

ALASKA LEGISLATURE

1528

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

**SB**

**157**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/2/96

DATE TURNED INTO OFFICE: 2-21-96

The Finance Committee considered SB 157

Regulation of small loan and retail installment transactions.

and recommends:

- be replaced with CS SB 157 (FIN)
- adopt previous CS \_\_\_\_\_
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:
- same title
  - new title
- House Bill:
- same title
  - technical change
  - new: SCR' \_\_\_\_\_

SIGNING <u>DO PASS</u>	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Steve Rice</i>	✓	<i>KEO E. O'Connell</i>	✓		
<i>Christy G. Sherritt</i>	✓	<i>Conchita...</i>	✓		
Co-Chair: <i>Rick Halford</i>		Co-Chair: <i>[Signature]</i>	✓		
Co-Chair: _____		Co-Chair: <i>[Signature]</i>	✓		

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal

DCUED	2/2/96	0	

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

Department                      Date    Zero    Fiscal


APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

*Updated by  
2/22/96 note*

Bill No. 1  
 Bill Version: CS SB157(LFC)  
 (S) Publish Date: 2/2/96

STATE OF ALASKA  
 1996 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Department: Commerce and Economic Development  
 Title: Regulation of Small Loan and Retail Installment BRU: Banking, Securities and Corporations  
Transactions Component: Banking, Securities and Corporations  
 Sponsor: Senate Labor and Commerce  
 Requestor: Senate Labor and Commerce COMPONENT SERIAL NO. 1233

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

FUND SOURCE	(Thousands of Dollars)					
	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
FULL-TIME						
PART-TIME						
TEMPORARY						

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

Prepared by: Wills F. Kirkpatrick, Director Phone: 465-2521  
 Division: Banking, Securities and Corporations Date: \_\_\_\_\_  
 Approved by Commissioner: William L. Hensley Date: 1-31-96  
 Agency: Commerce and Economic Development

2/20  
- F.P.

SB 157 & HB 319

**Purpose:** To modernize and up date the Alaska Small Loan Act. Expand the availability of credit to the Alaska consumer. Allow Alaska based lenders to compete with out-of-state lenders who import interest rate structures from their home states into Alaska.

**Result:** To create and retain jobs in Alaska's financial industry. To provide more local financing to rural communities. Provide credit to a broader base of Alaskan consumers who other wise might not have access to the credit they deserve.

Example: Monogram Bank of Georgia currently provides financing for customers at many Audio / Video dealerships in Alaska. Lets say the dealer runs a 12 month no payments, no interest financing special program for their customers. The dealer is charged, and must pay 2.5% to the Georgia Bank on every item that is sold, and financed under the special program. IE: Dealer sells a big screen T.V. for \$4000. Dealer will receive a check for \$3900 from the Georgia Bank. The dealer must pay \$100.00 to the Georgia bank for the use of the special program. The Interest rate the customer will pay later if they do not pay off the contract during the special financing program is 21.84% with the Georgia Bank.

Alaskan lenders offer similar special financing programs. However, the cost to the dealer is 10.5%. Dealer sell: a big screen T.V. for \$4000. Dealer will receive a check for \$3580 from the Alaskan lender. The dealer must pay \$420.00 to the Alaskan lender for the use of the special financing program. Interest rate the customer will pay later if they do not pay off the contract during the special financing program is approx. 12.9% with the Alaskan Lender.

Georgia can import it's rate structure(21.84%) into Alaska. The Georgia bank charges a lower discount to the dealer ship for these special financing programs. The dealer chooses to do business with the out-of-state lender as it is clearly more profitable. The Alaska lender can not match the 2.5% discount structure given to the dealer by the Georgia bank due to Alaska's more restrictive rate structure (12.9%).

In the above scenario the retail dealer does not even have the Alaskan lenders applications on the counter. The dealer ship does not want the customer to do their financing through Alaskan lenders because the Alaskan lenders cost the dealer more money.

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. CS SB 157(FIN)

Revision Date: February 22, 1996  
 Title: Regulation of Small Loan and Retail Installment Transactions  
 Sponsor: Senate Labor and Commerce  
 Requestor: Senate Finance

Department: Commerce and Economic Development  
 BRU: Banking, Securities and Corporations  
 Component: Banking, Securities and Corporations  
 COMPONENT SERIAL NO. 1233

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

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	00	00	00	00	00	00

Estimate of any current year (FY 96) cost: \$ 00

**POSITIONS**

FULL-TIME	
PART-TIME	
TEMPORARY	

**ANALYSIS:** (Attach a separate page if necessary)  
 Sec. 1 provides for a \$600 increase in revenue incurred by the applicant for the investigation of their application. While the past two years have indicated an expansion of this industry in Alaska, there is no evidence at this time that this expansion will continue.  
 Sec. 2 provides for multiple offices on a single license. The increase for the multiple office license will be offset to some degree by the loss of revenue for currently individually licensed offices. Over a period of time, it will be anticipated that the GF will be positively impacted by these changes, but we are unable to forecast at this time. Therefore, the department reports a 0 fiscal note.

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521  
 Division: Banking, Securities and Corporations Date: 2-22-96  
 Approved by Commissioner: William L. Hensley Date: 2-22-96  
 Agency: Commerce and Economic Development

② Motion - Add immediate effective date. Adopted  
9-1.S0854V0

Phoned to:  
Legal Services  
10:55am

*Fin*  
CS FOR SENATE BILL NO. 157(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered: 2/2/96  
Referred: Finance

Sponsor(s): SENATE LABOR AND COMMERCE COMMITTEE BY REQUEST  
A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the regulation of small loan and retail installment  
2 transactions." *and providing for an immediate effective date.*

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

4 • Section 1. AS 06.20.030(a) is amended to read:

5 (a) Investigation expenses incurred by the department in processing an  
6 application for licensure shall be charged to and paid by the applicant under  
7 AS 06.01.010. At the time of submitting the application to the commissioner, the  
8 applicant shall pay to the department \$1,000 [~~\$400~~] in partial payment of those  
9 investigation expenses incurred by the department. [IF THE INVESTIGATION  
10 EXPENSES INCURRED BY THE DEPARTMENT DO NOT EXCEED \$400, THE  
11 REMAINDER SHALL BE PROMPTLY REFUNDED TO THE APPLICANT.]

12 • Sec. 2. AS 06.20.030(b) is amended to read:

13 (b) An applicant shall pay to the department at the time of submitting an  
14 application a sum, in addition to that specified in (a) of this section, of \$500 for a

1 single office license, or \$2,000 for a multiple office license [\$200] as an annual  
2 license fee for a period terminating on the last day of the current calendar year. [IF  
3 THE APPLICATION IS FILED AFTER JUNE 30, THE ADDITIONAL SUM IS  
4 \$100.]

- 5 • Sec. 3. AS 06.20.040 is amended to read:

6 Sec. 06.20.040. LIQUID ASSETS REQUIRED. An applicant shall prove, in  
7 form satisfactory to the department, that the applicant has available for the operation  
8 of the business at the location specified in the application, liquid assets of at least  
9 \$25,000, or, in the case of a multiple office license, that the equivalent amount is  
10 available to each office from a central account maintained by the applicant  
11 [\$20,000].

- 12 • Sec. 4. AS 06.20.050 is amended to read:

13 Sec. 06.20.050. BOND. The applicant shall file with the application a bond  
14 to be approved by the department in which the applicant shall be the obligor, in the  
15 sum of \$25,000 [\$5,000] with one or more sureties. Only one bond is required for  
16 an application for a multiple office license. The bond shall be for the use of the  
17 state and any person who may have a cause of action against the obligor under this  
18 chapter. The bond must state that the obligor will faithfully conform to and abide by  
19 the provisions of this chapter and of all regulations lawfully adopted by the  
20 department, and will pay to the state and to any person all money that may become  
21 due or owing to the state or to the person from the applicant under this chapter.

- 22 • Sec. 5. AS 06.20.060 is amended to read:

23 Sec. 06.20.060. ISSUANCE OF LICENSE. Upon the filing of the application,  
24 the payment of the fees and the approval of the bond, the department shall issue a  
25 license to the applicant if it finds upon investigation that (1) the financial  
26 responsibility, experience, character, and general fitness of the applicant and of its  
27 members if the applicant is a copartnership or association, and of its officers and  
28 directors if the applicant is a corporation, are such as to command the confidence of  
29 the community and to warrant belief that the business will be operated honestly, fairly,  
30 and efficiently within the purposes of this chapter, and (2) allowing the applicant to  
31 engage in business at the location will provide accessibility and [PROMOTE THE]

1 convenience for borrowers of money [AND ADVANTAGE OF THE COMMUNITY  
2 IN WHICH THE BUSINESS IS TO BE CONDUCTED], and (3) the applicant has  
3 available for the operation of the business at the specific location liquid assets of at  
4 least \$25,000, or, in the case of a multiple office license, that the equivalent  
5 amount is available to each office from a central account maintained by the  
6 applicant [\$20,000]. The foregoing facts are conditions precedent to the issuance of  
7 a license under this chapter. The license permits the applicant to make loans in  
8 accordance with this chapter at the location or locations specified in the application.  
9 The license remains in full force and effect until it is surrendered by the licensee or  
10 revoked or suspended. If the department denies the application, it shall notify the  
11 applicant of the denial, bill the applicant for any outstanding expenses incurred by the  
12 department during the investigation and return the bond if those expenses have been  
13 paid. The department shall approve or deny every application for license within 60  
14 days from the filing of the application with the fees and the approved bond. If the  
15 application is denied, the department shall, within 20 days thereafter, serve upon the  
16 applicant a copy of the written decision and findings. The decision and findings may  
17 be reviewed in the manner provided in AS 44.62.560 and 44.62.570 (Administrative  
18 Procedure Act).

19 • Sec. 6. AS 06.20.090 is amended to read:

20 Sec. 06.20.090. PLACES OF BUSINESS. (a) A licensee may maintain only  
21 one place of business under a single office [THE] license, or up to 10 places of  
22 business under each multiple office license. The department may issue more than  
23 one license to the same licensee upon compliance with the provisions of this chapter  
24 governing the original issuance of a license.

25 (b) If a licensee changes the place of business to another location within the  
26 same municipality, the licensee shall give written notice to the department in advance.  
27 Upon approval, the department shall issue an amended license for [THE  
28 DEPARTMENT SHALL ATTACH THE WRITTEN NOTICE OF THE CHANGE TO  
29 THE LICENSE TOGETHER WITH THE DATE. THEREAFTER THE LICENSEE  
30 MAY OPERATE THE BUSINESS UNDER THE LICENSE AT] the new location.  
31 A licensee may not change the place of business to a location outside the municipality

1 in which the licensee is authorized to do business.

2 \* Sec. 7. AS 06.20.180 is amended to read:

3 Sec. 06.20.180. BOOKS AND RECORDS OF LICENSEES. Each licensee  
4 shall keep and use in the licensed premises [BUSINESS] those books, accounts, and  
5 records that will enable the department to determine whether the licensee is complying  
6 with this chapter and with the regulations lawfully adopted by the department under  
7 this chapter. The maintenance of separate books and records for another business  
8 authorized by the department under AS 06.20.210 is not required. The method  
9 of tracking and numbering the loans shall be determined by the licensee, as long  
10 as the system enables the department to perform the department's obligations  
11 under this title. The licensee shall preserve the books, accounts, and records,  
12 including cards used in the card system, if any, for two years after making the final  
13 entry on any recorded loan.

14 \* Sec. 8. AS 06.20.240 is amended to read:

15 Sec. 06.20.240. LOANS FOR PURPOSE OF OBTAINING HIGHER  
16 INTEREST. [A LICENSEE MAY NOT INDUCE OR PERMIT A BORROWER TO  
17 SPLIT UP OR DIVIDE A LOAN.] A licensee may not induce or permit a person, or  
18 a husband and wife jointly or severally, to split up or divide a loan or to become  
19 obligated, directly or contingently or both, under more than one loan contract at the  
20 same time, for the purpose or with the result of obtaining a higher rate of interest than  
21 would otherwise be permitted by AS 06.20.230. However, a licensee may enter into  
22 new or different loan transactions with the borrower or the borrower's spouse at  
23 a different time so long as the purpose of the additional transaction does not  
24 violate this section.

25 \* Sec. 9. AS 06.20.250 is amended by adding new subsections to read:

26 (d) Loan contracts must provide for substantially equal payments, and the  
27 payments must be due at least once a month, with the first payment beginning not later  
28 than 45 days from the date the loan is made.

29 (e) If the irregular payment is confirmed in writing by the borrower, and the  
30 method of repayment is consistent with the maximum term and annual interest rate  
31 provided in this chapter, and if a borrower demonstrates sufficient seasonal or

1 extraordinary income to support repayment of a loan, the loan contract may provide  
2 for irregular payments and first payment loan extensions greater than 45 days from the  
3 date the loan is made.

4 • Sec. 10. AS 06.20.260(a) is amended to read:

5 (a) A further or other charge or amount for an examination, service, brokerage  
6 commission, expense, fee, bonus, or other thing may not be directly or indirectly  
7 charged, contracted for, or received except

8 (1) lawful fees actually paid out by the licensee to a public officer for  
9 filing, recording, or releasing any instrument securing the loan, or premiums payable  
10 for insurance in lieu of perfecting a security interest if the premiums do not  
11 exceed the fees that would otherwise normally be incurred for perfecting, filing,  
12 recording, and releasing the security interest, or for transferring certificate of title  
13 to a motor vehicle securing the lien or noting a lien on that certificate;

14 (2) premiums actually paid out for insurance on any one or combination  
15 of the following: pledged property of the borrower, or consumer credit insurance; in  
16 this paragraph, "consumer credit insurance" has the meaning given in AS 21.57.160;

17 (3) taxable costs and expenses to which the licensee becomes entitled  
18 under general law in any court proceedings to collect a loan or to realize on the  
19 security after default;

20 (4) for loans of \$10,000 or less that are secured by an interest in  
21 real estate, reasonable costs and fees paid by a licensee for appraisals, surveys, and  
22 title insurance or reports [IF THE LOAN IS SECURED BY AN INTEREST IN REAL  
23 ESTATE];

24 (5) for loans over \$10,000, whether or not secured by an interest  
25 in real estate, reasonable costs and fees paid by a licensee for appraisals, surveys,  
26 title insurance or reports, and credit reports;

27 (6) a late payment fee of not more than 10 percent of the payment that  
28 is due or ~~\$25~~ [\$15], whichever is less;

29 (7) a fee for dishonored checks not to exceed \$25 for each  
30 dishonored check;

31 (8) reasonable attorney fees, actual expenses, and costs incurred in

1 connection with the collection of a delinquent debt or a foreclosure if the  
2 collection or foreclosure is referred to an attorney who is not a salaried employee  
3 of the licensee and the balance then owing on the debt exceeds \$5,000;

4 (9) actual expenses and costs incurred in connection with a  
5 repossession.

