THE] chairman of the
7 authority shall annually, no later than January 2, certify in writing
8 to the governor and the legislature the amount, if any, required to
9 restore the [A] capital reserve fund to the capital reserve fund
10 requirement. The legislature may appropriate to the authority the
11 amount certified by the chairman of the authority. The authority
12 shall deposit the amounts appropriated under this subsection during a
13 fiscal year in the proper capital reserve fund. Nothing in this
14 section creates a debt or liability of the state.

15 * Sec. 10. AS 44.88.155(b) is amended to read:

16 (b) The authority may establish in the enterprise develop-
17 ment account the [A SMALL ENTERPRISE LOAN ACCOUNT, A LOAN INSURANCE
18 ACCOUNT, AND OTHER] accounts it considers appropriate.

19 * Sec. 11. AS 44.88.155(c) is amended to read:

20 (c) Money and other assets of the enterprise development account
21 may be used to secure bonds of the authority issued to finance the
22 purchase of loans for projects [AND SHALL BE HELD AND INVESTED BY THE
23 AUTHORITY IN ACCORDANCE WITH AS 37.10.071] or shall be used to pur-
24 chase loans for projects.

25 * Sec. 12. AS 44.88.155(d) is amended to read:

26 (d) A loan purchased in whole or in part by the authority with
27 assets of the enterprise development account or with proceeds of bonds
28 secured by assets of the enterprise development account, other than a
29 loan which is financed with the proceeds of bonds of the authority and

1 secured only by a project applicant or a project,

2 (1) may not exceed \$25,000,000

3 [(A) \$10,000,000; OR

4 (B) \$500,000 IF THE LOAN IS PURCHASED UNDER AS 44.88.-

5 158];

6 (2) may not exceed the cost of the project or 75 percent of
7 the appraised value of the project, whichever is less, unless the
8 amount of the loan in excess of this limit is federally insured or
9 guaranteed or is insured by a qualified mortgage insurance company;

10 (3) may not be for a term longer than three-quarters of the
11 authority's estimate of the life of the project or 25 years from the
12 date the loan is made, whichever is earlier;

13 (4) shall contain complete amortization provisions satis-
14 factory to the authority requiring periodic payments by the borrower;

15 (5) shall be in the form and contain the terms and provi-
16 sions with respect to insurance, repairs, alterations, payment of
17 taxes and assessments, default reserves, delinquency charges, default
18 remedies, acceleration of maturity, secondary liens, and other matters
19 the authority prescribes;

20 (6) shall be secured as to repayment by a mortgage or other
21 security instrument in the manner the authority determines is feasible
22 to assure timely repayment under a loan agreement entered into with
23 the borrower;

24 (7) may not be made unless

25 (A) at least 20 [10] percent of the principal amount
26 of the loan is retained by the originator of the loan as long as
27 the loan is outstanding; or

28 (B) 100 percent of the principal amount of the loan is
29 guaranteed by the United States or an agency or instrumentality

1 of the United States;

2 (8) must be

3 (A) [AT LEAST PARTIALLY GUARANTEED BY THE UNITED
4 STATES OR AN AGENCY OR INSTRUMENTALITY OF THE UNITED STATES,
5 SUBJECT TO THE PROVISIONS OF AS 44.88.158;

6 (B)] financed from the proceeds of bonds; or

7 (B) [(C)] expected by the authority to be financed
8 from the proceeds of bonds.

9 * Sec. 13. AS 44.88.165 is repealed and reenacted to read:

10 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
11 regulations to describe the circumstances under which it will discon-
12 tinue purchasing loans from a financial institution because of exces-
13 sive delinquencies among the loans previously purchased by the author-
14 ity from the financial institution. In adopting the regulations, the
15 authority must consider the authority's delinquency experience with
16 loans it purchased from all financial institutions. The authority may
17 include in the regulations other remedies it considers appropriate as
18 alternatives to the discontinuance of purchasing loans from the finan-
19 cial institution.

