

AK LEGISLATURE FINANCE COMMITTEES FILES 2007-2008 3126

# Project Finance is ...



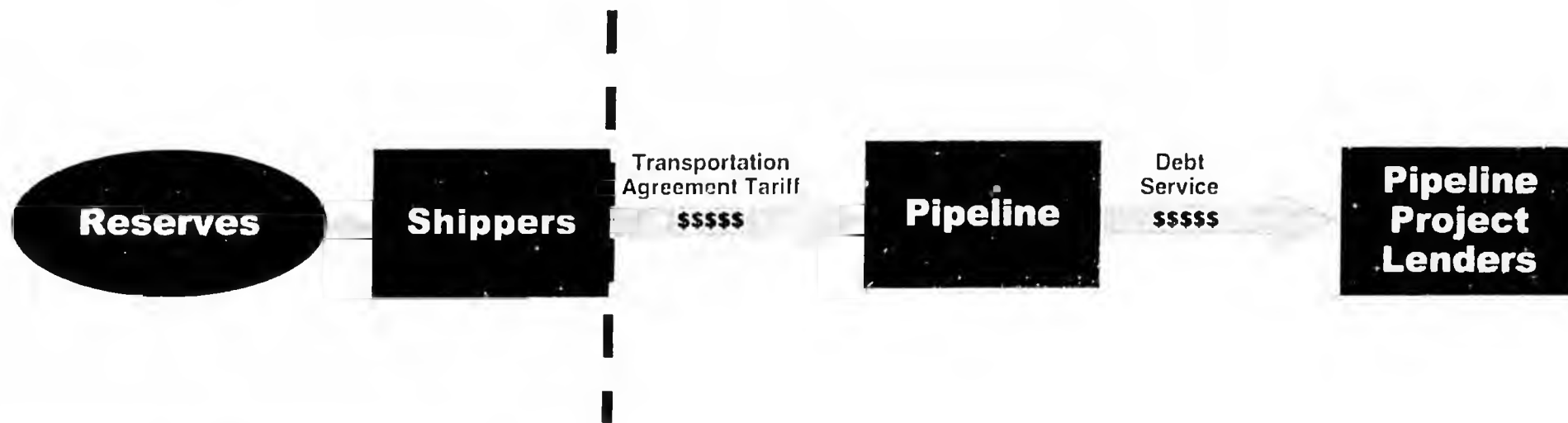
- ***A highly structured product***
    - Project loans typically involve structural elements such as
      - completion support
      - account structures
      - off-take commitments
      - security interests
      - project covenants and
      - structured remedies
- that differ from those commonly found in corporate credits.
- These structural elements are crafted to satisfy sponsor objectives and credit concerns and to match the risk profile of the specific project

# Project Finance is ...



- *A non-diversified credit*

- One business, one product, one committed source of cash flows
- But, also indirectly a function of the value chain that lies “behind” the project:
  - contractual commitments by customers
  - and all the real-world factors that determine if those commitments will be met



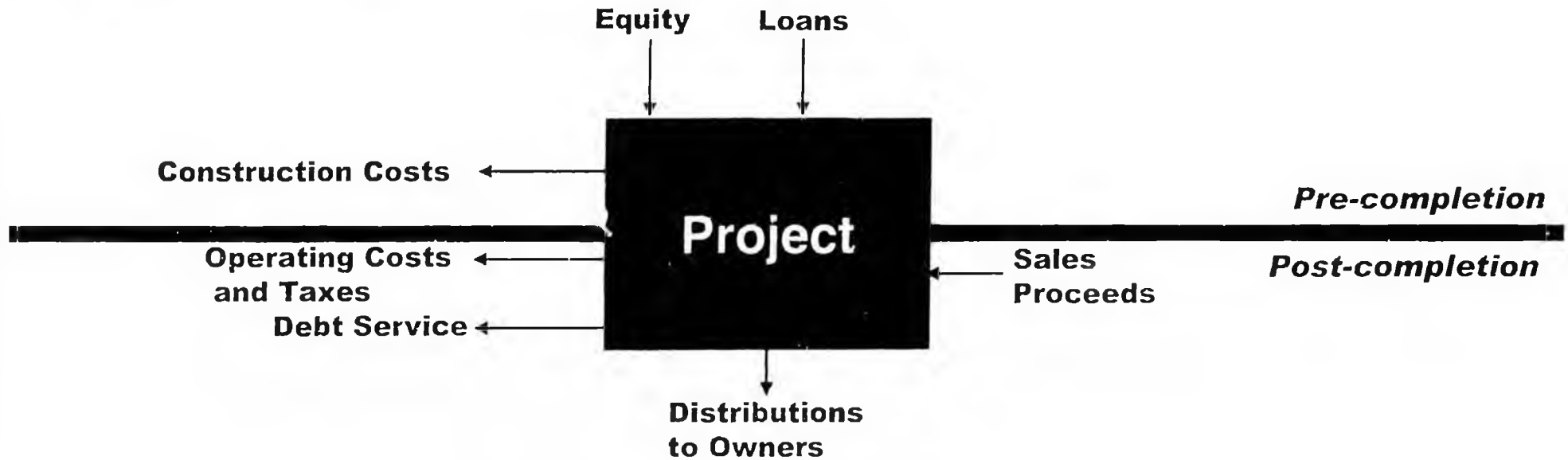
# Project Finance is ...

## ■ *Often “greenfield”*

- When loan is disbursed, business does not exist
- In “greenfield” project — threshold risk is whether the project can get
  - built on time,
  - within budget, and
  - will work as promised, minimizing likelihood of force majeure events
- Lenders generally unwilling to take entire unmitigated completion risk — sponsors always bear primary, or “first layer” of risk through equity and/or completion support
- Many projects fail because adequate completion support is not available

# Project Finance is ...

- *A cash-flow-based credit*



- Primary credit metrics are cash-based:  
ratio of “cashflow available for debt service” to debt service

# Project Finance is ...



- ***Usually based on contractual commitments***
  - **Contractual commitments are generally in an amount sufficient to cover debt service and an agreed “cushion,” and for a term no shorter than term of debt**
    - **Examples**
      - Power plant: power purchase agreement
      - Pipeline: transportation agreements
    - **Exceptions**
      - Projects that produce “terminal market” commodities (copper, market crude oil)
      - There is a limited appetite for “merchant risk” (market risk) in deep and well understood markets (principally electric power)
  - ***Contractual commitments are only as good as the parties behind them.***

# Project Finance is ...

## ■ *Limited recourse*

- “General Recourse” – means all of the present and future assets and revenues of the borrowing group are available to satisfy the debt.
- “Limited Recourse” – means that only specified assets or revenue streams are available to satisfy the debt – neither borrower nor its affiliates “owes” the debt if it cannot be satisfied from the agreed assets or revenue stream.