6 \* Sec. 11. AS 06.20.287 is amended to read:

7 Sec. 06.20.287. CREDIT INSURANCE ON OPEN-END LOANS. (a) A  
8 licensee may obtain consumer credit, credit loss of income, and property insurance on  
9 open-end loans under this chapter. The consumer credit insurance obtained by a licensee  
10 shall satisfy the requirements of AS 21.57. The property insurance obtained by a  
11 licensee shall satisfy the requirements of AS 21.39 and AS 21.42. The licensee shall  
12 comply with AS 21.36.160 and 21.36.165 during all transactions with borrowers  
13 involving consumer credit, credit loss of income, and property insurance.

14 (b) The licensee shall calculate the charge for credit life, credit loss of income,  
15 or disability insurance in each billing cycle by adding to the unpaid balance in the  
16 borrower's account the current monthly premium rate for the coverage required at the  
17 rate set under AS 21.57, using the method specified in the loan agreement for  
18 determining the unpaid balance.

19 (c) A licensee may not cancel credit life, credit loss of income, or disability  
20 insurance obtained for an open-end loan if the borrower is delinquent in paying the  
21 monthly installments unless an installment is delinquent for 90 days or longer. The  
22 licensee shall advance to the insurer amounts necessary to keep the policy in force until  
23 the 90-day delinquency period has elapsed, and the borrower's account may be charged  
24 for the amounts advanced to the insurer.

25 \* Sec. 12. AS 45.10.070(b) is amended to read:

26 (b) Except when the service charge is computed on an add-on or simple  
27 interest basis, the [THE] amount of the refund credit shall be computed according to  
28 the "rule of 78ths"; that is, it shall represent at least as great a proportion of the original  
29 service charge over \$25 in case of a retail installment sale of a motor vehicle, or \$10 in  
30 case of a retail installment sales of goods other than a motor vehicle, as (1) the sum of  
31 the monthly or other periodic unpaid balances under the schedule of payments in the  
32 contract beginning as of the date after the prepayment that [WHICH] is the next

1 succeeding monthly or other periodic anniversary date of the due date of the first  
2 installment under the contract, or, if the prepayment is before the due date of the first  
3 installment under the contract, then as of the date after the prepayment that [WHICH]  
4 is the next succeeding monthly or other periodic anniversary date of the date of the  
5 contract bears to (2) the sum of all the monthly or other periodic unpaid balances under  
6 the schedule of installment payments in the contract.

7 • Sec. 13. AS 45.10.080(a) is amended to read:

8 (a) If authority to do so is contained in the contract or agreement and  
9 agreed to by the parties, the [THE] holder of a retail installment contract or retail  
10 charge agreement may [NOT] collect any delinquency, [OR] collection or dishonored  
11 check charges, [CHARGE OTHER THAN] attorney fees, court costs, and disbursements  
12 [UNLESS THE CONTRACT SO PROVIDES]. In this case, the charge must [SHALL]  
13 be reasonable, and no attorney fee may be recovered unless the contract is referred for  
14 collection to an attorney not a salaried employee of the holder.

15 • Sec. 14. AS 45.10.120 is repealed and reenacted to read:

16 Sec. 45.10.120. EXTENT OF SERVICE CHARGE. (a) Notwithstanding any  
17 other law, the service charge included in a retail installment contract, retail charge  
18 agreement, revolving charge agreement, or other retail charge agreement shall be at the  
19 rate agreed upon by the retail seller and the buyer.

20 (b) This section does not limit or restrict the method of computing the service  
21 charge, whether by way of add-on, simple interest, or otherwise, so long as that method  
22 is disclosed in the contract and agreed upon by the retail seller and the buyer.

23 • Sec. 15. AS 45.10.220(3) is amended to read:

24 (3) "official fees" means the amount of the fees set by law for filing,  
25 recording, or otherwise perfecting and releasing or satisfying a retained title, lien, or  
26 other security interest created by a retail installment transaction or premiums payable  
27 for insurance in lieu of perfecting a security interest if the premiums do not exceed  
28 the fees that would otherwise normally be incurred for perfecting, filing, recording,  
29 or otherwise perfecting and releasing or satisfying a retained title, lien, or other  
30 security interest.

*Add immediate effective date.*

**ALASKA RETAIL CREDIT GRANTORS  
CURRENT SERVICE, DELINQUENCY AND DISHONORED CHECK CHARGES**

RETAILER	STATE LAW GOVERNING ACCOUNTS	LEGAL SERVICE CHARGE RATE	SERVICE CHARGE RATE IN ALASKA	DELINQUENCY CHARGE IN ALASKA	DISHONORED CHECK CHARGE IN ALASKA
Chevron	Alaska	18% to \$1,000; 10%% above	18% to \$1,000; 8% above		
Frostone	Ohio	25%	21.84%	-0-	-0-
Lamonts	Ohio	25%	19.8%	\$10	\$10
Fred Meyer	South Dakota	No statutory rate limit	22.44%	Lesser of \$10 or 5% of missed payment	\$15
Nordstrom	Colorado	21%	18% to \$1,000; variable above	\$10	\$10
JCPenney	Alaska	18% to \$1,000; 10%% above	18% to \$1,000; 7.92% above	-0-	\$10
Radio Shack	Tennessee	24%	22.3%	\$15	\$10
Sears	Arizona	No statutory rate limit	21%	-0-	\$10
Texaco	Nebraska	No statutory rate limit	21%	Lesser of \$5 or 5% of missed payment	\$15
Zales	Alaska	18% to \$1,000; 10%% above	18% to \$1,000; 8% above	-0-	-0-

The information in this chart is based upon credit applications collected in 1994 and 1995.

January 22, 1996

## THE CASE FOR LATE FEES FOR ALASKA RETAIL CREDIT GRANTORS

### BACKGROUND FOR ALASKA SENATE BILL NO. 157

A "late fee" or "delinquency charge" is a fee imposed by a credit grantor on an overdue account. Retail credit customers who fail to remit their monthly minimum payment by the agreed due date cause the retailer to incur additional costs in attempting to collect the past due accounts. These collection costs are in addition to the normal costs incurred in extending credit and servicing the credit customer. (One retail credit grantor operating under Alaska law estimates these costs to average approximately \$7.80). These additional costs, if not recouped by the credit grantor, may show up in higher merchandise prices, meaning that cash customers and those who properly make their payments provide a subsidy to those who don't adhere to agreed payment terms. Besides allowing the retailer to offset the additional costs incurred, late payment fees also provide an incentive for the customer not to miss the payment in the first place.

The best public policy response to this situation is to allow retailers to assess a late payment fee on delinquent credit customers at an amount which encourages the customer to make timely payment and enables the retailer to recover the additional costs which it incurs when the customer does not do so. Thus the Alaska Retail Installment Sales Act (RISA) has, since its enactment in 1962, authorized reasonable late fees on retail installment contracts; that is, closed-end (single purchase) credit contracts. However, unlike the law in over three-quarters of the states in the country, the Alaska act is silent with respect to the imposition of late fees on the now-prevalent revolving credit accounts.

Under federal law, some credit grantors can and do charge late fees on retail charge agreements. Such retailers extend credit through a federally-chartered "credit card bank" or through a national or state bank located in another state under whose laws they can legally impose late charges on delinquent accounts in Alaska. Several such retailers are currently imposing late fees on Alaska resident customers. This puts retailers operating under the Alaska RISA at a competitive disadvantage because customers will first pay those bills with a late fee. As a result, the bills from retailers operating under Alaska law go to the bottom of the stack and those from out-of-state creditors get paid first.

### PROPOSED LEGISLATION - ALASKA SENATE BILL NO. 157

The proposed legislation, Senate Bill No. 157, would (in Section 10) correct the current inequity in the Alaska Retail Installment Sales Act by allowing the imposition of a reasonable delinquency fee not only when a payment on a retail installment contract is late, but also when a payment on a retail charge agreement is late. Senate Bill No. 157 restores fairness to creditors operating under Alaska's law and the vast majority of credit accountholders who pay their bills on time and should not be required to subsidize those who do not.



## RETAIL CREDIT (2 PARTY)

<u>State</u>	<u>Maximum Late Payment Fee Authorized</u>
Arizona	Not to exceed \$5.00 for installment less than \$25.00, \$10.00 for over \$25.00.
Arkansas	No statutory limit. Must equal that assessed in at least one other state
California	Not to exceed \$10.00
Colorado	Not to exceed \$15.00
Connecticut	Lesser of 5% of monthly payment or \$10.00
District of Columbia	Not to exceed \$10.00
Florida	Not to exceed \$10.00
Georgia	Maximum of \$10.00
Hawaii	Lesser of 5% of monthly payment or \$50.00
Idaho	Greater of 5% of payment or \$5.00
Illinois	Not to exceed \$10.00
Indiana	Not to exceed \$15.00 adjusted yearly
Iowa	Not to exceed \$10.00
Kansas	Not to exceed \$10.00 or 5% of monthly payment with a \$25.00 maximum \$5.00 for installment less than \$25.00, \$10.00 for over \$25.00.
Kentucky	Ceiling unspecified
Louisiana	Parity with late fees being exported into state by out of state banks
Maine	Lesser of \$10.00 or 5% of delinquent installment
Maryland	No statutory limit
Massachusetts	Not to exceed the lesser of 10% of balance or \$10.00
Michigan	No statutory limit
Minnesota	Equal to fee permitted by National Banks under MN law (greater of 5% or \$5.00)
Mississippi	Maximum of \$10.00
Missouri	Not to exceed \$5.00 for installments less than \$25.00, \$10.00 for installments over
Montana	Lesser of 5% of monthly payment or \$15.00
Nebraska	The greater of 5% of installment or \$5.00
Nevada	Agreed upon amount, no statutory limit
New Hampshire	Agreed upon amount
New Jersey	Not to exceed \$10.00
New York	Agreed upon amount, no statutory limit
North Carolina	\$5.00 on balance of less than \$100.00 and \$10.00 on balance of \$100 or greater
Ohio	Lesser of 5% of monthly payment or \$3.00
Oklahoma	Greater of 5% of the monthly payment or \$12.50
Oregon	No Statutory limit other than the charge be reasonable
Pennsylvania	Not to exceed \$12.00
Rhode Island	Not to exceed \$12.00
South Carolina	5% of payment not to exceed \$10.00 or 40% of \$10.00
South Dakota	Agreed upon amount
Tennessee	Ceiling unspecified
Texas	Not to exceed \$10.00
Utah	Greater of 5% of monthly payment or \$20.00
Virginia	Agreed upon amount
Washington	No statutory limit other than amount must be reasonable
West Virginia	Lesser of 5% of monthly payment or \$5.00
Wisconsin	Not to exceed of \$10.00

Not intended as legal advise, opinion of local counsel should be obtained

# JCPenney

January 22, 1996

VIA FACSIMILE

Mr. George Dozier  
House Labor and Commerce Committee  
State Capitol  
Juneau, Alaska

Re: House Bill No. 319

Dear Mr. Dozier:

At the request of Mr. Jerry Reinwand, I am faxing the accompanying materials for the use of the committee members at the hearing on House Bill No. 319 scheduled for Wednesday, January 24th.

Sections 10 and 11 of House Bill No. 319 would amend the Alaska Retail Installment Sales Act which governs the Penney Company's retail credit arrangements with its Alaska customers. The enclosed materials relate to those amendments. They include, with respect to Section 10:

- 1) A chart titled "Alaska Retail Credit Grantors - Current Service, Delinquency and Dishonored Check Charges;"
- 2) A paper titled "The Case for Late Fees for Alaska Retail Credit Grantors;"
- 3) A chart titled, "Retail Credit (2 Party) - Maximum Late Payment Fee Authorized: and
- 4) A map titled "Retail Credit (2 Party) - States That Authorize Late Payment Fee."

They also include, with respect to Section 11:

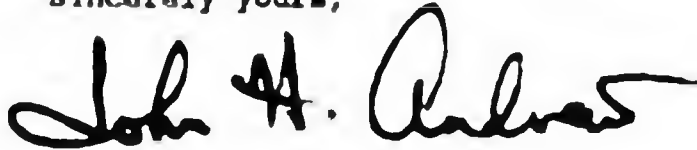
- A) A chart titled "Retail Credit Service Charges - Government Imposed Rate Ceilings;"
- B) A chart titled "Retail Revolving Credit (2 Party) - Open Competitive Credit Market States;" and
- C) Portions of a report titled "The Economic Impacts of Revolving Credit Regulation in Wisconsin, April 1995, including pages 30-32, and Appendix C, Table 2, and Table 3 which are referred to in those pages of the report and the bibliography of the report. This report, which was prepared

Mr. George Dozier  
Alaska House Committee on Labor and Commerce  
January 22, 1996  
Page 2

for Governor Tommy Thompson and the Wisconsin Legislature and will be used to support of legislation with the same intent as Section 11 of H.B. 319 which will be introduced in the current session of the Wisconsin legislature. In our experience the conclusions in the "Merchant Credit" section of that report are as relevant to Alaska as they are to Wisconsin.

Your assistance in distributing these materials to the committee members for their consideration is appreciated.

Sincerely yours,



John H. Andrew  
Senior Government Relations Counsel

Enclosures

cc: Jerry Reinwand (w/encl.)  
William J. Doss " [JCPenney, Anchorage]  
Fred C. Lugar "  
Susan Walters Bizo "

## SB 157

Purpose: To modernize the Alaska Small Loan Act and to allow Alaska lenders to compete with out-of-state lenders doing business in Alaska.

Result: To create and retain jobs in Alaska's financial industry and to expand the availability of credit to the Alaska consumer.

### Alaska Small Loan Act

Adopted into law in 1955; last significant amendment in 1982.

#### Principal changes:

1. Application fee increased from \$400 to \$1,000 and annual fee increased from \$200 to \$500; multiple office license created with \$2,000 annual fee for 10 offices.
2. Liquid Asset and bond requirements increased to \$25,000 each from \$20,000 and \$5,000, respectively.
3. Standards for books and records made consistent with modern data processing concepts.
4. Irregular repayments authorized for Alaskans with seasonal income, e.g., fishermen or construction workers.
5. Loan agreements include cost of credit reports, \$25 late payment fee and costs incurred in collections.

### Alaska Retail Installment Sales Act ("ARISA")

Adopted into law in 1962; last significant amendment in 1980.