20 * Sec. 14. AS 44.88.172(a) is amended to read:

21 (a) The economic development account is established in the
22 revolving fund. The economic development account consists of money or
23 assets appropriated, loaned, or transferred to the authority for
24 deposit in the account [,] and other money or assets deposited in the
25 account by the authority. While money is on deposit in the economic
26 development account, the money [THE ACCOUNT] may be used only to
27 finance, acquire, manage, and operate development projects that the
28 authority intends to own and operate either solely or by partnership,
29 joint venture, or other agreement with another person. The term

1 "operate" includes operation directly by the authority [,] or by an
2 agent of the authority.

3 * Sec. 15. AS 44.88.535(b) is amended to read:

4 (b) The authority may provide a guarantee from the fund for up
5 to 80 [70] percent of a loan that qualifies under AS 44.88.500 -
6 44.88.599. The ratio of the guarantee to the outstanding principal of
7 the loan may not increase over the term of the loan.

8 * Sec. 16. AS 44.88.545 is amended to read:

9 Sec. 44.88.545. LIMITATIONS OF GUARANTEES WITH RESPECT TO
10 BORROWERS. The authority may not provide a guarantee

11 (1) [A LOAN] of more than \$1,000,000;

12 (2) [LOANS] to an individual borrower that cumulatively
13 exceeds [EXCEED] \$1,000,000 of guaranteed indebtedness.

14 * Sec. 17. AS 44.88.560 is amended to read:

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

16 (1) adopt regulations to implement AS 44.88.500 - 44.88.-
17 599;

18 (2) establish terms and conditions for loan guarantees and
19 refinancing agreements subject to the requirements of AS 44.88.500 -
20 44.88.599;

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

23 (4) charge

24 (A) [(i)] one percent of the amount guaranteed for the
25 service it provides under AS 44.88.500 - 44.88.599; and

26 (B) [(ii)] any other reasonable fee that the authority
27 may establish by regulation;

28 (5) acquire real or personal property by purchase,
29 transfer, or foreclosure when the acquisition is necessary to protect

1 an interest in the fund; and

2 (6) exercise any other power necessary to implement AS 44.-
3 88.500 - 44.88.599;

4 (7) to the extent the authority considers it to be in its
5 best interest to do so, use money in the business assistance fund to
6 pay expenses relating to the liquidation of collateral securing loans
7 guaranteed by the business assistance fund.

8 * Sec. 18. AS 44.88.900(4) is repealed and reenacted to read:

9 (4) "development project" has the meaning given to "proj-
10 ect" in (9)(A) of this section;

11 * Sec. 19. AS 44.88.900(9) is amended to read:

12 (9) "project" means

13 (A) a plant or facility used or intended for use

14 [(i)] in connection with making, processing, pre-
15 paring, transporting, or producing in any manner, goods,
16 products, or substances of any kind or nature or in connec-
17 tion with developing or utilizing a natural resource, or
18 extracting, smelting, transporting, converting, assembling,
19 or producing in any manner, minerals, raw materials, chemi-
20 cals, compounds, alloys, fibers, commodities and materials,
21 products, or substances of any kind or nature;

22 [(ii) AS AN INDUSTRIAL PARK; IN CONNECTION WITH
23 TRANSPORTATION; FOR THE PREVENTION, LIMITATION OR CONTROL OF
24 POLLUTION; FOR THE DISPOSAL OF SEWAGE OR SOLID WASTE; FOR
25 THE LOCAL FURNISHING OF GAS; FOR THE FURNISHING OF WATER; AS
26 OR IN CONNECTION WITH MASS COMMUTING VEHICLES; FOR LOCAL
27 DISTRICT HEATING OR COOLING; AS A PARKING FACILITY; OR AS A
28 STORAGE OR TRAINING FACILITY DIRECTLY RELATED TO A PLANT OR
29 FACILITY DESCRIBED IN THIS PARAGRAPH;]

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

3 (C) commercial activity by a small enterprise;

4 * Sec. 20. AS 44.38.090(g), 44.88.090(i), 44.88.105(e), 44.88.105(g),
5 44.88.157, 44.88.158, 44.88.159(c), 44.88.160, 44.88.172(b), 44.88.172(c),
6 44.88.175, 44.88.176, 44.88.212(a), and 44.88.900(3) are repealed.

7 * Sec. 21. This Act takes effect immediately under AS 01.10.070(c).



Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907 463-3366

GENERAL CONCERNS WITH HB 123 / SB249 --AIDEA

The Alaska Environmental Lobby has the following concerns :

- 1 The findings required before AIDEA enters into a lease or other agreement lack consideration of a) potential land use conflicts and b) environmental, social, and economic concerns.
- 2 A local hearing is required only if the project exceeds \$10,000,000.
- 3 No legislative review is required on projects under \$25,000,000.

As a land use planner, I am aware that potential land use conflicts are tied to the nature of a proposed development. People can be brought together to create win-win solutions that work for all parties by incorporating provisions for local review and land use conflict resolution. This is particularly important in Alaska where many areas do not have land use ordinances.

Requirements for local hearings and provisions in the bill for the consideration of land use and other social, economic, and environmental concerns need not be a stumbling block to economic development. These provisions pave the way for resource development which is compatible with the community and the environment. This balanced approach avoids potential litigation and public relations problems. It ensures that future funds will not be spent for mitigating environmental damage and that environmental degradation will not impact existing industry within the area.

We believe that the \$25,000,000 threshold for legislative review is too high. Projects much smaller than that may involve major public policy decisions .

We appreciate your consideration of these issues.

Becky Achten 4-14-89

ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER, SIERRA CLUB • JUNEAU GROUP, SIERRA CLUB • SITKA GROUP, SIERRA CLUB
 KNIK GROUP, SIERRA CLUB • DENALI GROUP, SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY
 DENALI CITIZENS' COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY
 KENAI PENINSULA AUDUBON SOCIETY • KODIAK AUDUBON SOCIETY • LYNN CANAL CONSERVATION • ALASKA WILDLIFE ALLIANCE
 SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL
 KNIK KANOERS AND KAYAKERS

REPEALERS

AS 44.88.090(g)

This section is deleted and reenacted under bond limitations. (g)(1) becomes 44.88.095(a) with a technical change only. The language in (g)(1) equates to \$400 million when the history of bond authorization is followed back to enactment in 1980. As time progresses, this gets increasingly difficult to do and as a simplification the \$400 million is now directly stated in the CS.

(g)(2) is moved and becomes AS 44.88.095(b)

AS 44.88.090(i)

This language is deleted and with the adoption of the amendments to the CS will appear as a new section (g) on page 6, line 6, on the CS with the one change being instead of reading "1990" it will read "1991."

AS 44.88.105(e)

This section is repealed as it is no longer necessary. The CS provides on page 8, line 26, that 20% of a loan be retained by the originator.

AS 44.88.105(g)

This section is repealed as it is no longer necessary. The CS provides on page 6, line 5, that a project in excess of \$10 million requires legislative approval.

AS 44.88.157

This section is repealed in its entirety and not reenacted in the CS. The loan insurance sections were written in 1980 and have never been utilized. At the time of the original drafting it was believed possible that to sell Authority bonds the Authority must insure its loans (self-insure) as well as pledge its credit. This proved unnecessary in the marketplace.

AS 44.88.158

This repeals the S.B.A. purchase program from statute and its attendant restrictions. The rationale for this repeal is that the state's investment statutes now provide that the governmental portion of S.B.A. loans can be purchased with Authority funds (AS 37.10.071). The Authority will be allowed to purchase that portion guaranteed by the U.S. Government with this repealer.

AS 44.88.159(c)

Same as AS 44.88.158 (removing from statute restrictions on the S.B.A. purchase program).

AS 44.88.160

This section is repealed and reenacted in the CS on page 4 under bonding limitations. The one exception is AS 44.88.160(5) which is deleted in that it says the same thing as AS 44.88.160(1).

AS 44.88.172(b)

This is deleted as the CS sets up a revolving fund on page 2, line 23, and all accounts become part of the revolving fund.

AS 44.88.172(c)

This is repealed and covered by page 6, line 6, concerning legislative approval (same as AS 44.88.090(i)).

AS 44.88.175

This is now contained on page 4, line 3, Bonding Limitations.

AS 44.88.176

This is relocated to the section on bonding limitations beginning on page 4, line 3.

AS 44.88.212(a)

Deleted as it deals with the S.B.A. purchase program.