# Project Finance is ...



- *A tool whose purpose is sometimes risk-mitigation and risk-allocation, as well as fund-raising*
- **As such, it sometimes enables the project by**
  - providing some partners with necessary funds,
  - lowering financing costs,
  - mitigating or sharing risks,
  - strengthening the project through involvement of financing “partners”

## Summary of Main Points



- **Hard to generalize – different for different types of projects**
- **Tailored and structured for the particular project**
- **Following completion, loans for repayment look only to project cash flows, typically based on contractual commitments**
- **Often serves important purposes in addition to simply raising funds**

*Section 2*

**Risk Allocation and Mitigation**

# Key point

- Sponsors always bear all risks on equity investment
- Sponsors bear primary risk of loss – 100% loss of equity investment before first dollar of loss on debt

*The sponsors' economic stake is the foundation of the credit — not just a cushion against loss, but the basis for the lenders' expectation that the sponsors will be well-motivated to make the project a success*

## Key point (cont'd)



- **Traditional maxim: “Project finance is a bet on the sponsors.”**
  - **Lenders expect “voluntary” fix of post-completion problems because of financial (equity) stake, strategic factors and/or reputational risk.**
  - **This leads to lender focus on**
    - **Size of equity stake and leverage**
    - **Operating experience**
    - **Financial strength**
    - **Strategic story**

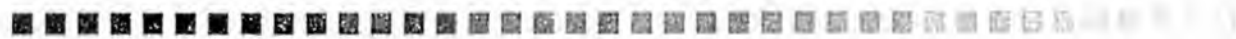
## 2. Risk Allocation and Mitigation



- Within the debt portion of the investment, project finance sometimes allocates risk of loss to those best able to bear it
- **Examples:**
  - **Price/market risk** — often borne by buyers under committed off-take contracts, then borne by lenders
  - **Political** — sometimes borne by political risk insurers
  - **Tax/regulatory** — often mitigated by host government through stability assurances
  - **Construction/completion** — primarily borne by project sponsors
  - **Operational** — primarily borne by project company

*Consistent with general market practice, the legislation authorizing federal guarantees for the Alaska Natural Gas Pipeline specifically contemplates some form of completion support from project sponsors*

## 2. Risk Allocation and Mitigation



### ■ Examples: Mitigation and Allocation of Completion Risk

Quality of feasibility/budget work



Contracting strategy (if available)



Quality of project execution



Budgeted contingency



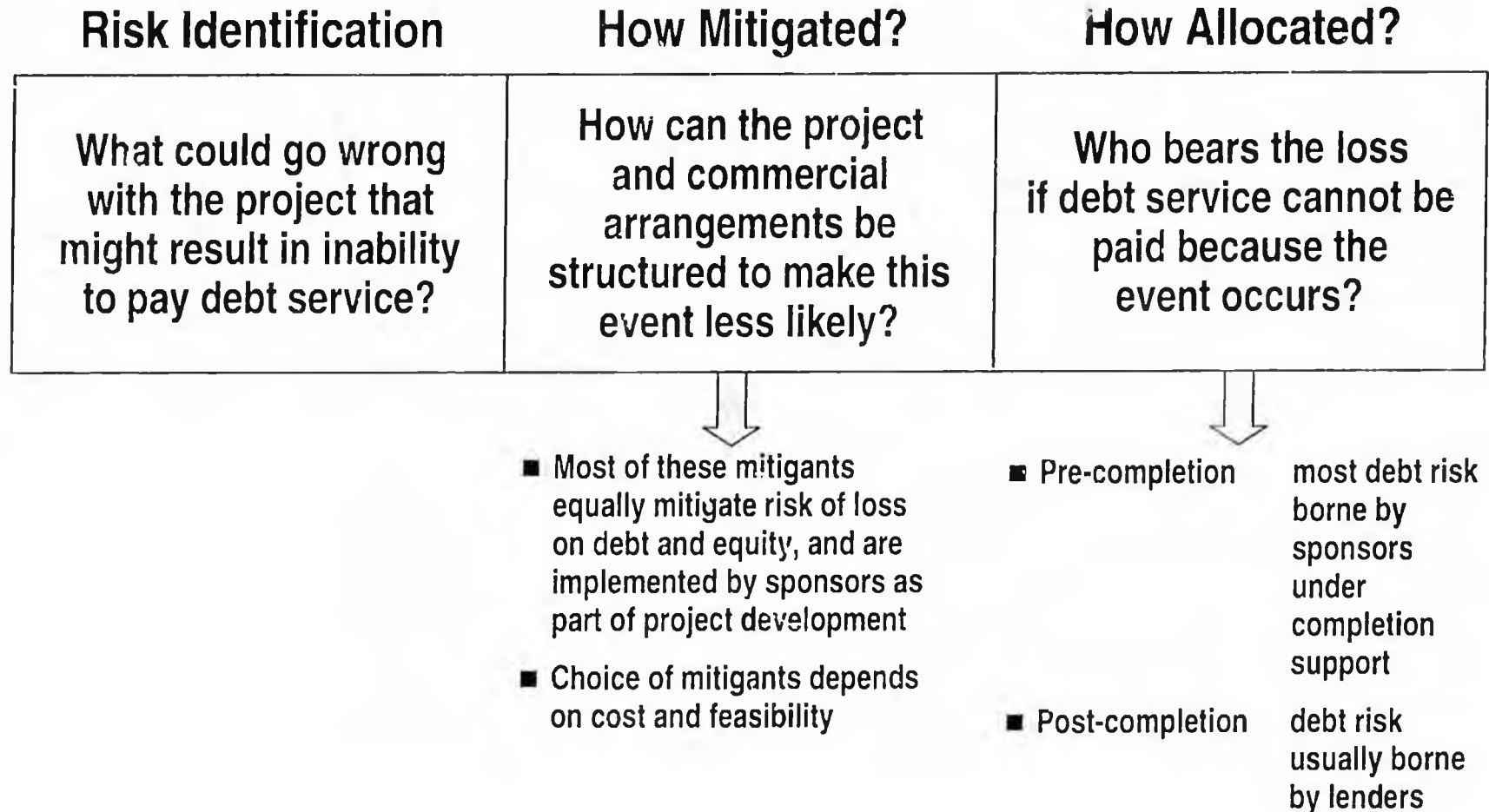
Any third-party pre-committed over-run financing



Sponsor completion support

MITIGATION  
ALLOCATION

# The Project Finance Risk Matrix



# Risk Allocation Takes Place in a Three Step Process



## In A Properly Structured Project:

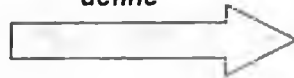
Reserves and Market  
Are Necessary, BUT



*Decisions regarding*

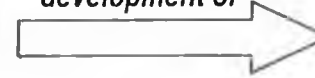


Project Structure  
and Commercial  
Arrangements  
(especially  
contractual  
commitments)



*define*

Project Credit



*which in turn allows  
development of*

Finance Terms  
and Conditions

*The Federal guarantee legislation recognizes primacy of commercial decisions by providing that no credit supports shall be required other than those resulting from commercial requirements of project owners.*

## Summary of Main Points

- Project finance involves sharing risk of project failure, but equity sponsors always bear first risk of loss
- Project development and operating experience of sponsors, strength of their balance sheets, strategic importance of the project, size of the sponsor equity investment, and strength of contractual commitments are most important factors considered by lenders
- Some risks are mitigated or allocated to others through project agreements
- Finance terms and conditions must follow, and not precede, project structure and commercial arrangements