#### Principal changes:

1. Clarifies appropriate costs to be included in loans.
2. Amends service charges for fixed term and revolving charge agreements to 1 1/2% per month or 18% per year, simplifying the current complex rate structure.

**MAXIMUM SERVICE CHARGES ALLOWED FOR  
CONSUMER CREDIT**

(Interest Rates on Consumer Loans)

**CURRENT ANNUAL RATES IN ALL 15 WESTERN STATES  
In Effect in April 1995**

<u>State</u>	<u>Revolving Credit Loan Assume \$3,000 balance</u>	<u>Fixed Term Auto Loan Assume \$10,000 balance</u>
Arizona	No Limit	No Limit
California	No Limit	19.2%
Colorado	21.0%	16.4%
Hawaii	24.0%	24.0%
Idaho	No Limit	No Limit
Montana	No Limit	No Limit
Nevada	No Limit	No Limit
New Mexico	No Limit	No Limit
North Dakota	No Limit	No Limit
Oregon	No Limit	No Limit
South Dakota	No Limit	No Limit
Utah	No Limit	No Limit
Washington	No Limit (exp. 6-30-95)	No Limit (exp. 6-30-95)
Wyoming	21.0%	22.5%
<u>Alaska:</u>		
Current Law	12.8%	14.5%
SB 157 Proposal	18.0%	18.0%
Industry Request	24.0% or No Limit	24.0% or No Limit

**RETAIL REVOLVING CREDIT (2 PARTY)**

B

**OPEN COMPETITIVE CREDIT MARKET STATES  
(NO STATUTORY FINANCE CHARGE RATE CEILING)**

- ARIZONA
- CALIFORNIA
- CONNECTICUT
- DELAWARE
- IDAHO
- ILLINOIS
- KENTUCKY
- MAINE
- MONTANA
- NEVADA
- NEW HAMPSHIRE
- NEW JERSEY
- NEW MEXICO
- NEW YORK
- NORTH DAKOTA
- OREGON
- RHODE ISLAND
- SOUTH CAROLINA
- SOUTH DAKOTA
- UTAH
- VIRGINIA
- WASHINGTON

**"PARITY" STATES"**

**(IN-STATE RETAILERS MAY USE HIGHEST RATE  
BEING IMPORTED INTO STATE BY OUT-OF-STATE BANKS)**

- FLORIDA
- LOUISIANA

Note: Legislation which would remove government-imposed rate ceilings is currently pending in Alaska, Indiana and Missouri.

1/22/88

**The Economic Impacts of Revolving Credit  
Regulation in Wisconsin**

**April 1995**

**James M. Johannes  
Professor and Chair  
Department of Finance, Investment & Banking  
School of Business  
University of Wisconsin-Madison**

## Appendix C

### Government and Academic Studies of Usury Laws: Sample Conclusions

"In general, various empirical studies on consumer credit and mortgages support the idea that when usury ceilings are binding the volume of loans declines, lenders try to upgrade quality to the detriment of lower income individuals and noninterest methods of compensation increasingly are employed." (James Van Horne, *Financial Market Rates and Flows*, p. 222).

"Interest rates have always been an object of suspicion. No longer is lending at interest a crime but in most place a maximum rate is set by law. Unfortunately, the ceiling is often far below what would be set by the competitive supply and demand market after account is taken of riskiness and administrative expense connected with small loans. The result? Funds dry up. The cheap money you can't get does you little good. Veterans who tried to get mortgages learned this in the 1950's. College students trying to get tuition loans...learned this in the 1960's and 1970's." (Paul Samuelson, *Economics*, 11th ed., p. 370)

"We have learned too slowly and painfully that while government interest rate ceilings may hold down the cost of a loan, they frequently result in a customer's getting no loan at all." (Peter S. Rose, *Money and Capital Markets*, p. 360).

"A significant finding by this government sponsored study (*Report of the National Commission on Consumer Finance, 1972*) is that 'state legislation especially has tended to restrain competition and unnecessarily segment the consumer credit market'...the commission studied numerous other aspects of consumer lending in terms of their overall effect on the public. Generally, the legislation (such as usury laws) which seeks one improvement produces undesirable side effects such as reduced credit availability or service...In addition to advocating the repeal of restrictive state legislation the commission recommended improving consumer knowledge and industry competition." (Robert Edmister, *Financial Institutions, Markets and Management*, pp. 262-3)

"Nevertheless, a number of states have succeeded in liberalizing their usury laws, in some cases tying the ceiling rate to a market rate. However, other states have encountered serious difficulties in obtaining revision, and their consumers have suffered as a consequence." (*Economic Perspectives*, Federal Reserve Bank of Chicago, Sep/Oct 1980, p. 17)

Table 2

Cost and Revenue Ratios for Selected Types of Bank Credit, 1991<sup>1</sup>

Item	Credit	Card	Installment		Real estate mortgage		Commercial and other	
	Percent of outstanding balances <sup>2</sup>	Percentage distribution	Percent of outstanding balances <sup>2</sup>	Percentage distribution	Percent of outstanding balances <sup>2</sup>	Percentage distribution	Percent of outstanding balances <sup>2</sup>	Percentage distribution
Revenue								
Interest	14.9	57	11.5	97	10.2	95	10.0	97
Noninterest <sup>3</sup>	11.0	42	.4	3	.5	5	.3	3
Total Revenue	26.0	100	11.9	100	10.7	100	10.3	100
Cost								
Operating	13.1	57	3.4	33	1.4	18	2.1	23
Credit losses	3.5	13	.7	7	.5	4	.8	9
Cost of funds	6.2	27	6.2	61	6.3	79	6.2	68
Total Cost	22.8	100	10.3	100	8.0	100	9.1	100
Net earnings before taxes	3.1	—	1.7	—	2.7	—	1.1	—

1. Data reflect averages of cost and revenue categories weighted by average outstanding balances for three size groups presented in the 1991 National Average Report. Components may not sum to totals because of rounding.
2. Outstanding balances are average amounts outstanding for the year.
3. For credit cards, includes merchant discounts, and penalty and cash advance fees.

Source: Federal Reserve Bulletin, September 1992

Table 3

Cost and Revenue Ratios for Merchant Provided Credit 1992

<u>Revenue</u>	<u>Percent of Outstandings</u>	<u>Percent Contribution</u>
Interest	15.10	100
Noninterest	-	-
Total	15.10	100
<u>Cost</u>		
Operating	7.28	41
Credit Losses	3.45	20
Cost of Funds	6.94	39
Total	17.67	100
Net Earnings before taxes	-2.57	

Source: Ray McAlister. "Consumer Credit: An Introduction," University of North Texas

## VI. Merchant Credit

This study, like many others, has focused primarily on the bankcard market. Another significant player in the revolving credit market is retail stores. Retail open-end credit, or "merchant credit," is different than bankcard credit.

As Table 5 illustrates, retail credit accounts for about 19% of all outstanding open-end credit, but 48% of all outstanding open-end accounts. The penetration of retail accounts in this market attests to the importance of availability of open end credit to consumers and merchants. One reason 48% of the accounts make up only 19% of the outstanding balances is that balances carried on retail credit cards are typically much smaller. GE Capital, for example, reports average outstanding balances on retail credit it issues for firms like Montgomery Ward, Casual Corner and American TV of about \$230. A recent study by Professor Ray McAlister at the University of North Texas (8) reports that over 80% of retail customers sampled in California had outstanding balances less than \$200.

As mentioned in Section II, there are several significant differences between bankcard and retail card revenues and expenses. Tables 2 and 3 show that retailers receive little fee income and rely primarily, if not exclusively, on finance charges for revenue. They also show that on the expense side, interest expense is typically higher than it is on bankcards because retailers must borrow money from banks.

Less revenue and higher expenses imply that retailers have a very difficult time running profitable credit operations when all they can charge is 18%. Unprofitable operations create three problems. The first is that merchants attempt to recover losses on credit operations not by charging higher fees but by charging higher prices. The problem this creates is that all purchasers, not just credit users, pay the higher prices. As a result, cash payers subsidize credit users. This phenomenon is well-known as the last quote in Appendix C from a Federal Reserve Study of Retail Credit attests.

The second problem is that this can put local merchants at a serious competitive disadvantage when they, because of usury ceilings, cannot charge the market clearing rate for retail open-end credit. In this situation, local merchants must raise prices to cover credit losses such as those illustrated in Table 3. National merchants, who import rates from National Banks they have set up in other States, charge market clearing rates at which their credit programs are profitable. Because the credit operations of those national merchants at least break even at the higher rates, they do not have to charge higher prices to recover losses on credit operations. Hence their prices are lower and put them at a competitive advantage over local merchants.

A third problem usury limits create for merchants is that merchants abandon in house credit in favor of bankcards and thereby lose an important tool to create customer allegiance. In the process consumers lose a local source of credit.

Table 18 illustrates the fact that many national chains operating in Wisconsin are currently importing these higher rates through their banking affiliates. This raises an important issue. Local merchants who do not want to play this cash price subsidy game can always contract with a national bank to offer credit from a neighboring state. The problem with this is that it results in the export of credit operations and jobs to neighboring states, consumers are denied access to local credit, and local residents just end up paying the higher rate anyway. As interest rates in the economy are again rising, several banks have indeed positioned themselves to provide these credit services from states where finance charges are deregulated. Household Bank, Illinois, for example, issues these "private label" cards for companies like Builders Square. GE Credit issues Home Depot private label cards through its affiliate Monogram Bank in Georgia. The list of merchants they provide credit for in regulated States is growing.

Like the bankcard discussion above, however, it is important to consider two issues. Is there enough competition in retail credit to ensure that consumers will pay a fair price for retail credit and, what has the experience been on the retail side when retail rates are deregulated?

The answer to the first question is that most merchants accept bankcards as well. If the merchant's rate is not competitive, consumers will just use bankcards to purchase goods. This is true of many major retailers like Penney's, Sears, Goodyear, Marshall Field's, Limited, etc. In other words, for the most part, this market is just as competitive as the bankcard market because they are typically one and the same market.

As for experience with deregulation, a recent study by McAlister [8] found that two years after Washington deregulated open end credit in 1992, nearly 75% of retailers had not changed their finance charge even though State law allowed them to do so. Indeed only one of the largest eight companies raised its finance rate. This evidence is entirely consistent with the view that competition dictates the finance charges on revolving credit, not State Statutes.

## Bibliography

1. Board of Governors of the Federal Reserve System. "The Economic Effects of Proposed Ceilings on Credit Card Interest Rates". Federal Reserve Bulletin (January, 1987), pp. 1-13.
2. Board of Governors of the Federal Reserve System. "Developments in the Pricing of Credit Card Services", Federal Reserve Bulletin (September, 1992), pp. 652-666.
3. Calom, Paul S., "The Strange Behavior of the Credit Card Market," Business Review, Federal Reserve Bank of Philadelphia (January/February 1992), pp. 3-14.
4. Data Resources Incorporated/McGraw-Hill, "A Study of the Attractiveness of States to Credit Card Issuing Firms," (April, 1994)
5. Evans, David S. and Schmalensee, Richard L., "The Economics of the Payments Card Industry", National Economic Research Associates, Cambridge, MA (1993)
6. Government Accounting Office, "U.S. Credit Card Industry: Competitive Developments Need to be Closely Monitored," GAO/GGF-94-23, Washington, D.C. (April, 1994)
7. Litan, Robert E., "The Impact of Price Controls on the Credit Card Industry", Brookings Institution, Washington, D.C. (March, 1992)
8. McAlister, Ray, "Retail Credit in Washington: Two Years Under a Free Market," University of North Texas (1994).
9. National Credit Union Administration, "Regional Directors Action Taken Under Authority Report", Washington, DC (1994)
10. Villegas, Daniel J., "The Impact of Usury Ceilings on Consumer Credit," *Southern Economic Journal*, (July, 1985) pp. 126-141

**GOVERNMENT-IMPOSED RATE CEILINGS  
REVOLVING RETAIL CREDIT**

<u>STATE</u>	<u>ANNUAL RATE CEILING</u>
1. Arizona	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
2. California	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
3. Connecticut	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
4. Delaware	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
5. Idaho	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
6. Illinois	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
7. Kentucky	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
8. Montana	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
9. Nevada	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
10. New Hampshire	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
11. New Jersey	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
12. New Mexico	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
13. New York	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
14. North Dakota	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
15. Oregon	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
16. South Carolina	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
17. South Dakota	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
18. Utah	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
19. Virginia	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
20. Washington	Competitive Market Rate, Deregulated (No Imposed Rate Ceiling)
21. Florida	Parity (Highest rate imported into state by out of state lenders)
22. Louisiana	Parity
23. Texas	Parity
24. Ohio	25%
25. Hawaii	24%
26. Maryland	24%
27. Colorado	21%
28. Georgia	21%
29. Indiana	21%
30. Mississippi	21%
31. Oklahoma	21%
32. Tennessee	21%
33. Vermont	21%
34. Wyoming	21%
35. North Carolina	21% on 1st \$800, 18% there after.
36. Alabama	21% on 1st \$750, 18% there after.
37. Kansas	21% on 1st \$1000, 14.4% there after.
38. Nebraska	21% on 1st \$500, 18% there after.
39. Michigan	20.4%
40. Missouri	20%
41. Iowa	19.8%
42. Massachusetts	18%
43. Maine	18%
44. Minnesota	18%
45. Pennsylvania	18%
46. Rhode Island	18%
47. West Virginia	18%
48. Wisconsin	18%
49. Alaska	15% on 1st \$1000, Federal Discount rate plus 5 points there after (currently 10.25% there after)
50. Arkansas	Federal Discount rate plus 5 points. (currently 10.25%)

H. Lee Rowell  
Vice President  
Director  
Government Affairs



Avco  
Financial  
Services.

600 Anton Boulevard  
P.O. Box 5011  
Costa Mesa, CA 92628-5011  
714 445 7311  
FAX: 714 445 7167

January 31, 1996

Members of the Alaska State Legislature  
State Capitol  
Juneau, Alaska 99801

Re: HB-319 and SB-157

Dear Members of the Legislature:

Avco Financial Services, who is headquartered in Costa Mesa, California but has an operating branch located in Anchorage, supports HB-319 and SB-157. These bills make certain positive changes by updating the Alaskan Statutes that affect small loans and retail installment transactions. If passed into law, these bills will help both the industry and the consumer. Their passage will also allow further expansion of our services within the State of Alaska.

I want to thank the members for considering these bills and would like to urge their passage.