AS 44.88.900(3)

Deleted as it deals with the S.B.A. purchase program.

4300 B STREET | SUITE 105 | ANCHORAGE | ALASKA 99503
MEMBER NEW YORK STOCK EXCHANGE, INC. AND OTHER PRINCIPAL EXCHANGES

907.563.4300

May 8, 1989

Senator Dick Eliason
Room 417, Capitol
Juneau, Alaska 99811

Dear Senator Eliason,

Your support of Senate Bill 249 to expand the authority and the flexibility of the Alaska Industrial Development and Export Authority is needed. This bill enhances the opportunity for Alaska to facilitate more resource based financings which could create thousands of new jobs and help diversify our economy. Any comments or suggestions on how I could help the administration on this bill would be appreciated.

Sincerely

A handwritten signature in cursive script that reads 'Allan R. Johnston'.

Allan R. Johnston
Regional Manager

"People Serving People"



THE
GEORGE
WASHINGTON
UNIVERSITY

School of Government and Business Administration / Washington, D.C. 20052

*Department of
Business Administration
(202)676-6115*

Mr. Allan R. Johnston
Vice President
Wedbush Securities
1009 Cushman Street
Fairbanks, Alaska 99701

April 22, 1988

Dear Mr. Johnston:

Thank you for your letter of March 4, as well as the reference materials on oil and other commodity-indexed bond issues. I am sorry that I am late in commenting on your ideas because of my long trip to London, Manila and Seoul over a six-week period.

I am very enthusiastic about the prospect of Alaska to be more active in international trade and finance as part of its move toward diversifying its economic base both in terms of industry and geography. Since Alaska is abundantly endowed with natural resources such as oil, natural gas, timber and other mineral deposits, it would be ideal for Alaskan entities to float commodity-based bond issues on international markets.

For example, bond issues linked with oil or other Alaskan commodities would have several advantages:

1. It would serve as a low-cost financing source for Alaska, since commodity indexed bonds carry much lower interest rate than regular bonds.
2. It would serve as a partial hedging mechanism for Alaska against the fluctuation in the market prices of these commodities.
3. It would spread the name of Alaska in international financial markets and indirectly promote more investor interest in the State of Alaska.
4. Finally, such experiment would increase the financial market expertise of Alaskan financial institutions.

For the above reasons, I strongly support the idea of floating commodity-indexed bonds by Alaskan public and private sector agencies involved in natural resource development in Alaska. Please keep me posted on further developments there.

Sincerely yours,

Yoon S. Park
Professor of Business Admin.

School of Management
Michael L. Rice, Dean



UNIVERSITY OF ALASKA FAIRBANKS
Fairbanks, Alaska 99775

Mr. Allan R. Johnston
Regional Manager
Wedbush Securities
714 Fourth Avenue
Fairbanks Alaska 99701

Dear Allan,

I have just read your report : *Oil Indexed Bond Concept* . The concept is a sound one. Clearly East Asian countries such as Japan have a very real interest in assuring long-run access to petroleum resources at reasonable cost. Our problem, just as clearly, is one of assuring long-run markets for Alaska's petroleum reserves and at reasonable margins. This is a perfect opportunity for a new financial instrument to reduce the high volatility of oil prices for both parties.

The implications of making a market in the new instrument for the development of Anchorage as a major international financial center are both interesting and possible. This would be a benefit to Alaska quite above and beyond the obvious good financial effects on our oil-based revenue.

I am impressed with your idea. If there is any way the School of Management can be helpful in seeing this idea become a reality please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael L. Rice".

Michael L. Rice, Dean
School of Management

FRANK H. MURKOWSKI
ALASKA

COMMITTEES:
VETERANS' AFFAIRS (RANKING MEMBER)
ENERGY AND NATURAL RESOURCES
FOREIGN RELATIONS
INDIAN AFFAIRS
INTELLIGENCE

United States Senate

WASHINGTON, DC 20510
(202) 224-6866

ANCHORAGE
U.S. FEDERAL BUILDING
701 C STREET, BOX 1 99513
(907) 271-3736
FAIRBANKS
U.S. FEDERAL BUILDING
101 12TH AVENUE, BOX 7 99701
(907) 456-0733
JUNEAU
U.S. FEDERAL BUILDING
BOX 1047 99801
(907) 886-7400

February 25, 1988

Mr. Allan R. Johnston
Vice President
Wedbush Securities, Inc.
1009 Cushman Street
Fairbanks, Alaska 99701

Dear Allan:

Thank you for forwarding to me a copy of Dr. Park's paper "Advancing Alaska's Strategic Position in International Trade and Finance" as well as your ideas for an oil-indexed bond.