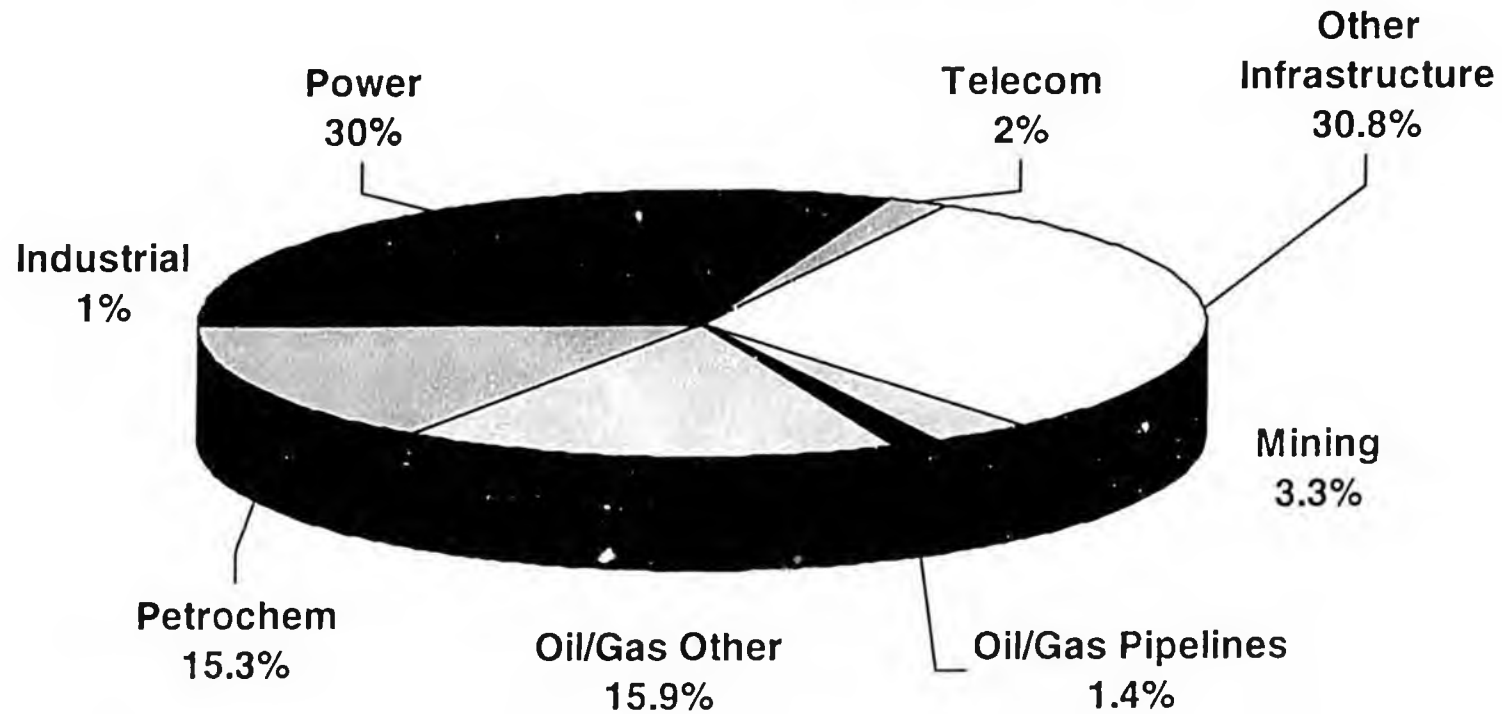
*Section* **3**

**The Current Project Finance Market**

# Who uses PF?

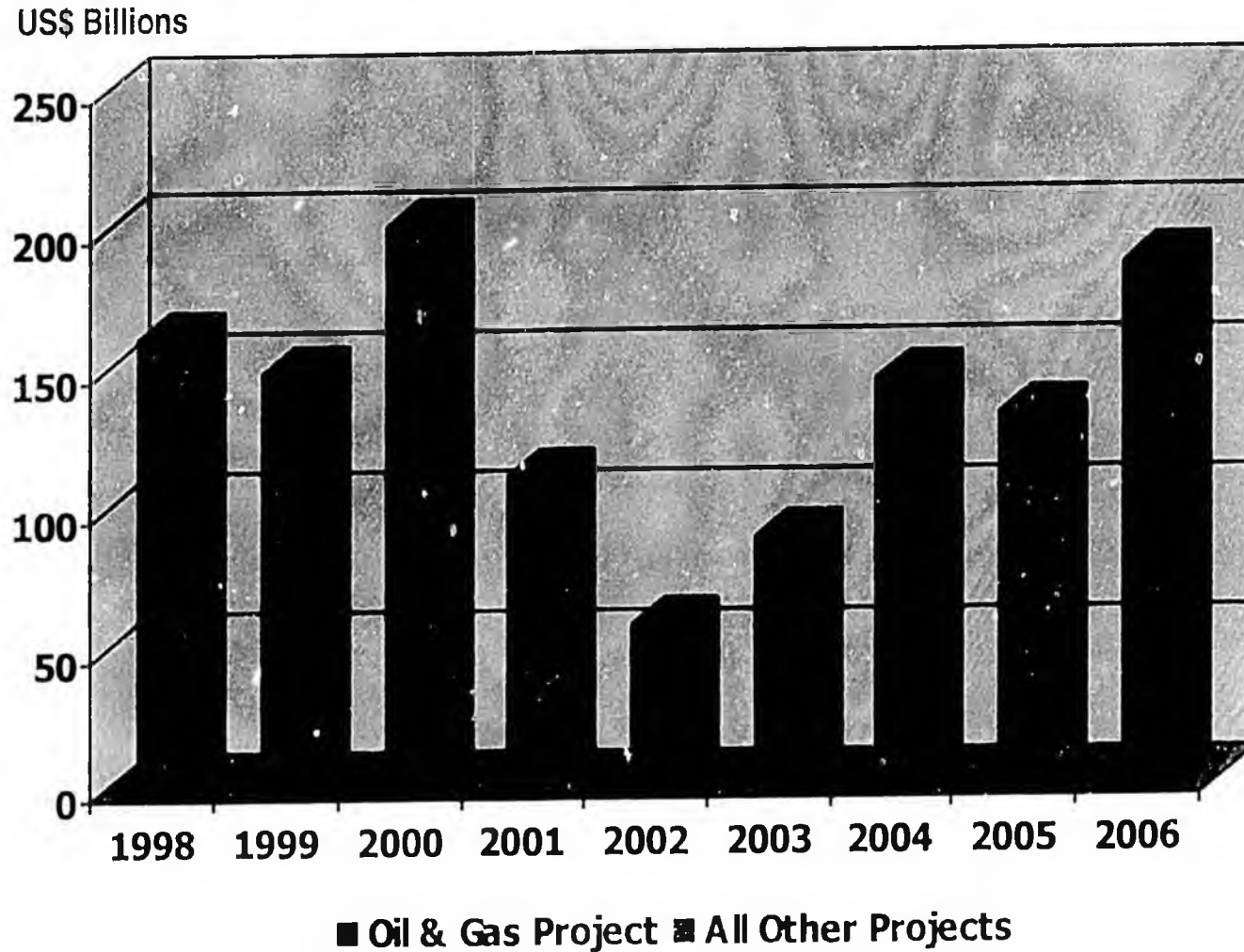
## Project Debt by Industry: 2006

*2006 Global Volume of Project Debt:  
US\$ 186.8 billion*



Source: Dealogic

# Total Project Finance Debt Market



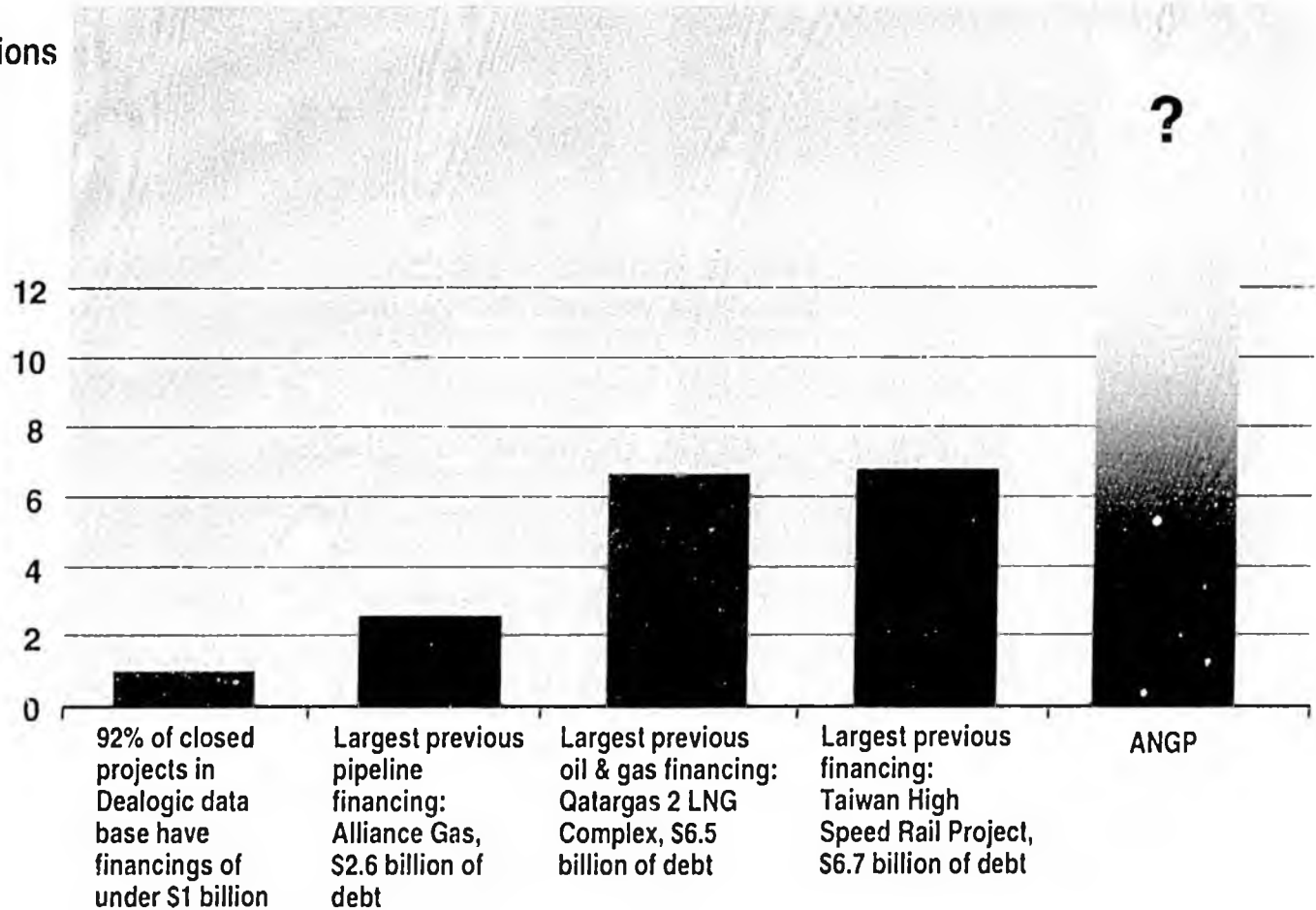
Source: Dealogic

# 3. The Current Project Finance Market



US\$ Billions

*If project financed, ANGP could be substantially larger than the largest project financing completed to date.*



# 3. The Current Project Finance Market

- **Bond market well-suited source for large borrowing program, currently favorable for oil & gas project bonds**
  - Capital markets deep, large liquid bonds attractive
  - Better pricing transparency
  - Longer tenor (term) than banks
  - Particularly well suited for pipelines given the regularity and predictability of cash flows, and the long life and large size of required investment
- **Voracious appetite by banks**
  - High degree of liquidity
  - Bullish view of risks

**But market conditions can change rapidly**



**Therefore, multi-track finance plans are common**

## 3. The Current Project Finance Market

- S&P credit study – across all industry sectors and including many emerging market projects:
  - Probability of Default (PD) — BBB+ (investment grade)
  - Loss Given Default (LGD) — Best of all the asset classes in S&P database

*“The majority of the defaulted project finance loans in this study resulted in a restructuring with 100% of loan value maintained”*

*These results include all industry sectors and emerging markets — U.S. energy projects would doubtless have more favorable PD and LGD*