Sincerely,

H. Lee Rowell

HLR:cb

## SB 157 & HB 319

**Purpose:** To modernize and up date the Alaska Small Loan Act. Expand the availability of credit to the Alaska consumer. Allow Alaska based lenders to compete with out-of-state lenders who import interest rate structures from their home states into Alaska.

**Result:** To create and retain jobs in Alaska's financial industry. To provide more local financing to rural communities. Provide credit to a broader base of Alaskan consumers who other wise might not have access to the credit they deserve.

**Example:** Monogram Bank of Georgia currently provides financing for customers at many Audio / Video dealerships in Alaska. Lets say the dealer runs a 12 month no payments, no interest financing special program for their customers. The dealer is charged, and must pay 2.5% to the Georgia Bank on every item that is sold, and financed under the special program. IE: Dealer sells a big screen T.V. for \$4000. Dealer will receive a check for \$3900 from the Georgia Bank. The dealer must pay \$100.00 to the Georgia bank for the use of the special program. The Interest rate the customer will pay later if they do not pay off the contract during the special financing program is 21.84% with the Georgia Bank.

Alaskan lenders offer similar special financing programs. However, the cost to the dealer is 10.5%. Dealer sells a big screen T.V. for \$4000. Dealer will receive a check for \$3580 from the Alaskan lender. The dealer must pay \$420.00 to the Alaskan lender for the use of the special financing program. Interest rate the customer will pay later if they do not pay off the contract during the special financing program is approx. 12.9% with the Alaskan Lender.

Georgia can import it's rate structure(21.84%) into Alaska. The Georgia bank charges a lower discount to the dealer ship for these special financing programs. The dealer chooses to do business with the out-of-state lender as it is clearly more profitable. The Alaska lender can not match the 2.5% discount structure given to the dealer by the Georgia bank due to Alaska's more restrictive rate structure (12.9%).

In the above scenario the retail dealer does not even have the Alaskan lenders applications on the counter. The dealer ship does not want the customer to do their financing through Alaskan lenders because the Alaskan lenders cost the dealer more money.

## ***Evidence of Competition in Deregulated Markets***

---

There is ample evidence that competition does work in the area of consumer credit finance charge rates when markets are free from restrictive statutory ceilings. Such rates rise to the legal ceiling only where that ceiling is below the level required to recover fully the costs of providing credit services.

---

*... competition does work in the  
area of consumer credit finance  
charge rates ...*

---

Evidence to this effect is available from a number of sources. For example, in Kentucky, New Hampshire, and Oregon, ceilings have never been imposed on retail credit cards. In these states without cell-

---

*In these states without ceilings, competition has always provided creditworthy consumers with ample supplies of credit at a variety of rates.*

ings, competition has always provided creditworthy consumers with ample supplies of credit at a variety of rates. For the most part, finance charge rates in these three states have been comparable to the most common statutory ceilings found in a majority of other states. Until about 1980, that level was 17 percent. Since then, the prevailing rate, where allowed, has risen to near 21 percent.

More recently, evidence has been obtained from other states which have "deregulated" retail finance charge rates -- that is, where all statutory ceilings have been removed. As of April, 1995, there were twenty-eight (28) jurisdictions without any ceilings or where ceilings were at least 21 percent. These are as follows:

Arizona	Idaho	Nevada	Oregon
California	Illinois	New Hampshire	Rhode Island
Connecticut	Kentucky	New Jersey	S. Carolina
Delaware	Louisiana <sup>2</sup>	New Mexico	S. Dakota
D. of Col <sup>1</sup>	Maine <sup>3</sup>	New York	Utah
Florida <sup>2</sup>	Maryland <sup>1</sup>	North Dakota <sup>4</sup>	Virginia
Hawaii <sup>1</sup>	Montana	Ohio <sup>5</sup>	Washington
<sup>1</sup> 24% ceiling <sup>2</sup> "Parity" states--rate can equal that being charged by out-of-state firms			
<sup>3</sup> Effective about 9/15/95 <sup>4</sup> Effective August 1, 1995 <sup>5</sup> 25% Ceiling			

Alabama <sup>1</sup>	Indiana	Nebraska <sup>1</sup>	Tennessee
Colorado	Kansas <sup>1</sup>	North Carolina <sup>2</sup>	Texas <sup>3</sup>
Georgia	Mississippi	Oklahoma	Vermont
			Wyoming
<sup>1</sup> Lower rate required on larger balances. <sup>2</sup> Basic rate 18%, but law allows a \$2 per month charge, producing the equivalent of 21% on balances up to \$800. <sup>3</sup> Another "parity" state where law allows a rate equal to that being charged by out-of-state firms up to a maximum of 21%.			

In addition to these twenty-eight, there are thirteen states where retail finance charge ceilings are 21 percent. These are listed here:

Dr. Ray McAllister of the University of North Texas completed a study in 1988 of retail finance charge rates and other credit terms in states which had ceilings of 21 percent or more (including those with no ceilings) -- 31 states total at that time. The study documented the terms in effect on more than 1,300 different retail credit plans representing over 13,500 retail stores and almost 70 million customer accounts.

X Evidence from the seventeen states without ceilings at that time showed that customers in these states had a total of twenty (20) different rate structures from which to choose. In no state were there fewer than five different rates charged. In California, a total of thirteen (13) different rates were being imposed. More than 87 percent of all rates were less than 22 percent; the average rate charged was 20.8 percent -- slightly LESS THAN the average rate imposed in the eleven states with 21 percent ceilings (20.9 percent).

X Similar patterns were found in the fourteen states where ceilings were 21 percent or more. In these, the number of different rates imposed ranged from five to eleven; the average rate was 20.9 percent.

Clearly, consumers in states without ceilings or where ceilings are at least 21 percent, have ample choices as to the source of retail credit to be used. In addition, of course, customers could choose to use any one of a large number of bank credit cards, most of which are priced somewhat differently from retail cards. Thus, the market seems to be working in that a large number of alternatives are available and at prices which, for the most part, are reasonable in light of the cost increases which have occurred in the past ten to twenty years.

... consumers in states without ceilings ... have ample choices as to the source of retail credit to be used.

Dr. Ray McAllister, CALIFORNIA RETAIL CREDIT: ITS USE AND PRICE RELATIVE TO OTHER STATES, Management Information Series No. 11, Merchants Research Council, Chicago, Illinois December, 1989.

4/95

**SENATE COMMITTEE REPORT  
First Committee of Referral**

*B/7*

DATE: 4/12/95

FURTHER: Finance

Date of 5-Day Notice: 1/24/96  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 2/1/96

Labor and Commerce Committee considered SB 157

Regulation of small loan and retail installment transactions.

and recommends:

- be replaced with CS 53157 (L.C.)
- adopt previous CS (        )
- attached amendment(s)
- adopt Letter of Intent by          Committee
- further referral to the          Committee

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

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>H. Miller</i>	✓				
<i>John Loggins</i>	✓				
<i>[Signature]</i>	✓				
<i>J. E. Sali</i>	✓				
CHAIR: <i>Tom Kelly</i>	-				

**NEW FISCAL NOTE(S):**

Department      Date      Zero      Fiscal

CS- DCE D	1/31/96	✓	

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

Department      Date      Zero      Fiscal


APPROPRIATION - no fiscal note

\*include fiscal notes accompanying Governor's bill

# FISCAL NOTE

5-5-95  
3(210) Fin

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 157

Revision Date: \_\_\_\_\_  
 Title: Regulation of Small Loan and Retail Installment Transactions  
 \_\_\_\_\_  
 Sponsor: Senate Labor and Commerce  
 Requestor: \_\_\_\_\_

Department Affected: Commerce and Economic Development  
 BRU: Banking, Securities and Corporations  
 Component: Banking, Securities and Corporations  
 \_\_\_\_\_  
 COMPONENT SERIAL NO. 1233

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

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

CAPITAL EXPENDITURES	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

CHANGE IN REVENUES ( )	0	0	0	0	0	0
------------------------	---	---	---	---	---	---

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTA	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimate of current year (FY 95) cost: \$ 0

**POSITIONS**

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

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Willis F. Krippatrick  
 Division: Banking, Securities and Corporations  
 \_\_\_\_\_  
 Approved by Commissioner: William L. Hershey  
 Agency: Commerce and Economic Development

Phone: 465-2521  
 Date: 5-2-95  
 Date: 5/3/95

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

2/2/96

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. SB 157

Revision Date: \_\_\_\_\_  
Title: Regulation of Small Loan and Retail Installment  
Transactions  
Sponsor: Senate Labor and Commerce  
Requestor: Senate Labor and Commerce

Department: Commerce and Economic Development  
BRU: Banking, Securities and Corporations  
Component: Banking, Securities and Corporations  
COMPONENT SERIAL NO. \_\_\_\_\_ 1233

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	00	00	00	00	00	00
<b>CAPITAL EXPENDITURES</b>	00	00	00	00	00	00
<b>CHANGE IN REVENUES</b>	00	00	00	00	00	00

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY 96) cost: \$ 00

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521  
Division: Banking, Securities and Corporations Date: \_\_\_\_\_  
Approved by Commissioner: William L. Mensley Date: 1-31-96  
Agency: Commerce and Economic Development

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

**SB**

**161**

**SFIN**

**FILE**



ALASKA AEROSPACE DEVELOPMENT CORPORATION  
KODIAK LAUNCH COMPLEX BUSINESS PLAN

This document reviewed and approved by

**KPMG**

By accepting the KLC Business Plan for review, you are agreeing that you will not provide copies nor share information contained within the Business Plan to anyone without express written permission from AADC.

---

# EXECUTIVE SUMMARY

The Alaska Aerospace Development Corporation (AADC), a public corporation of the State of Alaska, is proposing to construct a commercial spaceport, the Kodiak Launch Complex (KLC), on 3,100 acres of State-owned land at Narrow Cape, Kodiak Island. Narrow Cape is an ideal location for launching small satellites into polar, high inclination and Molniya orbits. The development of the KLC has been supported and encouraged by the State of Alaska, the federal government, the communities of Kodiak Island and private aerospace companies.

The market for small satellites in polar low earth orbit (LEO) promises to explode. Numerous telecommunications companies have proposed launching LEO constellations of small satellites for global mobile communications systems, and the first launches of those satellites are scheduled for 1995. The KLC is targeting replacement and replenishment launches for those communications systems, as well as launches of small polar-orbiting federal, scientific and remote sensing payloads, with over 170 launches predicted in the next ten years. AADC expects the KLC to support six to ten launches per year by the year 2000.

The design and siting of the KLC facilities are complete. The KLC design represents the state-of-the-art in launch facilities: all-weather in-door processing, flexible, economical and adaptable to all current small rocket launch vehicles. The lower development, operation and maintenance costs for the KLC will translate into lower launch costs for KLC customers, who will enjoy the KLC's world-class launch facilities, strategic location and supportive community.

AADC has undertaken a comprehensive environmental analysis of Narrow Cape, and has conducted numerous community meetings on Kodiak Island to discuss the effects of the KLC. AADC expects to have its federal and state permits completed and to begin construction of the KLC some time in 1995.

AADC has been awarded a total of \$1.85 million from the U.S. Air Force for the design and development of the KLC. AADC has received industry cash contributions and contracts in the amount of \$310,000 and services it estimates worth at least \$5 million. Aerospace companies across the country have contributed technical data and assistance to the KLC design. Alaskan companies have

committed substantial services to the KLC including the provision to AADC of electrical power and telephone

connections and installation of the entire telecommunications infrastructure for the KLC.

AADC is seeking a loan through a capital budget appropriation of \$18 million to pay for the construction of the KLC. AADC proposed the following terms: a 20 year loan at zero to three percent interest with no interest or principle payments for the first five years. Although AADC's market analysis indicates a revenue stream capable of supporting a conventional loan, these terms will give AADC the flexibility to respond to unanticipated, below market pricing from competitors.

For this investment, Alaska will boast the first spaceport in the U.S. independent of Department of Defense controls and operational conflicts, with state-of-the-art facilities and a low-cost fee structure. With approximately four launches per year, the KLC



"This launch site has considerable potential...the Kodiak site could possibly be the best polar launch site."

Norman R. Augustine, CEO  
Martin Marietta Corporation

will break even - covering all of the KLC's operating expenses and the debt service on the appropriation. At six launches per year, a target AADC believes to be conservative and attainable by the year 2000, AADC expects to be able to fund all of the KLC operating expenses and debt service on the appropriation as well as AADC's operating expenses.

The benefits of the KLC will be significant. KLC operations and launch activities will bring more than 100 technical personnel to Kodiak for 30-60 days for each launch.

use skilled and semi-skilled services on Kodiak and elsewhere in Alaska and inject as much as \$5 million per year into the local economy. Educational opportunities relating to launch activities will be available for Alaskan elementary, secondary, undergraduate and even graduate students. Spin-off businesses are expected to provide further economic diversification, exploiting Alaska's scientific and engineering talent and facilities, superior

location for warehousing and shipping, and need for remote monitoring and satellite imaging services.

While this business plan presents the KLC as a State-owned and operated facility, it concludes with alternative exit strategies for the State: the State may contract with a private company to

operate the facility; it may jointly venture the KLC; or it may sell the KLC, access to the facility, or an equity interest in the KLC to third parties. Any of these and other

**"I support the proposal submitted by the Alaska Aerospace Development Corporation (AADC) for the Air Force Dual Use Space Launch Facilities grant program. Numerous Alaskans ...and the Mayor of Kodiak Island Borough have shown their strong commitment to bring dual use aerospace launch capability to Kodiak."**

**— Senator Ted Stevens**

approaches will be considered by AADC. AADC will continue exploring such opportunities with major U.S. aerospace companies. Such a transaction could transfer operations of the KLC to the private sector, leaving the State with the oversight responsibility, easily handled by a single regulator who could be located in the Department of Commerce and Economic Development or elsewhere in the State Government, eliminating the need for AADC.



## Ground control

### *In Fairbanks, a small but significant opportunity in the space business*

As Alaska's oil bonanza at Prudhoe Bay plays out, the state must be alert for economic opportunities of any stripe, no matter how small or unconventional they may be.

Fairbanks is home to one intriguing space-age possibility.

It appears to be the best place on the continent for steering polar orbit satellites and relaying satellite data to Earth.

Fairbanks' advantage comes from a simple fact of geography: The farther north you are, the longer you can communicate with a satellite in polar orbit.

That fact gives Fairbanks an edge on two counts. First, any satellite, no matter where it's launched, needs occasional orbit adjustments to keep from falling back to Earth. Second, the longer you can contact the satellite, the more data you can "download" from it.

Having good air-cargo service, as Fairbanks does, is another plus. Some satellites generate so much data, it's cheaper to print out the information and ship it by air cargo, instead of using more expensive telecommunications.