Although your proposal is still in its infancy, I believe your ideas definitely merit further consideration. If Alaska is going to develop as an economic hub of the Pacific Rim, a financial service center such as the one proposed in Dr. Park's paper would be a good step in this direction.

With respect to your idea of an oil-indexed bond I believe that such an instrument may also have potential. You will have to develop this idea further, though, with representatives from the financial community. I would like to be kept informed of your efforts in this regard. I appreciate your interest in exploring new ideas that may lead to the diversification of Alaska's economy.

Once again, thank you for taking the time to share your ideas with me.

Sincerely,



Frank H. Murkowski
United States Senator

United Brotherhood of Carpenters and Joiners of America

LOCAL UNION NO. 1743



Farthest North Local in the World

DON K. SWARNER
Business Representative
Financial Secretary-Treasurer

907 482-5308
907 482-3862

215 FIFTH AVENUE
P.O. BOX 347
FAIRBANKS, ALASKA
99707

June 9, 1988

Allan R. Johnston
Wedbush Securities, Inc.
714 Fourth Avenue, #305
Fairbanks, Alaska 99701

Dear Allan:

The low-interest resource-backed bond proposal we discussed today sounds quite fascinating. If development projects were more economic by your financing method, then it would seem natural that more jobs would be created in the state. I would hope that the increased profitability of these projects would encourage a fair wage for the Alaskans employed by these projects. I support your endeavor in pursuing alternative sources of capital to stabilize the Alaskan economy.

Please keep me advised on your progress and let me know if there is anything I can do to help.

Sincerely,

Don Swarner, Bus. Rep./F.S.

DKS:jf



LABORERS INTERNATIONAL UNION OF NORTH AMERICA

LOCAL NUMBER 942

FAIRBANKS OFFICE: 316 BARNETTE ST., ALASKA 99701-4506 PHONE (907) 456-4504
JUNEAU OFFICE: 710 W. 9th AVE JUNEAU, ALASKA 99801, PHONE (907) 586-2880



WILLIE LEWIS
President

JOE J. THOMAS
Business Manager
Secretary-Treasurer

January 10, 1989

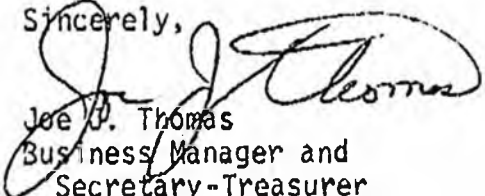
Allan R. Johnston, Regional Manager
Wedbush Securities, Inc.
714 Fourth Avenue, Suite 305
Fairbanks, Alaska 99701

Dear Allan:

Thank you for stopping by and discussing your low interest resource-backed bond proposal with me. If your assumptions are correct, then this financing vehicle should help increase employment opportunities as well as add more continuity and stability to existing projects. I am certainly in favor of new ideas that will create fair paying jobs for my members and I'd like you to keep me informed on your progress.

If I can help in any way, please feel free to call on me.

Sincerely,


Joe J. Thomas
Business Manager and
Secretary-Treasurer
Laborers' Local No. 942

JJT/cs



United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry

of the United States and Canada

Composed of journeymen and apprentices who have jurisdiction over every branch of the plumbing and pipe fitting industries

LOCAL NO. 375

STREET ADDRESS 3568 Geraghty Street

CITY STATE ZIP Fairbanks, Alaska 99709

SUBJECT MATTER

DATE

November 14, 1988

Allan R. Johnston, Regional Manager
Wedbush Securities, Inc.
714 Fourth Avenue, Suite 305
Fairbanks, Alaska 99701

Dear Allan;

Congratulations on an interesting and innovative proposal. As you are well aware, organized labor and the resource companies have been at odds over local hire for sometime. If your proposal is valid then there should be more stability, job opportunities and profitability in the natural resource industry which should benefit everyone. The cyclical nature of the Alaskan economy in general and the construction industry in particular requires that the working man receive an adequate wage to carry him through the substantial periods of unemployment. If your proposal can help moderate the cyclical nature of the Alaskan economy and help create jobs then please keep me posted on what you are doing and how I can help.