## Summary of Main Points

- Project finance market has evolved, heavily influenced by capital markets and rating agencies
- Result is emphasis on underlying commercial drivers of credit
- Oil and gas pipelines a small part of the market
- Market very liquid now, but volatile, so sponsors must plan for both banks and bonds

*Section* **4**

**Building Blocks of a  
Typical Project Financing**

# 4. Building Blocks of a Typical Project Financing



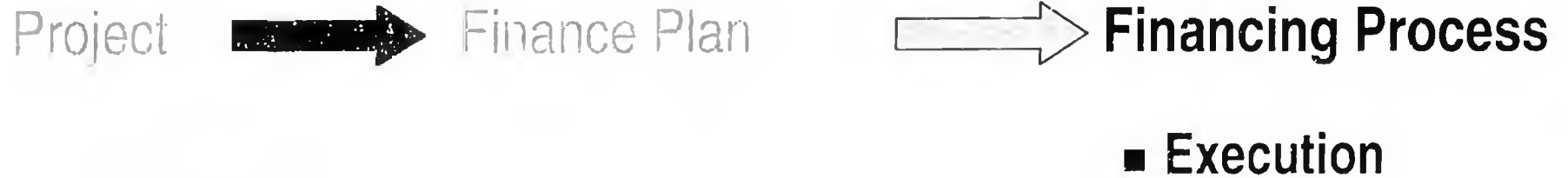
- Project Structure
- Project Agreements
- Commercial Contracts

# 4. Building Blocks of a Typical Project Financing



- Borrowing Structure
- Security and Accounts
- Completion Support

# 4. Building Blocks of a Typical Project Financing



# Project Structure



Project 

- **Entity choice**
  - Tax efficiency and regulatory considerations are key
  - “Pass-through” structures are common
    - Limited partnerships
    - Limited liability companies (LLCs)
    - Unincorporated joint ventures

# Project Agreements and Commercial Contracts



Project 

## ■ Agreements with Governments

- For resource projects, lease, concession, etc.
- Investment incentive, fiscal stability and other agreements
- Key licenses and permits

## ■ Agreements among Participants

- JV agreements
- Management or operating arrangements

## ■ Commercial Agreements

- Key construction contracts
- Key supply agreements
- Offtake agreements (transportation commitments for pipeline)
- Insurance

# Borrowing Structure



Project  Finance Plan

- **Leverage – How much debt?**
  - Concept of project “debt capacity” – driven by debt model and Debt Service Cover Ratios, viewed
    - periodically,
    - over the life of loan
  - Variations in leverage