As John Seibert, head of the state's Science and Technology Foundation, says of Fairbanks: "It's the farthest north (city) with a decent airport, a university and a (super)computer."

Already, one firm wants to bring a portable satellite communications unit to Fairbanks, according to Pat Ladner, head of the state's Aerospace Development Corp.

He thinks that with a little help from the state, Fairbanks could see a lot more business in the field. That's why the space development authority would like to build a "satellite servicing" office park there.

Such a building would spare each firm from having to locate a site, get zoning and permit approvals, and install communication lines. All a satellite business would have to do is show up at the office park, plug in its computers, consoles and satellite dishes, and it would be ready to go. Rental fees would cover the state's construction and maintenance costs.

The space authority wants to start small, perhaps with only two "offices." But it plans to choose a site and a design that will allow adding "offices" as demand warrants.

Mr. Ladner says the space authority seeks \$3 million in front money to pursue the idea. Funding sources might include the legislature, the Alaska Industrial Development and Labor Authority, or perhaps even local government bonds.

Compared to the potential gain, the cost seems modest and the risk well within acceptable bounds. In the early jet age, Alaska's subpolar location enabled Anchorage to become the Air Crossroads of the World. Perhaps space-age opportunities will allow Fairbanks to become the Satellite Crossroads of the World.



**ALASKA SCIENCE & TECHNOLOGY FOUNDATION**  
 — Putting Innovation to Work for Alaska —

**MEMORANDUM**

**TO:** Representative Mark Hanley  
 Chair, House Finance Committee

**FROM:** Arliss Sturgulowski  
 Interim Executive Director

**SUBJECT:** Budget Information Requested

**DATE:** April 26, 1995

The following is budget information requested by your committee. We have utilized Senate numbers since they reflect more timely information than when the FY96 budget was submitted to the Governor.

	With LRCWF FY95	Without LRCWF FY95
Estimated Earnings Reserve, 6/30/95	3,723.3*	5,308.0*
Estimated FY96 Earnings	<u>7,200.0</u>	<u>7,200.0</u>
	<u>10,923.3</u>	<u>12,508.0</u>
University Agriculture Station	3,000.0	3,000.0
Aerospace Development Corporation	511.3	511.3
ASTF Operating (Senate FY96)	1,282.5	1,282.5
ASTF Grants (Senate FY96)	5,217.5	5,217.5
Additional Grant 3's Available for Appropriation FY96	<u>912.0</u>	<u>2,496.2</u>
	<u>10,923.3</u>	<u>12,509.0</u>
Total Amounts Available for all Grants in FY96	6,129.5	7,714.2

\*Revised estimate of ASTF FY95 and FY96 earnings based on information provided by Mr. Buzire on April 26, 1995.

4500 Diplomacy Drive, Suite 513, Anchorage 99508-5918

Telephone: (907) 277-4333  
 Fax: (907) 274-6228

JB 161  
HB 315

LOCKHEED MARTIN

April 25, 1995

Pat Landner  
Executive Director  
Alaska Aerospace Development Corporation  
3601 C Street Suite 1400  
Anchorage, AK 99503

RECEIVED

APR 25 1995

Dear Pat

*Pat*

Ans'd.....

It is time I let you know what progress we have made in developing a business strategy for the Lockheed Martin corporation relative to the launch complex at Kodiak Island.

As you know, after my visit to Juneau in March, I have had several discussions with the business development community in the Information and Technologies Sector. My trip report was briefed to Mr. Teets on April 5 th by Gary Mann Vice President Business Development.

On April 12 th we had a meeting to discuss the information you provided during your visit here on April 8 th. At that meeting we decided that there was more information needed relative to the facilities at Wallops Island and an understanding of what NASA may want to do with their operations. The attendees were Bill Dendock, Gerry Stanley, Jerry Fallin, Mike Johnson, Mike Zerofsky, Ken Branch, and me.

We went to a meeting with the Technical Director and the staff at Wallops Island on April 18 th, and the results of that meeting are generally that there is a business opportunity at that facility if we take the same approach we are contemplating with Alaska. In our estimation, when we couple the two sites together they make a very attractive opportunity for the corporation. That meeting was attended by Jerry Fallin, Mike Johnson, John Bornholdt and me.

The plans we are developing internally are being discussed at the highest levels of the Lockheed Martin corporation. We have had several meetings with key business development people from three of the major sectors and hope to include the forth soon. In general terms we are evaluating the business potential of the sites and will make a recommendation to the corporation on how to best develop a partnership with the states of Alaska and Virginia that is mutually beneficial for all concerned. One of our goals is to have control of our own destiny when it comes to launch site availability and cost. We currently do not

Distributed To Finance Committee  
By Request

have that control using a government range and we look upon the launch facilities at Kodiak and Wallops as a vehicle for achieving that goal.

We met again on the April 24th in Titusville to report on the trip to Wallops and to assign action items for the next phase of our evaluation. Our schedule of events will take us to a presentation to Mr. Tellop and Mr. Augustine by the first of June. At that time we hope to have direction to complete a more detailed study and to open negotiations with Alaska and Virginia/NASA at Wallops Island. The attendees were: Bill Mallana (S&SMS), Mary Smith (S&SMS), Jeff Snyder (S&SMS), Bill Durdock (S&SMS), Axel Hohl (S&SMS), Ron Sabatino (S&SMS), Gerry Stanley (Special advisor to Gary Mann -I&TSS), David-Elis Brown (I&TSS), Jerry Fallon (I&TSS), Dinty Moore (LSSI-I&TSS), Bob Atkins (Manned Space-I&TSS), Mike Johnson (S&SMS), Mike Zerofsky (I&TSS), Ken Branch (S&SMS), and me.

Our focus today is somewhat limited and will expand as we gain knowledge and understanding. We are looking at becoming an advisor to Alaska and Virginia during Activation of the launch complexes and Ground station and then take over as the operating contractor for the state. We are considering a State Owned Contractor Operated Facility (SOCO).

I'm sure you can appreciate that we are doing is very sensitive from a business standpoint so I would ask you to be discreet in your discussion with others.

We will keep you informed and if you have any questions please feel free to call me any time.

Sincerely



Charles M. Flash  
Manager, Advanced Programs  
Canaveral Launch Operations  
LOCKHEED MARTIN  
(407) 853-6868



SECRETARY OF THE AIR FORCE  
WASHINGTON

SAF/AQOS(M)  
1060 Air Force Pentagon  
Washington DC 20330-1060

31 Mar 95

Mr. H. P. Ladner, Executive Director  
Alaska Aerospace Development Corp.  
3601 C Street, Suite 1400  
Anchorage, AK 99503

Dear Mr. Ladner:

I appreciated the opportunity to meet with the Alaska Aerospace Development Corporation (AADC), Governor Knowles, and key members of the Alaska legislature.

As I explained in the meetings, the Air Force's Rocket System Launch Program (RSLP) is actively pursuing a contract with AADC. RSLP has taken the first step by issuing a work order contract to AADC in order to define RSLP requirements and AADC's capabilities. The next step will be to prepare a contract for up to 15 launches by RSLP from the Kodiak Launch Complex (KLC) over the next five years. I anticipate that with the approval of the Department of Defense budget in October 1995, RSLP will be able to book and pay for up to four launches by January 1996. However, before AADC and the State of Alaska can enter into a contract with the RSLP program, the Air Force must be assured that the KLC has the commitment and support of the State of Alaska, including financial and other assurances that it will be completed and available to support RSLP launches by the first part of 1997.

RSLP is excited by the progress that AADC has made and the extensive support that was displayed last week for KLC. We will continue to work with AADC and the State of Alaska to develop the KLC into an innovative and efficient launch site serving the most exciting part of the burgeoning launch market.

Very Respectfully,

A handwritten signature in black ink that reads "Charles S. Pugsley III". The signature is written in a cursive style with a small "III" at the end.

CHARLES S. PUGSLEY III, Col, USAF  
Chief, ICBM Modernization Branch  
Directorate of Long Range Power Projection,  
SOF, Airlift and Training Programs  
Assistant Secretary (Acquisition)

# Low-Rank Coal Water Fuel (LRCWF): "Environmentally Friendly Fuel of the Future"

## PRODUCTION/UTILIZATION



Conceptual LRCWF Commercial Plant

- Non-hazardous quasi-liquid replacement for oil.
- Made from LRCs by Energy & Environment Research Center's (EERC) hot-water drying process.
- Non-evaporative, permanent moisture reduction, process similar to pressure cooking.
- Highly reactive fuel that ignites rapidly and burns completely with a stable flame.
- Requires only minor boiler modifications and has minimal derating.
- Process proven in EERC pilot plant, now ready for commercial demonstration.

## BENEFITS TO ALASKA

- Increases Alaska's coal exports.
- Opens the Beluga Coal Field.
- 1 million tons per year (tpy) commercial LRCWF plant means about 250 new primary jobs.
- "Value Added" natural resource creates higher paying jobs.
- Increased State and Borough revenues.
- Helps reduce U.S. balance of payments to some of our largest creditor nations.

## WHY NOW?

- Oil production is declining and other resources must be developed to sustain economic growth.
- Environmentally safe alternative fuels are needed.
- Commercialization of U.S. LRCWF technology by foreign developers would reduce or eliminate benefits to Alaskans

## ENVIRONMENTALLY FRIENDLY

- Unlike petroleum based fuels, LRCWFs are non-hazardous to humans, flora and fauna if spilled.
- Eliminates the risk of multi-million dollar cleanup.



Valdez oil tanker

- Safely transported in single-hull barges or tankers.
- Reduced liability insurance.
- Ultra low sulfur Alaskan subbituminous coal, gives low  $SO_x$  emissions
- Eliminates dust and spontaneous combustion problems with LRC handling.

## MARKET POTENTIAL

- Competitive with oil at about \$17/bbl and bituminous CWF.
- Consumption by Pacific Rim utilities alone is equivalent to over 80 million tpy of LRCWF.
- CWF market expected to triple to 9 million tpy by the year 2000.
- Developing nations with low-rank coal reserves will seek technology licensing.
- Testing LRCs from around the world at Alaska's technology demonstration facility.



## DEMONSTRATION PROJECT

- Confirm the economic viability of producing & utilizing Alaskan LRCWF.
- Provide LRCWF to potential users for product acceptance and to instill user confidence.
- Pave the way for LRC use in the Pacific Rim.
- University of Alaska Fairbanks will be the host site for the demonstration project.
- Plant will become a long-term coal development and demonstration facility.



BERC HVD Plant

## FUNDING REQUIREMENTS

- Three year demonstration project to be funded by:
  - ▶ U.S. DOE - \$10.25 million;
  - ▶ State of Alaska - \$3.985 million;
  - ▶ Balance of funding and equipment provided by Alaska CWF, Inc.

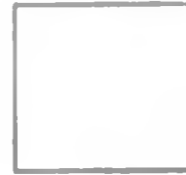
## ALASKA COAL-WATER FUEL, INC

### *Corporate Principals:*

- ▶ Energy and Environmental Research Center
- ▶ Usibelli Coal Mine, Inc.

### *Consortium Affiliates:*

- ▶ Alaska Division of Energy
- ▶ Alaska Industrial Development & Export Authority
- ▶ Alaska Science & Technology Foundation
- ▶ Beluga Coal Company (Placer Dome U.S., Inc. & Cook Inlet Region, Inc.)
- ▶ DRVen Corporation
- ▶ Energy Pacific Corporation
- ▶ International Coal Preparation Consultants, Ltd.
- ▶ Inco International
- ▶ POWER Engineering, Inc.
- ▶ Frank Natter Corporation
- ▶ University of Alaska Fairbanks



# *Alaskan Low-Rank Coal-Water Fuel*



Alaska Coal-Water Fuel

*"Environmentally Friendly  
Fuel of the Future"*

Alaska CWF, Inc.  
1000 University, Ste. 8  
Fairbanks, Alaska 99701  
907-452-5177

NORMA -

RANDY SIMMONS WILL  
BE REPRESENTING

AK INDUSTRIAL  
DEVELOPMENT  
AUTHORITY

ON SBIBI today

---

LOW RANK COAL-WATER FUEL  
(LRCWF)  
DEMONSTRATION PROJECT

Questions and Answers

1.) Who will fund project?

* Alaska Science & Technology Foundation (ASTF)	\$3.6 million
Federal (DOE)	10.3 million
Alaska Coal-Water Fuel, Inc.	8.1 million
	\$22. million

\* State (ASTF) funding grant will be contingent on receipt of \$10.3 million in Federal dollars. No Federal \$, then ASTF grant lapses and no State funds spent.

2.) Will State and Federal funds be paid back with successful project?

Yes, plus interest (rate yet to be negotiated).

3.) What are short-term benefits of project?

- A \$4 million State investment will be leveraged into a \$22 million project which will be constructed and operated over a three year period.
- With the exception of \$5 million purchase and fabrication of equipment all remaining project moneys will be expended in Alaska.
- During the 18 month operational period, the project will create approximately 23 new full-time jobs in the Fairbanks area.
- The project will be located at the University of Alaska-Fairbanks. The manufacturing facilities, which have a value of approximately \$7 million will remain at the university and be available for research purposes after the demonstration phase has been completed.

4.) What are the long-term benefits?

- The primary, long-range objective of the Demonstration Project is to create an economically viable means to develop the Beluga Coal Fields and to be able to compete in the world coal market.
- Development of a commercial scale LRCWF plant, dock and related infrastructure would be a \$200 million project

and take two or three years to construct.

- The LRCWF production facility would create a major value added industry and also increase Alaska's total coal exports.
- Operation of the commercial plant and mine could create about 200 new, full-time, permanent jobs.

5.) Who will own the technology?

Alaska Coal-Water Fuel, Inc.

6.) Who are principals in Coal-Water Fuel, Inc.?

Corporate Principals:

Energy and Environmental Research Center  
Usibelli Coal Mine, Inc.

Consortium Affiliates:

Alaska Division of Energy  
Alaska Industrial Development & Export Authority  
Alaska Science & Technology Foundation  
Beluga Coal Company (Placer Dome, U.S., Inc. & Cook Inlet  
Region, Inc.)  
DRVen Corporation  
Energy Pacific Corporation  
International Coal Preparation Consultants, Ltd.  
Major International  
POWER Engineers, Inc.  
Tyonek Native Corporation  
University of Alaska-Fairbanks.

7.) Who will be the project manager for the demonstration?

Alaska Industrial Development & Export Authority.

8.) What conditions must be met before ASTF will grant up to \$4 million for the demonstration project?

1. \$10.3 in Federal DOE funds
2. Other adequate private funding commitments
3. A suitable business plan
4. Identification of markets and end users for the fuel.