Sincerely,

J. L. "Lenny" Arsenault, Business Manager
Financial Secretary - Treasurer

ycc

MARVIN J. BOELE
General President

CHARLES J. HABIC
General Secretary-Treasurer

M. EDDIE MOORE
Asst. General President

LOUIS H. STINE
Asst. General Secretary-Treasurer



AFL-CIO-CFL

Letters should be confined to one subject



**YUKON
PACIFIC
CORPORATION**
TRANS ALASKA GAS SYSTEM

November 9, 1988

Mr. Allan R. Johnston
Wedbush Securities, Inc.
4300 B Street, Suite 105
Anchorage, Alaska 99503

Dear Allan:

Resource based bonding, as described in the material you have shared with us, could be an important means to finance long-term projects which depend on a certain market price level for viability.

Energy prices have as you know, fluctuated widely in recent years. For some projects that Alaska needs to get started, resource based bonding might help disperse the added risks of that volatility.

At the present time, I don't know if our company is interested in using this form of financing for the Trans-Alaska Gas System. However, it is in our interest to see that the option remains available and we would appreciate being kept informed of regulatory developments that could foreclose that opportunity.

Thank you for making us aware of this issue.

With best regards.

Sincerely,

Walter J. Hickel
Chairman

MT:mli

cc: Mr. E. John P. Browne

FROM E. JOHN P. BROWNE

EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

TELEPHONE
216 586-2325



BP AMERICA INC.

200 PUBLIC SQUARE 40-A
CLEVELAND, OHIO 44114-2375

August 22, 1988

Dear Allan:

Thank you for your recent letter concerning oil indexed bonds. As the first issuer of these bonds back in 1986, I was interested to learn of your proposal for oil indexed bonds to be used for state financing.

The Standard issue consisted of fixed coupon debentures and oil indexed warrants. The debentures have a 6.30% coupon and were sold at 74.70% of par. The warrants return their original cost plus an amount of interest contingent upon the future price of West Texas Intermediate Crude Oil. Warrant holders receive appreciation on a dollar-for-dollar basis for oil prices between \$25 and \$40 per barrel. Each 1990 warrant represents 170 barrels of oil and matures on December 15, 1990. Each 1992 note represents 200 barrels of oil and matures March 15, 1992. Eight debentures, one 1990 oil warrant, and one 1992 oil warrant were combined for sale to the public as a \$10,000 unit.

In my experience, oil indexed financing has provided low cost debt during periods of declining or stable oil prices. With Alaska's dependence on oil revenues, this financing technique can provide a partial hedge against future oil price declines. In the event that the State of Alaska was interested in gaining some protection this way, you are right to point to involving Alaska as an interested party with the CFTC. As you are no doubt aware, the regulatory environment has changed considerably since the Standard issue.

Please let me know if BP America can be of assistance in this endeavor.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'John Browne', written over a horizontal line.

Mr. Allan R. Johnston
Wedbush Securities, Inc.
4300 B Street, Suite 105
Anchorage, Alaska 99503

Resource-Based Bonding Fits Alaska's Capital Needs

By Allan Johnston



ALASKA IS AS RICH IN OPPORTUNITIES as it is in resources. Alaskans don't need to create new opportunities, just capture a few that are passing it by. The state's natural resource-based economy is largely nondiversified and oil-dependent. Although this creates problems, it also offers unique opportunities.

Traditionally, Alaskans have financed development projects and new businesses with a substantial amount of expensive fixed-debt borrowings. Unfortunately, the state's nondiversified economy lends itself to rather dramatic changes in cash flows. Boom and bust aspects of cash flow financing prevent many potentially viable economic projects and businesses from taking root.