# Security and Accounts



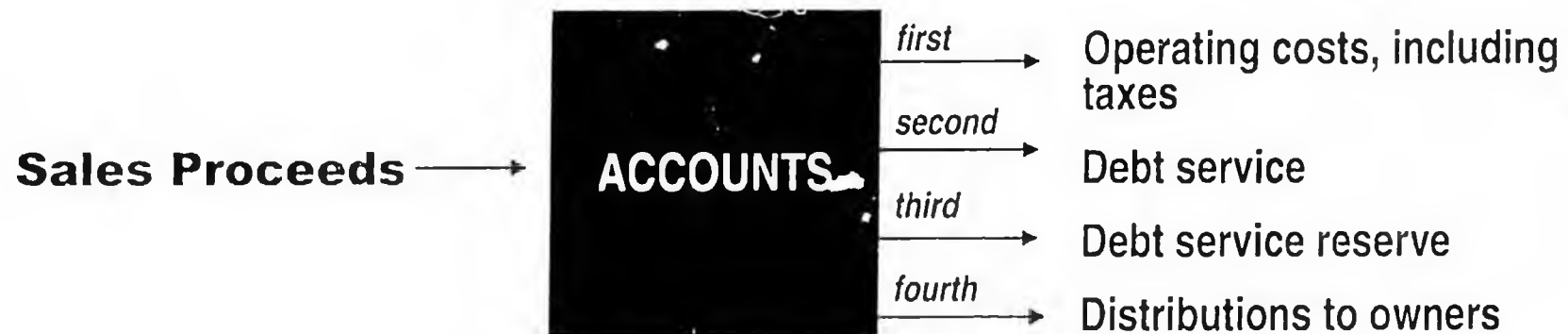
Project  Finance Plan

- Traditional security package: assets, project agreements (including offtake contracts), ownership interest, accounts, insurance
- Modern trend towards omission of asset security on a cost/benefit analysis, especially for strategic projects with strong sponsors
- Key for lenders is to capture cash flows in secured accounts

# Security and Accounts: The Waterfall

Project  Finance Plan

- Priority for continuing operations as only way to continue to service and repay debt



- Accounts create transparency, protection from other creditors (and, in emerging markets, some protection from exchange controls)

# Covenants



- Operational and legal covenants
  - Additional debt: norm is lender consent, sometimes objective tests based on *pro forma* debt-cover and leverage tests
  - Expansions, discretionary capital expenditure and certain other changes: norm is lender consent, sometimes more objective tests (more latitude if funded with equity)

# Completion Support



**Project**  **Finance Plan**

- **Need to define completion: physical and financial**
- **Sponsor support usually in form of additional equity commitments or debt guarantees**
  - **Equity commitments are common in pipelines and are limited in amount**
  - **Debt guarantees are in place through completion, requiring sponsors to repay the debt if the project is not completed**
- **All support falls away after completion tests are met**

# Lender Environmental Considerations



**Project**  **Finance Plan**

- In emerging markets, finance requirements can be greater than local law requirements
- In U.S. and Canada, not an issue, as local law requirements are robust
  - Lenders will only require compliance with law

# 4. Building Blocks of a Typical Project Financing



*Key objective is to complete financing in timely fashion so that start of construction is not delayed*

- Financing process requires extensive management and strong leadership
- Can be time-consuming and expensive
- Experienced sponsors and advisors are key
- Close collaboration among all parties is critical for success

## Summary of Main Points

- **Project structure and commercial arrangements precede development of borrowing structure and finance plan**
- **Many large and strategic oil, gas and pipeline projects do not have full asset security package – instead focus is on accounts and waterfall**
- **Once finance execution starts, requires strong leadership and management, and experienced advisors, to complete financing in time and avoid any delay in start of project construction**

*Section* **5**

**Project Finance for Oil, Gas and Pipelines**

# Why do lenders like oil, gas & pipeline projects?



- Past experience has been good
- Resource based lending for upstream projects; contractual based lending for pipeline projects
- Technologies are usually well-proven
- Particularly suited to cash-based credit analysis – cash flows clear
- Either commodity products without market risk (oil), or highly credit-worthy off-take/transportation commitments
- One of the main post-completion risks is usually price risk – which, traditionally, banks understand and can price
- Sponsors can be
  - highly creditworthy
  - experienced with large projects, conservative culture
  - judged by lenders unlikely to abandon strategically significant projects

# Upstream vs. midstream (pipelines)



## ■ Upstream

- Oil projects involve commodity products with little to no market risk; transportation may not be an issue
- Gas projects depend on available transportation and market, and strength of off-take commitments

# Upstream vs. midstream



## ■ Midstream

- Pipeline credits vary widely – depending on
  - Degree of project integration with upstream/downstream
    - Upstream and midstream as integrated project
    - Separate but with upstream producers as owners of midstream
    - Separate with upstream producers' role limited to customer
  - Contractual and credit links into upstream
    - Producer transportation commitment vs. buyer as shipper
    - Nature of transportation commitment
  - Tariff structure
    - Unregulated — negotiated tariff
    - Common carrier
    - FERC/NEB
  - Emerging market vs. developed

# Main Pipeline Financing Approaches



- **Degree of Integration with Upstream/Downstream**
  - Especially for large strategic projects which rely on single transportation system, producers want (i) timely development of transportation, (ii) control over construction and operating costs, and (iii) reliability – usually leads to integration with upstream or producer participation if midstream is separate
  - Even if pipeline is organized as a separate project, development of upstream resources, transportation commitments and downstream markets are foundations of the pipeline credit

# Main Pipeline Financing Approaches



## ■ “Dual Project Risk”

- Dual completion risk if separate upstream project is also green-field
- Crux of issue: midstream lenders exposed to upstream risks without normal covenants with and remedies against upstream project
- Creates tremendous pressure (i) for common ownership or (ii) on terms and conditions of transportation agreements as only “link” into upstream
- Financing complexity, time and costs also can increase

# Transportation Agreements



- **Transportation Agreement defines cash flows for pipeline borrower**
  - producer or buyer as shipper
  - nature of shipping commitment
    - ship-or-pay (most common)
    - ship-and-pay
- **For ANGP, as FERC/NEB regulated project, open season bids would be on the basis of firm transportation commitments**

# Transportation Agreements



- **Firm Transportation Commitment (ship or pay)**
  - Key midstream financing issues are tenor, volume, tariff, shipper credit and force majeure
    - If Federal guarantees are available and used, these are issues for Federal government as guarantor, and for lenders as to any uncovered portion of debt . . . but force majeure exceptions to “ship or pay” obligations are key
  - Starting point for midstream post-completion credit is blended credit behind shipping commitments
  - Shipper credit analyzed based on (i) financial strength, (ii) upstream development and operating costs and break-even net-back, (iii) end-user markets, and (iv) sufficient volumes to fulfill firm commitment
  - In FERC regulated transaction, tariff adjusts — generally protects lenders because costs passed on to shippers
  - Producers may be reluctant to enter into firm “ship-or-pay” commitments if they do not own the pipeline

# Transportation Agreements



## ■ Force Majeure

- In “ship-or-pay”, force majeure provisions define circumstances where shippers do not have to pay
- Of key importance to lenders, since force majeure events result in interruption in cash flow available to service debt
- Main force majeure provisions cover operational/availability risk in midstream — if midstream cannot accept gas, shippers not obligated to pay
- Result is keen lender interest in (i) quality of original design and construction, (ii) operational expertise and track record of midstream operator, and (iii) technical and financial capacity of midstream project company and its owners to address operational issues
- Project size and complexity, together with long tenor and large size of midstream financing, likely to increase these concerns in ANGP

# Structural issues for cross-border pipelines

- Separate entities in each country most common
- Can be separately tranching loans to each entity, but
  - cross-completion risk
  - sometimes structured to create unified credit
- Two loans can equal more complexity and cost and longer time to develop

# 10 Largest Oil and Gas Pipeline Project Financings

(greenfield and expansion only – excludes acquisition financing and refinancings)<sup>1</sup>