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY



480 WEST TUDOR


ANCHORAGE, ALASKA 99503

907 / 561-8050

FAX 907 / 561-8998

## MEMORANDUM

To: Kurt Parkan  
Special Staff Assistant  
Office of the Governor

From:   
William R. Snell  
Executive Director

Date: March 7, 1995

Subject: Low-Rank Coal-Water Fuel Demonstration Project

The following is a brief synopsis and status report on the Low-Rank Coal-Water Fuel Project:

### Background & History

- Low-rank coal-water fuel (LRCWF) is a quasi-liquid substance made by combining finely ground, subbituminous coal with water and subjecting it to a high pressure process. The resulting product is non-toxic fuel which can be used as a direct replacement for heavy oil. Attachment No. 1 is a brochure which explains the process and the benefits of the product.
- Initial research into the LRCWF process was funded, in part, by the Alaska Science and Technology Foundation (ASTF) as a pilot project at the Energy and Environmental Research Center's (EERC) laboratory facilities in Grand Fork, North Dakota. The pilot project proved that a very high grade, clean burning LRCWF could be made from Alaskan subbituminous coal.
- Following the successful pilot testing, a consortium group comprised of several Alaskan businesses, coal experts and EERC was formed with the goal of commercializing the technology. In 1992, the consortium submitted a grant application to ASTF for proposed joint funding with the U.S. Department of Energy

and the consortium members. The purpose of the grant was to construct and operate a demonstration facility in Alaska. The overall program cost, including in-kind contributions by consortium members, was estimated at approximately \$25 million.

The proposed Demonstration Project is intended to: 1) demonstrate on a commercial scale basis that LRCWF can be manufactured at a competitive cost; 2) establish through test burning, the product's combustion characteristics and performance in boiler applications; and 3) make the LRCWF product available in quantities of sufficient size to allow potential industrial users to perform test burns at their own facilities. (Attachment No. 2 provides additional background information on the Demonstration Project.)

### AIDEA's Involvement

- Because of the size of the proposed Demonstration Project, ASTF approached AIDEA in November 1993, seeking assistance and participation in the project as the Grant Recipient and administrator of the project (see Attachment No. 3). AIDEA's Board in February 1994, approved our participation in the initial phase of the project.
- The Demonstration Project is divided into two phases. Phase 1, which is currently in progress, is designed to formally organize the consortium, perform additional market assessments, firm up cost estimates and prepare the grant application for DOE participation. Phase 2 will be the actual construction and operation of the plant.
- Phase 1 work is currently in progress and will be complete by early April 1995. Our involvement in Phase 2 will be subject to the results of Phase 1, receipt of federal participation, continued ASTF grant funding and Board approval. It is assumed that AIDEA would again serve as the grant recipient under Phase 2.

### Funding Status

- The total cost for Phase 1 of the project is \$429,200. Of this amount, \$185,000 are grant funds from ASTF. In addition to the ASTF grant, AIDEA is contributing \$30,000 and the consortium members are contributing in-kind services and matching funds in the amount of \$214,200.
- Subject to the successful conclusion of Phase 1 and several additional conditions, ASTF has approved another \$3,615,000 toward Phase 2 of the project (see Attachment No. 4).

- The total cost of Phase 2 is currently estimated at approximately \$22,000,000. Federal funding in the amount of \$10,250,000 is being sought in the form of a grant through DOE. In addition to the ASTF grant amount, the balance of \$8,075,000 will be made up as contributions from consortium members (see Attachment No. 5). Although AIDEA may participate in Phase 2 as the Grantee, we do not anticipate making any further contributions of AIDEA funds toward the project.
- To apply for the DOE grant and have any reasonable hope for securing federal participation, it will be essential that the State of Alaska show a strong financial commitment toward the project. Although ASTF has tentatively committed to funding the full amount requested, due to certain statutory limitations governing the split of funding between large projects and small projects, ASTF may not be allowed to obligate the full amount in a single year without legislative approval.

#### Project Benefits

- The potential benefits of the project to Alaska fall into two major categories: 1) short term benefits generated during the three year demonstration period; and 2) long term benefits if the demonstration project is successful and results in the development of a commercial scale LRCWF plant.
- Short Term Benefits:
  - A \$4 million state investment will be leveraged into a \$25 million project which will be constructed and operated over a three year period.
  - With the exception of \$5 million purchase and fabrication of equipment all remaining project moneys will be expended in Alaska.
  - During the 18 month operational period, the project will create approximately 23 new full time jobs in the Fairbanks area.
  - The project will be located at the University of Alaska-Fairbanks. The manufacturing facilities, which have a value of approximately \$7 million will remain at the University and be available for research purposes after the demonstration phase has been completed.
- Long Term Benefits:

Kurt Parkan  
March 7, 1995  
Page 4

- The primary, long-range objective of the Demonstration Project is to create a economically viable means to develop the Beluga Coal Fields and to be able to compete in the world coal market.
  - Development of a commercial scale LRCWF plant, dock and related infrastructure would be a \$200 million project and take two or three years to construct.
  - The LRCWF production facility would create a major value added industry and also increase Alaska's total coal exports
  - Operation of the commercial plant and mine could create about 200 new, full-time permanent jobs.
- It is worth noting that, even if the Demonstration Project does not result in the commercialization of the technology, Alaska will receive all of the short-term benefits at a total investment cost of only \$4 million.

Hopefully the above information provides you with a basic understanding of the project and some of the issues at hand. Should you have any questions, or require any specific details regarding the project, please give me a call.

cc: John W. Sibert

Mail/dave/low/memo

# ALASKAN LOW-RANK COAL-WATER FUEL DEMONSTRATION PROGRAM

## Background

The technical feasibility of producing a premium low-rank coal-water fuel (LRCWF) from an Alaskan subbituminous coal from Beluga Coal Co.'s leases west of Anchorage, AK, was demonstrated using the hot-water drying (HWD) process developed at the Energy and Environmental Research Center (EERC). LRCWF made in the EERC pilot plant was tested in the EERC Combustion Test Facility giving almost complete carbon burnout, low boiler-tube fouling and SO<sub>2</sub> emissions well below even the most stringent air quality standards.

Beluga coal is part of a deposit around and under the Cook Inlet near Anchorage, AK that contains approximately 1.5 trillion tons of low-sulfur subbituminous coal. It is thought to be the largest, lowest-cost, ultra low S coal near tidewater in the world.

## Market Potential

To avoid potential misunderstanding of marketing goals, it should be noted that LRCWF is designed to replace heavy oil and/or bituminous CWF in existing oil-fired boilers, not bulk steam-coal. The use of CWFs is being aggressively pursued in China, Italy, Japan and Russia to produce a lower-cost, more stable supply of liquid fuel that can be substituted for heavy oil in industrial and utility boilers. In addition, since CWF is simply coal suspended in water it is, in contrast to oil, a non-hazardous quasi-liquid fuel that has no long term negative environmental impact should a major spill occur.

The magnitude of the potential market for coal-water fuels can be gauged by the consumption levels of heavy oil in electric utilities in Japan, Korea, and Taiwan alone. In 1990 the combined total of 200 million barrels of oil used by utilities in these countries was equivalent to about 80 million tons of LRCWF.

## Process Economics

LRC characteristics and site specific requirements have a profound effect on costs associated with their conversion and utilization as LRCWFs. For these and other reasons, accurate LRCWF production/utilization economics can only be derived after completion of demonstration-scale testing and a thorough analysis of the commercial site specifics. However, for production of 1MM tpy LRCWF near the Beluga mine site, pipeline transportation to a mono-buoy in Cook Inlet, and ocean transport to Japan, our best estimate of the range of costs in dollars per million Btus, CIF Japan, is between \$2.68-\$3.84 U.S. The economic success of a LRCWF venture will mainly be determined by the price of heavy oil, although benefits that are difficult to quantify and could become important factors include, environmental safety, price stability and secure supply.

## Demonstration Program

The next step in commercialization is to demonstrate the technology at a large enough scale to provide potential LRCWF users with sufficient data to develop their own economic analysis and LRCWF for testing in their own facilities. There is a unique opportunity to demonstrate this technology at the University of Alaska Fairbanks Power Plant (UAF), at a fraction of the cost and time it would take to build a new facility. UAF will participate in the demonstration and make their facilities available as a significant portion of the cost share for the project.

The project principals are: Usibelli Coal Mine Inc., owner of Alaska's only operating coal mine; EERC, developers of the LRCWF production/utilization technology; Beluga Coal Co. (a subsidiary of Placer Dome U.S. Inc. and Cook Inlet Region, Inc.), one of the large coal lease holders in the Beluga field and UAF, owner of the host site. Project affiliates include: Alaska Division of Energy; Alaska Industrial and Export Authority; Alaska Science & Technology Foundation; DRVen Corp.; Energy Pacific Corp.; International Coal Prep Consultants, Ltd.; Major International; POWER Engineers, Inc.; Tyonek Native Corp.; and the University of Alaska Anchorage.

Funding for the three year demonstration will consist of the following: The Alaska Science and Technology Foundation have conditionally agreed to provide about \$4MM and slightly more than \$10MM is being sought from the U.S. Department of Energy. The balance, which includes, the technology, part of the facilities, much of the equipment, all of the test coal required for 18 months of operation, some of the engineering and operating manpower, and site permitting information will be provided by the participants through their recently formed corporation, Alaska Coal-Water Fuels, Inc.

## CWF Use Assessment

The nominal 150 tpd hot-water drying (HWD) plant will produce about twice the amount of fuel needed to run the oil-designed boiler in the demonstration plant. Extra fuel will be available for transportation and end-use testing at potential LRCWF users facilities, possibilities include, CWF-fired diesel engines, small coal-fired boilers for remote sites, slurry-fed gasifiers, slagging combustors and a variety of oil-designed boilers



COPY  
*Delise*

**ALASKA SCIENCE & TECHNOLOGY FOUNDATION**

— Putting Innovation to Work for Alaska —

March 15, 1995

The Honorable Governor Tony Knowles  
 PO Box 110001  
 Juneau, AK 99811-0001

Dear Governor Knowles:

RE: ASTF Project 91-3-189  
 Low Rank Coal Water Fuel Demonstration Project

The Alaska Science & Technology Foundation (ASTF) is presently assisting in the analysis of whether Alaska's sub-bituminous coal can be used to profitably produce a low rank coal water fuel (LRCWF) for domestic and export markets.

This project started out as a series of proposals to the Foundation by the Consortium representing the project, consisting of the Energy and Environmental Research Center (EERC) in North Dakota, UsdaHl Coal Mine, Inc., and Beluga Coal Co. The pilot research was funded by ASTF and was conducted by EERC in North Dakota. After examining the nature of the demonstration proposal, it was determined that AIDEA would be a more appropriate agency to represent the state in the development of this project, principally in terms of their past experience in large economic development projects such as this project. In March 1994, AIDEA, as project manager, submitted a proposal to the Foundation for the low-rank coal water fuel project (91-3-189). The purpose of this project is to design, construct, and demonstrate a facility using low-rank coal water fuels in Alaska.

ASTF is funding the low-rank coal water fuel project in two phases. The decision to fund the project was based upon the proposal submitted to the Foundation, the technical reviews received by the Foundation, and consideration by the Board. The Board approved a two-phase grant designed to help the consortium reach a consensus on the outstanding issues while encouraging a broad-based approach to maximize the leverage of state funds and successfully develop and commercialize the LRCWF technology. Phase One addresses resolution of issues surround the legal structure of the project, development of a business plan, and other efforts leading to the preparation of a proposal to the U.S. Department of Energy for the bulk of the project funding. Phase Two, if approved and funded by the ASTF Board, will involve the design, construction, and testing of an actual production prototype facility.

ASTF's Board of Directors has approved \$186,000 of funding, matched with \$244,200 of funding from AIDEA (\$30,000) and the consortium (\$214,200), for Phase One. Phase Two funding will depend upon the successful completion of a

4500 Diplomacy Drive, Suite 513, Anchorage, Alaska 99508-5918

Telephone (907) 272-4333

March 15, 1995

Page 2

number of required conditions. Those conditions included adequate funding commitments, a suitable business plan, identification of suitable markets and end users for the fuel, and the ability of ASTF under its statute to make the grant payments to the project as scheduled. ASTF funding of \$3,618,000 for Phase Two would be matched with approximately \$10.2 million from the Department of Energy and \$11.0 million from other sources, including the consortium members.

ASTF believes the LRCWF has the potential to open new markets for Alaskan coal. ASTF also believes that with an appropriate structure, detailed planning and market research, commitments from interested end users, and sufficient funding from the U.S. Department of Energy and other private and federal funding sources, this project can be of great benefit to the State through an alliance of Alaska State agencies, private entities, and the federal government. State funds can be leveraged to determine the viability, both technically and financially, of producing low-rank coal water fuel from Alaskan coal.

If you have any questions, please feel free to contact either myself or Robert E. Harris, Director of Technology, at 272-4333.

Cordially,



Artur Sturpiewski  
Interim Executive Director

cc: Kurt Parker, Special Assistant to the Governor  
Ailey Snel, AIDEA



**ALASKA SCIENCE & TECHNOLOGY FOUNDATION**  
— Putting Innovation to Work for Alaska —

November 2, 1993

Mr. Herb Lang, Chairman  
Alaska Industrial Development &  
Export Authority  
480 West Tudor Road  
Anchorage, Alaska 99503

Dear Herb:

For the past several years The Alaska Science & Technology Foundation has been interested in the development of Alaska low-rank coal/water fuels (LRCWF). This technology involves high temperature hot water drying of Alaska coal and slurring of the product with water and a small amount of additive for stability. The resulting product has characteristics similar to heavy fuel oil and can be burned in boilers designed for residual oil fuel with minor modifications.

LRCWF made from Alaska coal has significant advantages over bituminous coal slurries in that it is cheaper to process and has very low sulfur and ash content. It apparently has a cost advantage over residual oil, and it is relatively environmentally benign compared to oil if it is spilled. Hawaii, Japan, Korea, and China are among the potential users of this product for power generation.

Successful development of a cost effective technology for production of LRCWF using Alaska coal could create both a market opportunity and a competitive advantage for Alaska's vast reserves of low rank coal. The potential payoff to the state of Alaska resulting from the successful commercialization of such a technology could be enormous. However, there are significant technical and market risks that will be encountered in such a program.

The initial research to investigate the slurring and burn properties of Alaska coal's was funded by ASTF at the Energy and Environmental Research Center (EERC) in Grand Forks, North Dakota, about three years ago. This pilot scale project showed that the LRCWF from Alaska coal had many superior properties when compared to other coals. The process used proprietary technology unavailable to the competition. The research was soundly grounded on hundreds of millions of dollars of coal/water fuels research conducted under the USDCE over the past 15 years.