There are thousands of variations of participating loans. Almost any variation is more appropriate than fixed rate financing on new business ventures. One type of participating loan gaining more recognition in the United States is the gold loan. Earlier this year, Newmont Mining gave a major boost to the credibility of this type of financing by borrowing one million ounces of gold from the Bank of Nova Scotia on a five-year, 2.5 percent per year loan. This financing was particularly significant because it was twice the size of any previous gold loan and longer than the more common three-year loans.

Newmont immediately sold the gold for \$477 million and was able to use this inexpensive source of financing to refinance other loans. Considering that Newmont Mining should be able to mine its gold at less than \$150 per ounce, the firm effectively has realized a \$300 million dollar gross profit. Of course, Newmont has lost the potential gain if gold rises above \$477 on that one million ounces of gold, but the opportunity cost is insignificant compared to the phenomenal risk-adjusted return it had locked in.

This financing technique could make a number of Alaskan gold mining projects economical that otherwise wouldn't justify the development risks. The possibility of funding the significant capital requirements that it takes to develop a major project and the ability to hire a long-term stable work force with a reasonably assured profit offers as many positive benefits to affected communi-

ties as it does to the economics of projects.

A much more discussed type of participating loan is the oil indexed bond. Alaskan legislators and administrators have pondered the merits of this hedging mechanism for some time without coming up with any politically acceptable vehicle. Coincidentally, Standard Oil Co., the parent firm of Alaska's largest private oil producer, issued an oil-indexed bond in June 1986 when crude prices hovered around \$14 a barrel. The securities were so enthusiastically received that Standard increased the issue's size to 300 million from 250 million. The Aug. 25th issue of *Business Week* states, "For its part, Standard reduces its borrowing cost without increasing its risk."

The fundamental concept of an oil-indexed bond is the creation of a financing vehicle to counterbalance the special needs and risks of an unbalanced energy producer—such as Alaska. The local buyer and cocreator of such a vehicle would be an energy deficient unbalanced energy user such as Japan, Korea or Taiwan. For example, Japan as an energy deficient country is highly dependent on imported oil. Projections for its industrial economy are based on conservatively high prices for oil to minimize risks of rising energy costs. Conversely, Alaska—an oil producing state whose revenues are disproportionately dependent on oil—bases its state operating budget on a conservatively low price for oil.

Oil indexed bonds would have lower interest rates that serve Alaska's development needs. But because the resource-based interest rate would rise to reflect any oil price increases, the lender—and end user—would be protected as well. At the same time, Alaskan producers would be better able to pay higher cost financing due to increased oil revenues. If Alaska were to follow Standard's lead and issue some type of low interest oil-indexed bond, and place it within an energy-deficient industrial or insurance consortium in a country such as Japan, Korea or Taiwan, the risk-adjusted return to both the borrower and the lender could be mutually more attractive. The interna-

tional financial team established to create and place these financial instruments could evaluate other Alaskan financial/business opportunities that would be particularly attractive to Pacific Rim financing.

A few potential spinoffs: low-interest natural gas-indexed bonds for pipeline construction, other natural resource projects, international tourism developments and, most importantly, the broadening of expertise of Alaskan financial institutions.

If BP Minerals were to use a similar financing technique for its Greens Creek gold operation, it possibly could save \$8-\$10 million a year in financing costs (assuming a \$225 million five-year, 2.5 percent gold loan), as well as lend greater stability to the Alaskan employment picture. Variations of the financing technique also could boost the economic viability of projects such as the Red Dog Mine, the Quartz Hill molybdenum project south of Anchorage and almost any other type of Alaskan resource-related development.

Low-interest participating financing is not geared only for mega-projects. Issuing a substantial amount of capital using the financing technique actually is more suitable for a \$25,000 tourism loan or a \$500,000 small business loan. The major drawback for these secure venture capital loans is that the lender generally requires part ownership of the business financed. If the borrower defaults on the loan, then the lender forecloses on the business and attempts to find a new manager to resurrect the venture.

Finding the appropriate lender with a vested interest in the enterprise's success can significantly increase the borrower's chance of making a go of it. For example, a tour company might lend to an historic tourist attraction or a trailer to a new television station. The lending companies not only provide some initial capital but frequently can share technical expertise. Additionally they often can generate business for the new enterprise.

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