	Project Name, Location	Total Capital Cost (Senior Debt Portion)	Sponsors	Financial Advisers to the Consortium
1.	Alliance Pipeline Project (Gas), Canada/US (3,000 km)	US\$3.73 billion (\$2.59 billion debt)	Coastal, IPL, Williams, Fort Chicago Energy, Westcoast Energy	Goldman Sachs, Scotia, Paribas.
2.	BTC Pipeline (Oil), Azerbaijan/Georgia/Turkey (1,730 km)	US\$3.6 billion (\$2.59 billion debt)	Amerada Hess, ConocoPhillips, INPEX, SOCAR, Unocal, BP, Eni, Itochu, Statoil, TPAO	Lazard
3.	Bolivia-Brazil Pipeline Project (Gas), Bolivia/Brazil (3,075 km)	US\$2.23 billion (\$1.4 billion debt)	PETROBRAS, BG, El Paso, YPFB, BHP, Enron Corp., Shell	Credit Suisse First Boston, Kleinwort Benson
4.	Cupiagua-Cusiana Pipeline (Oil), Colombia (800 km)	US\$2.2 billion (\$1.54 billion debt)	Ecopetrol, BP, Total, Triton, TransCanada, IPL	Goldman Sachs, Credit Lyonnais
5.	Chad-Cameroon Pipeline (Oil), Chad (1,070 km)	US\$2.0 billion (pipeline only) (\$700 million debt)	Exxon Mobil, Petronas, Chevron	Citibank

<sup>1</sup> Also excludes primarily upstream projects with an integrated pipeline component. Based on Dealogic database.

# 10 Largest Oil and Gas Pipeline Project Financings

(greenfield and expansion only – excludes acquisition financing and refinancings)<sup>1</sup>



	<b>Project Name, Location</b>	<b>Total Capital Cost (Senior Debt Portion)</b>	<b>Sponsors</b>	<b>Financial Advisers to the Consortium</b>
6.	OCP Heavy Crude Pipeline (Oil), Ecuador (503 km)	US\$1.2 billion (\$900 million debt)	Alberta Energy, Repsol YPF, Occidental, Agip, Pecom Energia, Techint, Kerr-McGee	Chase Manhattan Bank
7.	Mozambique-South Africa Pipeline Project (Gas), Mozambique (865 km)	US\$1.2 billion (\$543 million debt)	Republic of South Africa, Republic of Mozambique, Sasol Polymers	Dresdner Kleinwort Wasserstein
8.	Malhas Project (Gas), Brazil (expansion)	US\$1.0 billion (\$900 million debt)	PETROBRAS, Mitsui, Itochu, Mitsubishi	
9.	Kern River Expansion II (Gas), United States (part refinancing)	US\$875.0 million loan	Williams, Tenneco	
10.	Camisea (Gas), Peru	US\$865.0 million (\$480 debt)	Techint, Sonatrach, PlusPetrol, SK, Hunt Oil, Tractebel	Citi

<sup>1</sup> Also excludes primarily upstream projects with an integrated pipeline component. Based on Dealogic database.

## Summary of Main Points

- Even in oil and gas sector, project financings vary considerably
- Major distinction is between developer- and producer-driven projects
- Many structural variations for upstream, midstream and integrated projects
- For pipelines, credit defined by Transportation Agreement (parties, nature of commitments and pricing), completion support and operating track record
- Universe of greenfield large developer-driven pipeline financings is very limited

# CONCLUSION: KEY POINTS

- Every project is different and this one will likely set its own financing precedents
- Parties use project financing for different reasons
- Commercial fundamentals, together with contractual commitments, completion support and sponsor strength, are the foundation of a project credit
- With the right underlying economics and if properly structured, oil and gas projects can be strong credits
- Project finance execution is a complex enterprise requiring collaboration among many parties; flexibility is required to respond to moving markets

SULLIVAN & CROMWELL LLP

1/16/08

MONETARY

AGREE-

MENTS

**HFIN**

**FILE**



Official Business

# Alaska State Legislature

House of Representatives


Office of the Chief Clerk

State Capitol, Room 216  
Juneau, AK 99801-1182  
Phone: (907) 465-3725  
Fax: (907) 465-5334

## MEMORANDUM

Date: January 16, 2008

To: Representative Chenault, Co-chair  
Representative Meyer, Co-chair  
Finance Committee

From: Suzi Lowell  
Chief Clerk 

Subject: Monetary Terms of Arbitration between the State and MMP

The attached monetary terms of the arbitration award resulting from a dispute between the State and the International Organization of Masters, Mates and Pilots Association was referred to the Finance Committee during floor session January 15.

Attachment:

# STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER

*Finance*

SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200

PHONE: (907) 465-2200  
FAX: (907) 465-2135

November 8, 2007

The Honorable John Harris  
Speaker of the House  
Alaska State Capitol  
Juneau, Alaska 99/01-1182

Dear Speaker Harris:

I am required by the Public Employment Relations Act (AS 23.40.070-260) to report the monetary terms of any agreement reached with an employee organization. By copy of my memorandum to Karen Rehfeld, Director of the Office Management and Budget (enclosed), please accept my report of the monetary terms of the arbitration award as a result of a dispute between the State and the International Organization of Masters, Mates and Pilots Association. The monetary terms of this arbitration award must be submitted to the Legislature for approval pursuant to AS 23.40.215, inasmuch as it requires an appropriation for its implementation. In the interest of maintaining harmonious relations, I respectfully request the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215 (b).

If my staff or I may answer any questions or provide further information, please do not hesitate to call me.

Sincerely,

  
Annette Kreitzer

Enclosure

# STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER

SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200

PHONE: (907) 465-2200  
FAX: (907) 465-2135

## Memorandum

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**To:** Karen Rehfeld, Director  
Office of Management &  
Budget

**Date:** 11/08/07

**From:** Annette Kreitzer 

**Phone:** 907.465.5671

**Subject:** Arbitration Award

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The Department of Administration received an arbitration award in the grievance of the State's use of replacement vessels to service the outports previously serviced by the M/V LeConte. The arbitrator ruled that the AMHS did not violate the "outport" language in the contract by transporting passengers/vehicles from Juneau or to Sitka. However, the arbitrator did find that the AMHS violated the notice requirements contained in the collective bargaining agreement and ordered the State to pay damages to the Union as a result. Pursuant to A.S. 23.40.215, the monetary terms of the award require legislative approval.

### I. Terms Requiring Appropriation

#### Current Legislative Session

Monetary damages payable to the MM&P in the amount of \$251,407.17.

### II. Change in State Revenues.

No terms of this agreement would result in a change to State revenues.

### III. Change in Productive Work Hours.

There are no provisions in the agreement that would change productive work hours.

Please forward to the legislature the foregoing monetary terms in accordance with A.S. 23.40.215

cc: Leo Von Scheben, Commissioner, DOT/PF  
Nancy Slagle, Administrative Services Director, DOT/PF  
Nicki Neal, Director  
Division of Personnel & Labor Relations



Official Business

# Alaska State Legislature

House of Representatives

Office of the Chief Clerk

State Capitol, Room 216  
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## MEMORANDUM

Date: January 16, 2008

To: Representative Chenault, Co-chair  
Representative Meyer, Co-chair  
Finance Committee

From: Suzi Lowell *pl*  
Chief Clerk

Subject: Monetary Terms of Agreement between the State and ASEA (GGU)

The attached monetary terms of the collective bargaining agreement between the State and the Alaska State Employees Association representing the General Government bargaining unit was referred to the Finance Committee during floor session January 15.