A proposal for a grant to construct a large-scale LRCWF demonstration plant was submitted to ASTF about one year ago by a group which includes EERC, Usibelli Coal Mine Company, Placer-Dome, AEA, Hobbs Industries, and a few others. The

November 2, 1993

Page 2

group proposed the formation of a consortium to commercialize the LRCWF technology. The consortium would acquire the intellectual property rights to the proprietary LRCWF technology developed at EERC, construct a demonstration scale plant to produce LRCWF, and assuming successful up scaling of the technology, would pursue full-scale commercialization of the process using Alaska coal from the Beluga fields.

The proposal requested \$3,985,000 from ASTF with \$11,035,000 in mostly in-kind funding from the proposers and the potential for \$10,245,000 from the U.S. Department of Energy. The ASTF board responded to the initial proposal by stating that LRCWF technology was potentially important for the development of Alaska coal resources, and that the proposed program had merit, but that successful commercialization of the technology would require more focus on the marketplace and should involve the next-stage investors. The board also requested additional information about the consortium.

In its discussion of this issue, the ASTF board concluded that the state of Alaska, as the major resource owner, should take a meaningful position in the commercialization of this technology. If substantial state funds were to be spent (through ASTF or other sources) the state should have a significant ownership interest in the resulting intellectual property and should be in a position to apply the process to the development of all of Alaska's coal resources.

Subsequent to its initial consideration of the proposal, the board received additional information from the applicants and reviewed the revised application at its August meeting. At that time the board declined to fund the project. The board concluded that the project was technology driven, rather than market driven, that there was no participation by potential end users, and that the existing applicants were not adequately positioned to carry the project to the level of full commercialization if the demonstration were successful.

Subsequently, the applicants requested that ASTF reconsider its decision. This request was supported by letters from a number of state officials including Commissioners Fuhs and Blatchford. These letters all cited the potential payoff to the state if the project were to result in successful commercialization of Alaska's coal resources. At its September meeting the ASTF board agreed to reconsider its August decision.

Upon further discussion the board concluded that ASTF is appropriately positioned to assess the technology risk and fund the technology development piece of this project but that ASTF is not suited for a market development role. We have neither the staff nor the expertise to oversee large development projects.

The ASTF board concluded that it is willing to invest up to \$4 million in LRCWF technology under appropriate conditions, one of which is that AIDEA be responsible for the administration of the demonstration project and take the lead in providing business direction for the venture. The essential elements for ASTF to proceed with this project are as follows:

1. ASTF will provide funding to AIDEA as the grantee. By statute, our assistance is restricted to providing competitive grants. As discussed above, ASTF has expertise in assessing and funding technology

development, not in funding large economic development projects. It is the expectation of ASTF's Board that AIDEA will own the project initially, with a structure permitting some form of equity participation or profit-sharing with investors and/or strategic partners, as discussed below. AIDEA will determine the fair value of and structure for such equity participation.

2. The grant will be funded in two phases. The first phase will fund the formation of the consortium, the development of the commercialization plan and whatever market studies AIDEA deems necessary to analyze the prospects for the technology in the marketplace. The bulk of the grant funds will be provided in the second phase for development of the demonstration project.
3. The grant will be pursuant to ASTF's standard grant agreement.
4. The project must receive \$10 million in federal funds as a coinvestment. This coinvestment must occur prior to or coincident with ASTF's funding of the second phase of the grant. No federal coinvestment is required for phase one. ASTF is not placing any minimum requirements on private coinvestment. Instead, we are relying on AIDEA to assess the fair market value of such private participation and compensate it proportionally through the ultimate returns from the project either through an equity participation in the consortium or some other means.
5. The State must receive ownership of all intellectual property rights, and other grant participants must provide contributions of technical talent and resources. ASTF always requires coinvestment to leverage its grant funds. The contribution of technical talent and resources to the project is an important source of leveraging of ASTF's resources. Because AIDEA will own the project, it is also important that AIDEA receive all intellectual property rights. Rather than splitting up those rights, ASTF would like to see some form of equity participation or royalty sharing with those key strategic members of the project. ASTF believes that the most appropriate form of sharing with other participants is one that will only pay out from the ultimate successful commercialization of the project. ASTF's view is that participants should receive significant returns only out of the economic success of the project, not out of the grant moneys.
6. Involvement of strategic partners should be encouraged. AIDEA should use its best efforts to include potential users, technology partners, potential suppliers such as shippers, and equity investors in the ownership and/or profits of the project. AIDEA's statutes appear to provide broad flexibility in structuring this project, and ASTF's concerns about involvement and leverage would be addressed by a broad range of structures, including formation of (1) a corporation and the sale of equity to third parties, (2) a joint venture or other partnership, or (3) contractual arrangements providing for similar investment by and returns to third parties. A key aspect from ASTF's perspective is the involvement of users of the coal product to be developed by this project.

November 2, 1993

Page 4

7. *Payment of grant funds will be contingent upon receipt by ASTF of annual funding of its grants budget to the extent of its annual endowment earnings. ASTF's Board is interested in funding this project because of the potential returns to the State. However, the project would be by far the largest that ASTF has funded and would represent a very substantial portion of its grants budget over the relevant period. This is a potentially important technology, but ASTF is not interested in funding this project to the exclusion of all other projects important to the State.*
8. *ASTF must receive a legislative waiver of its small grants requirements. ASTF's statute requires that half of all grant funds distributed in a fiscal year must be for grants of \$100,000 or less; ASTF could not comply with that requirement and fund the LRCWF project.*

*ASTF is prepared to proceed expeditiously with the funding of this project following preparation of the appropriate grant applications and contractual documents. While this letter indicates the intention of the ASTF board, it does not bind the Foundation to the funding of this project. That can only occur by an action of the full board following receipt by ASTF of appropriate applications.*

*I hope that AIDEA will see the merit in the proposed project and work with ASTF to bring about the successful development of LRCWF technology for Alaska coal.*

*Sincerely,*

*Ronald A. Duncan  
Chairman of the Board*

cc: *AIDEA Board  
STF Board*

MICLANG



**ALASKA SCIENCE & TECHNOLOGY FOUNDATION**

— Putting Innovation to Work for Alaska —

March 30, 1994

RECEIVED  
APR 4 1994

Alaska Industrial Development  
and Export Authority

William R. Snell  
Executive Director  
Alaska Industrial Development and Export Authority  
405 W. Tudor Avenue  
Anchorage, Alaska 99507

Dear Mr. Snell:

Re: *ASTF Proposal Number 91-3-189*  
*Power Generation from Alaska Low-rank Coal-water Fuels—Commercial*  
*Demonstration Project*

*This letter is to confirm the action taken by the ASTF Board of Directors on*  
*March 21, at which they adopted the following resolution:*

*\*RESOLVED that Proposal 91-3-189 submitted by AIDEA for the funding of the*  
*Low-rank Coal-water Fuel Project (the "Project") is approved as follows:*

- \*1. ASTF grants up to \$185,000 to Alaska Industrial Development & Export Authority (AIDEA) pursuant to a grant agreement with terms acceptable to the Executive Director of ASTF for the initial study and development of the Project as determined by the Executive Director of ASTF (Phase I);*
- \*2. ASTF grants up to \$3,615,000\* to AIDEA upon satisfaction of all of the following conditions (Phase II):*
  - A. Successful completion of Phase I;*
  - B. Approval by ASTF's Board of Directors of the proposal to be submitted by the project to the U.S. Department of Energy (DOE), approval by the DOE of that proposal and agreement by the DOE to fund the project in an amount of not less than \$10 million;*

- \* The fact that this amount is not the total requested can be addressed when the Board considers whether to go forward with Phase II.*

March 30, 1994

Page 2

- C. Approval by ASTF's Board of Directors of the final business plan for the project;
- D. Revision of ASTF's legislation (AS 37.17) as proposed by ASTF, including permitting 50% of ASTF's grants by number to exceed \$100,000 each and the collection by ASTF of royalties on all income produced with ASTF grant funds;
- E. Binding commitment to the project of the site for the project demonstration;
- F. Binding contracts for all aspects of the commercial activities of the project, including commitment from one or more energy producers to participate in the project;
- G. Execution of a grant agreement with terms acceptable to ASTF's Executive Director.\*

As you know, ASTF has met with Dave Eberle and members of the Consortium to discuss the Board's expectations. The attached two pages were developed in that effort and explain further the items ASTF will be judging at the end of Phase I. Please let us know if anything is unclear.

On a different topic, we have noticed that you signed section c of Form G requesting confidentiality for project results. This section states that you "...attached a description of the information for which confidential material status is requested and the required justification for this request." However, I am unable to find this description or justification.

Enclosed is a copy of ASTF's confidentiality guidelines. Please note that the last paragraph states that "Information developed under a grant from ASTF is public information unless confidentiality is requested and granted prior to the award of the grant. If confidentiality is desired for Phase II, please be certain to provide the necessary description and justification along with the other Phase I deliverables. ASTF has to go through all these convolutions because it doesn't have the right to protect trade secrets like AIDEA does.

If I can be of further assistance, please do not hesitate to call me at 272-4333.

Cordially,



Ann M. Kampler  
Grants Manager

Enc: Confidentiality Guidelines  
Phase I Tasks

## ATTACHMENT NO. 5

### FINANCING AND DEVELOPMENT SCHEDULE

#### Phase I, \$429,200

ASTF has already funded \$185,000 of Phase I of this project. AIDEA has contributed \$30,000. The private-sector consortium members have contributed in-kind services and matching funds totaling \$214,200. Phase I will be complete in early April 1995.

#### Phase II, total funding \$22,000,000

#### Proposed funding breakdown:

\$10,250,000	Federal DOE grant
\$ 8,075,000	Private sector contributions
\$ 3,900,000	State contingent match (ASTF) (ASTF already has set aside)

- Complete Phase 1 Business Plan for submittal to ASTF - April 1, 1995.
- Receive ASTF Board approval for phase two funding \$3.8 million - April 15, 1995.
- Finalize Federal funding source and submit proposal package (either piggy back existing CCT projects, or direct appropriation) \$10.25 million - April - May, 1995.
- Begin negotiating ASTF/AIDEA/AK CWF, Inc. contract - May 1995.
- Federal funding approval June - July 1995.
- Forward fund \$1.25 million of ASTF funds, to AIDEA, with conditions that federal funds must be committed prior to being disbursed - Must be done by June 1995.
- Negotiate Federal contract July - August 1995.
- Select A&E and begin detail design - July 1995.
- Order long lead time items - September 1995.
- Initiate permitting - September 1995.
- Begin PICO bldg upgrades - October 1995
- Start module fabrication - March 1996
- Site construction - May 1996
- Begin shake down - September 1996
- Begin operation - April 1997 - August 1998



**TIM BRADNER**

## Coal technology gives Alaska the chance to be there first

We've heard it often said that Alaska is the Saudi Arabia of coal. We have trillions of tons of the stuff. But as I heard one coal project manager put it to state legislators in Juneau recently, that's about like saying Alaska's huge coastline makes it a hot prospect for new beach resorts.

Unfortunately, a lot of other regions have coal, and in places a lot easier to mine and closer to markets. What we need to do is get smart and make something out of our coal that makes it more valuable, easier to move and then sell it to a different market.

We may be on the verge of that. A small group of companies with Alaska coal holdings is working with the University of North Dakota's Energy and Environmental Research Center and University of Alaska Fairbanks in an effort to build a pilot plant to produce a low-rank coal-water fuel.

This is a liquid-fuel product of coal particles mixed with water through a proprietary process developed by North Dakota's EERC.

Once manufactured in a plant, ideally located near a coal mine, the product could be moved by pipeline and loaded on a tanker, a process less costly than moving dry coal. The product could be sold as fuel to customers like large power utilities. Thus, a coal-derived product would be competing against residual fuel oil in a new market.

The manufacturing process has been demonstrated in laboratory tests. The participants, including the EERC and Usibelli Coal Mines Inc. of Fairbanks, have formed a company, Alaska Coal Water Fuel Inc., that would build the pilot plant and own the proprietary technology.

The Alaska Science and Technology Foundation has aided the project with a \$185,000 grant to pay organization and planning costs, and it has committed \$1.5 million toward \$14 million needed to develop a pilot plant capable of producing 150 tons per day. Alaska Industrial Development and Export

Please see Page C-2, BRADNER

# BRADNER: Liquid-fuel coal technology explored

Continued from Page C-1

Authority is working with ASTF as a project manager.

If the money can be raised, the pilot plant would be located in a coal-fired power plant at the University of Alaska Fairbanks. The pilot will allow project participants to compile actual operating-cost data, which would be used to assess the feasibility of a full-scale production plant.

A full-scale plant would probably produce in the range of a million tons a year of coal-water fuel and would be best located near a large coal deposit and near tidewater. For the first plant, that means the Beluga coal field, across Cook Inlet from Anchorage.

There are some intriguing things about this project, some reasons why it's strategically important to Alaska, and why an Alaska coal-water fuel project has competitive advantages.

Interestingly, tests of coal-water fuels by the U.S. Department of Energy show that a fuel made from low-rank or lower-quality coal like Alaska's

abundant sub-bituminous coals burns more efficiently than a fuel made of a higher-grade coal, like bituminous. That's because of the different chemical characteristics of the coals.

Another advantage: Alaska's sub-bituminous coal is very low in sulfur, which means a fuel product made from the coal will be in demand among utilities facing new air-pollution control requirements.

For the product in general, there's also an important environmental advantage. A spill of coal-water fuel doesn't pose the same environmental threat as a heavy-fuel oil spill because coal doesn't contain many of the toxic components found in oil.

So why aren't big oil and mining companies

rushing into such a grand deal?

Well, there is interest. U.S. oil companies poured hundreds of millions of dollars into coal-fuel technologies in the years of high oil prices, but lower prices and the recent downsizing in the industry forced the industry to focus on its core business of producing and refining crude oil.

A lot of the industry's efforts also were aimed at working with higher-ranked coals. The EERC, in North Dakota, is one of the few research groups that focused on lower-ranked coals and succeeded.

Japanese companies are reported close behind the EERC in developing a similar coal-water fuel technology. But why let the Japa-

nese do it? If the Alaska group, working with the EERC, can get the technology proved first and into the market, Alaska reaps the benefits of having the plants, and jobs, here.

And unlike many other state development efforts, there's also the possibility that the Alaska Science and Technology Foundation might share in some of the profit. In return for putting seed money into this project, the foundation may be able to get a small royalty on sales of the resulting technology.

---

Tim Bradner writes for an Alaska economic reporting service. His private clients include petroleum companies. His opinion column appears every fourth Sunday.

---

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR

TO: SB 161

Page 1, line 1, following "relating to the":

Insert "Alaska Science and Technology Foundation and to the"

Page 1, line 2:

Delete "and"

Page 1, line 4 following "project":

Insert "; and relating to a feasibility study to be conducted concerning the establishment of a Challenger Learning Center for the study of science and technology"

Page 4, following line 2:

Insert a new bill section to read:

**\*\* Sec. 8. CHALLENGER LEARNING CENTER FEASIBILITY STUDY.** The Alaska Aerospace Development Corporation shall conduct a feasibility study on the technical, financial, and economic feasibility of establishing in the state a Challenger Learning Center that is for the study of science and technology and that is modeled after the Challenger Learning Center program established by the Challenger Center for Space Science Education. The feasibility study shall consider various locations for the center. The costs of the study shall be paid as follows:

- (1) one-half the Alaska Aerospace Development Corporation and the Alaska Industrial Development and Export Authority; and
- (2) one-half by the municipalities desiring consideration as possible locations for the center."

# FISCAL NOTE

No. 1

Bill Version: SB 161

(S) Publish Date: 4/20/95

**STATE OF ALASKA  
1995 LEGISLATIVE SESSION**

BIL

Revision Date: April 19, 1995  
 Title: ...financing of technological developments by public corporations of the state; and relating to the financing of the Kodiak...  
 Sponsor: Senate Rules  
 Requestor: Governor

Department: Commerce and Economic Development  
 BRU: AK Industrial Development & Export Auth  
 Component: AK Industrial Development & Export Auth

COMPONENT SERIAL NO. 1234

Expenditures/Revenues		(Thousands of Dollars)				
OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>

CAPITAL EXPENDITURES

CHANGE IN REVENUES

FUND SOURCE		(Thousands of Dollars)				
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>

Estimate of any current year (FY 95) cost: \$ \_\_\_\_\_

**POSITIONS**

FULL-TIME	
PART-TIME	
TEMPORARY	

ANALYSIS: (Attach a separate page if necessary)

Prepared by: William R. Snell, Executive Director  
 Division: AK Industrial Development & Export Authority  
 Approved by Commissioner: William L. Hensley *[Signature]*  
 Agency: Commerce and Economic Development

Phone: 561-8050  
 Date: April 19, 1995  
 Date: April 19, 1995

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information, call the Governor's Legislative Office

TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

143  
P O Box 110001  
Juneau, Alaska 99811-0001  
(907) 485-3500  
Fax (907) 485-3532

April 20, 1995

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

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would improve the ability of public corporations of the state to finance technological developments.

This bill amends AS 37.17 to facilitate the Alaska Science and Technology Foundation's (ASTF) development of commercial uses for technological developments, among its other purposes. These amendments will assist state agencies and public corporations such as the Alaska Aerospace Development Corporation (AADC) and the Alaska Industrial Development and Export Authority (AIDEA) in technology-related development projects. ASTF would be able to provide guidance through its established peer review system and grant review process, as well as financial assistance to projects meeting its technological and business criteria.

Existing AS 37.17.090(d) requires that at least 50 percent of the ASTF endowment income that is distributed by ASTF in a fiscal year must be for grants of \$100,000 or less. Section 3 of the bill would exempt two grants to AIDEA or AADC from that requirement. Absent this exemption, ASTF would be limited to providing only minor financial assistance to projects of potentially great benefit to the state. One of the two grants is for development of the Kodiak launch complex and Fairbanks satellite ground station space park. The second grant is for development of low-rank coal water fuel technology. It is anticipated that the grants from ASTF for these projects may be phased in.

Section 5 of the bill also provides ASTF with more flexibility to ensure a fair financial return to the state based upon the value derived by the grantee from the ASTF grant. The bill replaces the current narrow language of AS 37.17.090(g), restricting ASTF to a return from "royalties, licenses, and patents", with broader language acknowledging that grantees can gain significant economic benefit from an ASTF grant without ever earning

The Honorable Drue Pearce

Page 2

income from royalties, licenses, and patents. For example, ASTF could receive a return from AADC for the operation of the Kodiak launch facility. Section 5 provides ASTF with additional protection for its investments by the addition of language allowing ASTF to take a security interest in, and own, patents, copyrights, and other intellectual property to secure payment of sums owed to ASTF under a grant agreement.

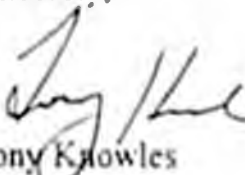
The bill continues to require that the revenue received by ASTF be paid into the principal of the endowment, subject to AS 37.07. The bill allows ASTF to tailor each "return" provision to the specific circumstances of the grantee. Under this provision, ASTF is able to receive a fair return where the grantee is going to manufacture and sell its own products based upon ASTF technology. ASTF is also able to receive a fair return based upon the growth in the grantee's business based upon the ASTF grant.

The bill improves ASTF's ability to protect sensitive commercial information it receives through the grant process. Section 4 of the bill amends AS 37.17.090(f) to allow the board of ASTF to adopt administrative regulations necessary to protect trade secrets and other proprietary information submitted to ASTF from disclosure under AS 09.25.110 - 09.25.120. These regulations would be adopted by the board under standards developed to protect the interests of the state and the prospective grantees.

The bill also contains a section authorizing AIDEA to issue up to \$20,000,000 in bonds to finance the development of the Kodiak rocket launch complex and the Fairbanks satellite ground stations, or to finance these projects by other means available to AIDEA. This section also includes a limitation that the board of directors of AIDEA and AADC must each determine that there is sufficient commercial interest and financial viability to support the debt service and costs of the facility before money may be expended for any phase of construction.

I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles  
Governor

**SB**

**162**

**HFIN**

**FILE**

# ALASKA STATE LEGISLATURE

*Interim*  
600 East Railroad Avenue  
Wasilla, Alaska 99654  
(907) 376-3370  
(907) 376-3157 Fax

*Session*  
State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-6600  
Fax (907) 465-3805

**SENATOR LYDA GREEN**  
SENATE DISTRICT N

## **Sponsor Statement**

### **Senate Bill 162**

Senate Bill 162 amends Alaska Statute Title 38 with regard to agricultural land disposal and utilization. The proposed changes are designed to help facilitate the growth, stability and economic viability of agriculture as a renewable resource industry for Alaska.

This legislation expands the state's ability to convey interests in land classified for agricultural purposes that the state has conveyed or may convey. Currently, the state conveys agricultural interest only and the state retains all other interests. With the passage of SB 162, the state shall convey fee simple title, subject to certain restrictive covenants that would underpin the use of the land for agricultural purposes. This change would allow owners of agricultural parcels the opportunity to obtain financing from other than the state.

Agricultural land disposal represents a cost effective means of transferring public land into private ownership. Increased private ownership expands the local tax base and reduces revenue sharing needs while promoting community development and supporting infrastructure development for a variety of other resource uses, i.e. public recreation, mining and transportation. Other provisions of SB 162 aid future land disposals in two ways: by allowing the use of a site-specific plan to support a land classification for new commercial agricultural projects, and by authorizing the sale of Ag land in parcels or tracts by aliquot parts.

The remaining provisions of the bill emphasize a greater level of autonomy for the individual agribusiness owner, while ensuring the states interests are protected. The bill also reduces the state's direct control over individual farm development and utilization and allows Ag land owners the ability to make business decisions responsive to the economic factors of the marketplace and their individual circumstances.

SB 162 redefines the state's role in agricultural land disposal and development to better enhance economic development opportunities. Its passage will allow the state of Alaska to reap the benefits of agriculture as an economically viable and expanding resource industry. I respectfully request your support of SB 162.

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 8, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/15/96

The FINANCE Committee considered:

CSSB 162(FIN)

CS FOR SENATE BILL NO. 162(FIN)

AGRICULTURAL LAND

"An Act relating to land used for agricultural purposes and to state land classified for agricultural purposes or subject to the restriction of use for agricultural purposes only; and annulling certain program regulations of the Department of Natural Resources that are inconsistent with the amendments made by this Act."

recommends it be replaced with the following committee substitute CS SB 162 (Fin) [ ] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee [ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept, Date) \_\_\_\_\_

[X] Fiscal note(s) DNR \_\_\_\_\_

[X] fiscal note(s) DNE 2/14/96 \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_

Table with columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Rows include names like Hanken, Mulder, Martin, Gussendorf, Navarre, Brown, Kelly, Theriault, Kohring, Foster.

CHAIR'S SIGNATURE [Signature] [Signature]

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. CSSB162(FIN)

Revision Date:	<u>15-Apr-96</u>	Dept Affected:	<u>Natural Resources</u>
Title:	<u>An Act relating to land used for agricultural purposes and to state land classified for agricultural purposes</u>	BRU:	<u>Agricultural Development</u>
Sponsor:	<u>Senator Green</u>	Component:	<u>Agricultural Development</u>
Requestor:	<u>Senate Rules/Senate Finance</u>	Component Serial No.:	<u>455</u>

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	28.5	11.4	11.4	11.4	11.4	11.4
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>28.5</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES (1005)</b>						

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY97	FY98	FY99	FY00	FY01	FY02
1002 Federal Receipts						
1003 GF Match						
1004 GF	28.5	11.4	11.4	11.4	11.4	11.4
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>28.5</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>	<b>11.4</b>

Estimate of any current year (FY96) cost: \$ None anticipated

POSITIONS

POSITIONS	FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME	0	0	0	0	0	0
PART-TIME	1	1	1	1	1	1
TEMPORARY	0	0	0	0	0	0

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

Section 4 of the bill allows for appeals based on economics. It is estimated that approximately 25% of 475 land sales would be appealed on economics the first year, at 10% in future years, at a cost of approximately \$240/appeal.

Under the assumption that this legislation is not retroactive, there will be no loss of revenue due to interest rate changes.

Prepared by:	<u>Jay Kertula Director</u>	Phone:	<u>745-7200</u>
Division:	<u>Agriculture</u>	Date:	<u>15-Apr-96</u>
Approved by Commission:	<u>[Signature]</u>	Date:	<u>15-Apr-96</u>
Agency:	<u>Natural Resources</u>		

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

# FISCAL NOTE

Bill Version: CSS8162 (Final)

(S) Publish Date: 2/14/96

## STATE OF ALASKA 1996 LEGISLATIVE SESSION

Revision Date: 9-Feb-96 Dept Affected: Natural Resources  
 Title: An Act relating to land use for agricultural BRU: Resource Development  
 purposes and to state land classified for agricultural purposes Component: Land Development  
 Sponsor: Senator Green  
 Requestor: Senate Rules/Senate Finance Component Serial No. 431

Expenditures/Revenues		(Thousands of Dollars)					
OPERATING EXPENDITURES		FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES		10.0	3.0	3.0			
TRAVEL							
CONTRACTUAL		3.0	3.5	3.5			
SUPPLIES							
EQUIPMENT							
LAND & STRUCTURES							
GRANTS, CLAIMS							
MISCELLANEOUS							
TOTAL OPERATING		15.0	3.5	3.5	0.0	0.0	0.0
CAPITAL EXPENDITURES		0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES		0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002 Federal Receipts							
1003 GF Match							
1004 GF		15.0	3.5	3.5			
1005 GF/Program Receipts							
1006 GF/MHTLA							
TOTAL		15.0	3.5	3.5	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ none

POSITIONS		FY97	FY98	FY99	FY00	FY01	FY02
FULL-TIME		0	0	0	0	0	0
PART-TIME		0	0	0	0	0	0
TEMPORARY		0	0	0	0	0	0

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

Sections 12 & 13 require the department to issue new conveyance documents to 230 existing patent holders. The bill, as amended, requires the land owner to apply and to provide the department with proof of ownership. This fiscal note will enable the department to attempt to notify all known existing patent holders by mail and to publish display ads at least twice in Delta, Fairbanks, Palmer and Anchorage. We will also develop a fact sheet of what will be required. The personal services costs will cover the costs of verifying title and to issue the new conveyance documents. We anticipate the majority of the applications to be received during the first year, with a smaller number coming in over the next two years.

Prepared by: Jane Angvik, Director Phone: 288-4503  
 Division: Land Date: 1-Feb-96  
 Approved by, Commissioner: John R. Kelly Date: 1-Feb-96  
 Agency: Natural Resources

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

## **Senate Bill 162 - Ag Lands**

**3/196**

### **Section by Section Notes:**

**Section 1** outlines the primary intent of this bill to provide for the conveyance of fee title for Ag land subject to a covenant running with the land limiting the use to agricultural purpose.

**Section 2** is enabling language giving the department the option to eliminate the requirement for cadastral survey of Ag lands prior to disposal.

**Section 3** is also enabling language allowing the department the option to dispose of Ag land under a site specific plan if no regional use land plan is in place.

**Section 4** removes the department's authority to require pre qualification to participate in an agricultural development project under former AS 44.33.475, repealed in 1979. This section also allows the department to modify existing farm development schedules to respond to changing economic circumstances.

**Section 5** is a technical change to reflect the repeal of the former Ag Action Council statutes.

**Section 6** allows the department to dispose of land by aliquot parts.

**Section 7** clarifies contract terms with regard to the department's options in declaring a payment moratorium for Ag land contracts.

**Section 8** provides that the interest rate for Ag land shall not exceed 9.5%. This section also allows the inclusion of interest in the payment moratoriums authorized by AS 38.05.065(h).

**Section 9** establishes the covenant that runs with the land and limits or restricts its utilization for Ag purpose. This section also outlines the subdivision parameters for Ag land.

Section 10 provides for a corresponding change in Ag land title status for Ag land that has been transferred to municipalities.

Section 11 allows that the department may require the land owner to cooperate with the soil conservation districts and restricts the departments use of farm development plans unless they are modifiable due to economic hardship or other extenuating circumstances. This section also allows the landowner the right to construct Ag related improvements, the right to use the land for purposes that are incidental and not inconsistent with the primary Ag use, the right to utilize gravel and remove and dispose of timber, the right to sell and subdivide Ag land as set out by covenant and provides a definition of "agricultural purposes". This section also ensures that remedy for breach of covenant be by civil proceeding.

Section 12 & 13 are the transitional sections providing for the transfer of ag rights only title to fee simple title with ag covenants. This process is applicant driven -- the land owner may apply to the department for new title and must provide, at their cost, proof of ownership through title insurance or title report.

Section 14 repeals departmental regulations inconsistent with the statutory changes made through this legislation.