Attachment:

# STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER

*Finance*  
SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

October 23, 2007

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capital, Room 208  
Juneau Alaska 99801-1182

Dear Mr. Speaker:

Please accept this as my report of monetary terms required by the Public Employees Relations Act (AS 23.40.070-260). By copy of my memorandum to Karen Rehfeld, Director of the Office of Management and Budget (enclosed), this is my report of the monetary terms of the collective bargaining agreement reached between the State and the Alaska State Employees Association, representing the General Government bargaining unit. The monetary terms of this agreement are submitted to the Legislature for approval pursuant to AS 23.40.215. I respectfully request and encourage the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215(b).

Please do not hesitate to contact me or my staff with your questions and information requests.

Sincerely,

  
Annette Kreitzer

KS

Enclosure

# STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER

SARAH PALIN, GOVERNOR

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JUNEAU, ALASKA 99811-0200

PHONE: (907) 465-2200  
FAX: (907) 465-2135

## Memorandum

---

**To:** Karen Rehfeld, Director  
Office of Management &  
Budget

**Date:** 10/23/07

**From:** Annette Kreitzer 

**Phone:** 907.465.5671

**Subject:** Monetary terms of the July 1, 2007 to June 30, 2010, Collective Bargaining Agreement between the State and the Alaska State Employees Association representing the General Government Bargaining Unit

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The Administration has concluded negotiations with the Alaska State Employees Association representing the General Government Bargaining Unit. If approved by the Legislature the monetary terms of this agreement become effective retroactively to July 1, 2007 and remain in effect through June 30, 2010.

### **I. Term Requiring Appropriation.**

#### **Current Legislative session**

Retroactive to July 1, 2007, the employer health premium contribution shall increase by a percentage amount not exceeding that necessary to maintain the Select Benefits Default plan.

Retroactive to July 1, 2007, the wage schedule in effect on June 30, 2007, shall increase by four (4%) percent.

Retroactive to July 1, 2007, overtime eligible Class One employees working in institutions with continuous operations shall be paid a premium of one dollar (\$1.00/hour) per hour for each hour worked on the calendar days of Saturday and Sunday.

Effective July 1, 2008, the employer health premium contribution shall increase by a percentage amount not exceeding that necessary to maintain the Select Benefits Default plan.

Effective July 1, 2008, the wage schedule in effect on June 30, 2008, shall increase by three (3%) percent.

**Future Legislative sessions**

Effective July 1, 2009, the employer health premium contribution shall increase by a percentage amount not exceeding that necessary to maintain the Select Benefits Default plan.

Effective July 1, 2009, the wage schedule in effect on June 30, 2009, shall increase by three percent (3%).

**II. Change in State Revenues.**

No term of this agreement would result in a change to State revenues.

**III. Change in Productive Work Hours.**

Retroactive to July 1, 2007, an overtime exempt employee who has been authorized to work additional hours may submit a written request to the division director for approval of a Flexible Time Plan to offset excessive hours of work with a reduction of normal work hours at a later time.

**IV. Terms addressing employee compensation, not requiring appropriation.**

Effective July 1, 2007 the Employer will no longer require seven years of continuous service for employees moving from step G to step J or beyond.

This report of monetary terms is consistent with the requirements of the Public Employment Relations act. Please forward these monetary terms to the Legislature in accordance with AS 23.40.215.

cc: All Commissioners  
All Administrative Service Directors  
Kim Garner, Director  
Division of Finance  
Nicki Neal, Director  
Division of Personnel and Labor Relations



Official Business

# Alaska State Legislature

House of Representatives


Office of the Chief Clerk

State Capitol, Room 216  
Juneau, AK 99801-1182  
Phone: (907) 465-3725  
Fax: (907) 465-5334

## MEMORANDUM

Date: April 13, 2007

To: Representative Chenault, Co-chair  
Representative Meyer, Co-chair  
Finance Committee

From: Suzi Lowell   
Chief Clerk

Subject: Monetary Terms of Agreements

The Speaker referred the following attached monetary terms of agreements to the Finance Committee:

State of Alaska and Public Employees Local 71 for the Labor, Trades and Crafts Unit (LTC)  
State of Alaska and Teachers' Education Association of Mt. Edgecumbe (TEAME)

Attachments:

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

Fin  
SARAH PALIN, GOVERNOR

P.O. BOX 110000  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

April 12, 2007

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Harris:

I am required by the Public Employment Relations Act (AS 23.40.070-260) to report the monetary terms of any agreement reached with an employee organization. By copy of my memorandum to Karen Rehfeld, Director of the Office of Management and Budget (enclosed), please accept my report of the monetary terms of the collective bargaining agreement reached between the State and Public Employees Local 71 on behalf of the Labor, Trades and Crafts Unit (LTC).

The monetary terms of this agreement must be submitted to the Legislature for approval pursuant to AS 23.40.215. In the interest of maintaining harmonious relations, I respectfully request that the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215(b).

If I or my staff can answer any questions or provide further information, please do not hesitate to call me.

Sincerely,



Annette Kreitzer  
Commissioner

Enclosure


cc: Dianne Kiesel, director  
Personnel & Labor Relations

# Memorandum

State of Alaska  
Department of Administration  
*Office of the Commissioner*

To: Karen Rehfeld  
Director  
Office of Management & Budget

Date: April 12, 2007

From: Annette Kreitzer   
Commissioner

Phone: 465-5671

Email: [Annette\\_Kreitzer@admin.state.ak.us](mailto:Annette_Kreitzer@admin.state.ak.us)

Subject: **Monetary terms of the collective bargaining agreement between the State and Public Employees Local 71 on behalf of the Labor, Trades and Crafts Unit**

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The State has concluded negotiations with the Labor, Trades and Crafts Unit (LTC). If approved, the terms will be effective January 1, 2007, through December 31, 2008. The Agreement is pending ratification by union membership; probability of acceptance is high.

## I. Terms Requiring Appropriations

A. A five (5%) percent increase in salary effective July 1, 2007 requires an appropriation at this time. In the second year (FY09) the salary schedule will increase by a guaranteed two (2%) percent. Language has been included that at the request of the Association, the State will meet to review wages for the period beginning July 1, 2008. If there are any changes, they will be reported at that time.

B. The health care contribution amount will increase by sixteen dollars (\$16.00) this is an amount necessary to pay for the Select Benefits Default/Economy Plan. Although not requiring an appropriation at this time, it is expected the State's contribution will be adjusted the second year by the amount necessary to pay for the Select Benefits Default/Economy Plan. Language has been included in the agreement that at the request of the Association, the State will meet to review the health insurance contribution for the period beginning July 1, 2008. If there are any changes, they will be reported at that time.

## II. Change in State Revenues

There are no provisions in the tentative agreement that would change State revenues.

**III. Change in Productive Work Hours**

There are no provisions in the tentative agreement that would change productive work hours.

Please forward these monetary terms to the Legislature in accordance with AS 23.40.215.

cc: All commissioners

All Administrative Services Directors

Dianne Kiesel, Director  
Division of Personnel & Labor Relations  
Department of Administration

Kim Garner, Director  
Division of Finance  
Department of Administration

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

*Fin*  
SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

April 11, 2007

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Harris:

I am required by the Public Employment Relations Act (AS 23.40.070-260) to report the monetary terms of any agreement reached with an employee organization. By copy of my memorandum to Karen Rehfeld, Director of the Office of Management and Budget (enclosed), please accept my report of the monetary terms of the collective bargaining agreement reached between the State and the Teachers' Education Association of Mt. Edgecumbe (TEAME) on behalf of teachers at Mt. Edgecumbe High School.

The monetary terms of this agreement must be submitted to the Legislature for approval pursuant to AS 23.40.215. In the interest of maintaining harmonious relations, I respectfully request that the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215(b).

If I or my staff may answer any questions or provide further information, please do not hesitate to call me.

Sincerely,



Annette Kreitzer  
Commissioner

Enclosure

cc: Dianne Kiesel, Director  
Personnel & Labor Relations

# MEMORANDUM

State of Alaska  
Department of Administration  
Office of the Commissioner

To: Karen Rehfeld  
Director  
Office of Management and Budget

Date: April 11, 2007

From: Annette Kreitzer  
Commissioner  
Department of Administration

Phone: 465-5671

Email: [Annette\\_kreitzer@admin.state.ak.us](mailto:Annette_kreitzer@admin.state.ak.us)

Subject: Monetary terms of the collective bargaining agreement between the State and the Teachers' Education Association of Mt. Edgecumbe

---

The State has concluded negotiations with the Teachers' Education Association of Mt. Edgecumbe (TEAME). If approved, the terms will be effective July 1, 2006, through June 30, 2009. The Agreement is pending ratification by union membership; probability of acceptance is high.

## I. Terms Requiring Appropriations

A. A payment for the three percent increase in salary retroactive back to July 1, 2006, would require an appropriation. Although not requiring an appropriation at this time, the salary schedule will increase three percent in each of the remaining contract years.

B. A payment, retroactive to July 1, 2006, for the \$15.00 (fifteen dollar) increase in the State's per-employee monthly contribution for health care to the TEAME members will require an appropriation. This is an amount necessary to pay for the Select Benefits Default/Economy Plan. Although not requiring an appropriation at this time, it is expected the State's contribution will increase each of the remaining contract years by the amount necessary to pay for the Select Benefits Default/Economy Plan.

## II. Change in State Revenues

There are no provisions in the tentative agreement that would change State revenues.

## III. Change in Productive Work Hours

There are no provisions in the tentative agreement that would change productive work hours.

Please forward these monetary terms to the Legislature in accordance with AS 23.40.215.

cc: Roger Sampson, Commissioner  
Department of Education and Early Development

Dianne Kiesel, Director  
Division of Personnel  
Department of Administration

Kim Garnero, Director  
Division of Finance  
Department of Administration



Official Business

# Alaska State Legislature

House of Representatives


Office of the Chief Clerk

State Capitol, Room 216  
Juneau, AK 99801-1182  
Phone: (907) 465-3725  
Fax: (907) 465-5334

## MEMORANDUM

Date: April 24, 2007

To: Representative Chenault, Co-chair  
Representative Meyer, Co-chair  
Finance Committee

From: Suzi Lowell   
Chief Clerk

Subject: Inlandboatmen's Union Monetary Terms

The attached amended monetary terms of the collective bargaining agreement between the State and the Inlandboatmen's Union of the Pacific (IBU) was referred to the Finance Committee during floor session today.

Attachment:

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

Fin  
SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

April 23, 2007

The Honorable John Harris  
House Speaker  
Alaska State Capitol  
Juneau, Alaska 99801-1182

Dear Speaker Harris:

I am required by the Public Employment Relations Act (AS 23.40.070-260) to report the monetary terms of any agreement reached with an employee organization. By copy of my memorandum to Karen Rehfeld, Director of the Office Management and Budget (enclosed), please accept my report of the monetary terms of the settlement of a dispute between the State and the Inlandboatmen's Union of the Pacific (IBU).

The Department of Administration has settled a dispute regarding the Employer's benefit credit to employees in the IBU for the benefit years 2005-2006 and 2006-2007. Consequently, the monetary terms are different than that previously reported for FY06 and FY07. Pursuant to AS 23.40.215, the monetary terms of the award require legislative approval. I respectfully request that the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215(b).

If my staff or I can answer any questions or provide further information, please do not hesitate to call me.

Sincerely,

  
Annette Kreitzer  
Commissioner

Enclosure

# Memorandum

State of Alaska  
Department of Administration  
*Office of the Commissioner*

**To:** Karen Rehfeld, Director  
Office of Management & Budget  
Office of the Governor

**Date:** April 23, 2007

**From:** Annette Kreitzer  
Commissioner

**Phone:** 465-5671

**Subject:** inlandboatmen's Union Monetary Terms

The Department of Administration has resolved a dispute regarding the health insurance contribution amount for employees in the Inlandboatmen's Union (IBU). Consequently, the monetary terms are different than that previously reported for FY06. Pursuant to AS 23.40.215, the monetary terms of the award require legislative approval.

## I. Terms Requiring Appropriation

### Current Legislative Session

The health insurance contribution amount was disputed for FY06 and FY07. The State has agreed to resolve the dispute with a monetary settlement of \$179,000 to be distributed on a per capita basis to IBU employees.

## II. Change in State Revenues.

No terms of this settlement would result in a change to State revenues.

## III. Change in Productive Work Hours.

There are no provisions in the settlement that would change productive work hours.

Please forward to the legislature the foregoing monetary terms in accordance with AS 23.40.215.

cc: Leo von Scheben, Commissioner, DOT&PF  
Nancy Slagle, Administrative Services Director, DOT&PF  
Kim Garner, Director, Division of Finance  
Dianne Kiesel, Director, Division of Personnel & Labor Relations



Official Business

# Alaska State Legislature

House of Representatives

Office of the Chief Clerk

State Capitol, Room 216

Juneau, AK 99801-1182


Phone: (907) 465-3725

Fax: (907) 465-5334

## MEMORANDUM

Date: May 8, 2007

To: Representative Chenault, Co-chair  
Representative Meyer, Co-chair  
Finance Committee

From: Suzi Lowell   
Chief Clerk

Subject: Monetary Terms of Agreements

The Speaker referred the following monetary terms of agreements to the Finance Committee during floor session today:

Monetary Terms of Agreement Between the State and the Alaska  
Public Employees Association on behalf of the Confidential Unit  
May 7, 2007

Monetary Terms of Agreement Between the State and the  
Marine Engineers Beneficial Association (MEBA)  
May 7, 2007

Monetary Terms of Agreement Between the State and the  
International Organization of the Masters, Mates and Pilots (MM&P)  
May 7, 2007

Attachments

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

Fin  
SARAH PALIN, GOVERNOR

P.O. BOX 110200  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

May 7, 2007

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

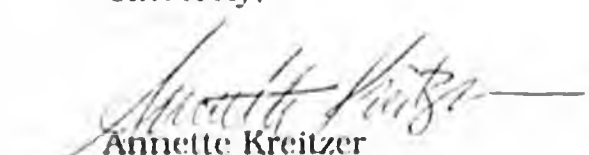
Dear Speaker Harris:

I am required by the Public Employment Relations Act (AS 23.40.070-260) to report the monetary terms of any agreement reached with an employee organization. By copy of my memorandum to Karen Rehfeld, Director of the Office of Management and Budget (enclosed), please accept my report of the monetary terms of the collective bargaining agreement reached between the State and Alaska Public Employees Association on behalf of the Confidential Unit (CEA).

The monetary terms of this agreement must be submitted to the Legislature for approval pursuant to AS 23.40.215. I respectfully request that the Legislature approve the monetary terms of this agreement pursuant to AS 23.40.215(b).

If I or my staff may answer any questions or provide further information, please do not hesitate to call me.

Sincerely,



Annette Kreitzer  
Commissioner

Enclosure