SCOMM

#16:12

A PLAN FOR

ALASKA'S FINANCIAL PARTICIPATION

IN THE

ALASKA HIGHWAY PIPELINE PROJECT

April 17, 1978

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. THE ALASKA SEGMENT OF THE PROJECT 5

A. Description 5

B. Financing Plan for Alaska Segment 6

o Equity and Equity-Related Securities. . 7

1. General Partnership Interests . . 7

2. Convertible Debt 7

o Debt Securities 8

1. Series A First Mortgage Pipeline Bonds 8

2. Series B First Mortgage Pipeline Bonds 8

III. ALASKA'S PARTICIPATION 9

A. Revenue Bond Financing Mechanism 9

B. Convertible Debt 10

1. Form of Ownership 10

2. Return on Investment 11

C. Timing of Alaska's Investment 12

IV. IMPLEMENTATION OF ALASKA'S PARTICIPATION 13

A. Establishment of the Authority 13

B. Funding the Purchase of Series B First Mortgage Pipeline Bond 13

TABLE OF CONTENTS
(Continued)

Page

C. Alternatives for Funding the Purchase of Convertible Debt 15

1. From the General Fund and/or the Permanent Fund 15

2. From the Sale of Authority Revenue Bonds 16

(a) Taxable v. Tax-Exempt 16

(b) Additional Credit Backing for Taxable Revenue Bonds 17

(i) Permanent Fund 18

(ii) "Moral Obligation" of the State 18

Appendix I

I. INTRODUCTION

The purpose of this memorandum is to describe and recommend a specific plan for participation by the State of Alaska in financing of the Alaska Highway Pipeline Project (the "Project"). The Project will encompass approximately 4,800 miles of pipeline consisting of four segments which will be separately and independently financed and constructed. These four segments, their mileage and estimated cost are:

Segment		Mileage		Estimated cost
Alaska	-	731 miles	-	$ 3.7 billion
Canada	-	2028	-	4.1
Western Leg	-	911	-	.8
Eastern Leg	-	1117	-	1.7
		4787 miles		$10.3 billion*/

It is proposed that the State participate only in the funding of the 731 mile Alaska segment.

In order to begin construction of the Project in 1980, final commitments for debt and equity must be made by early 1979.

To meet this critical schedule, we are proposing specifically that the legislature this session enact legislation creating a financing authority (the "Authority") to issue $1.0 Billion in tax-exempt revenue bonds in a manner that would not utilize the State's credit or adversely affect the State's credit rating and adopt a joint resolution establishing an interim committee to study how the state can best participate

---

*/ The financing requirements of the Project were estimated in the President's Decision and Report to Congress on the Alaska Natural Gas Transportation System ("President's Decision") to be approximately $10.3 billion in escalated dollars.

in equity financing. It is essential that the committee report back to the legislature early next session so the necessary legislation can be enacted in time to permit the State's equity participation to be incorporated in the overall financial plan.

This memorandum discusses how the tax-exempt revenue bonds would be issued and proposes a plan for State equity participation that the interim committee should study and consider.

The plan for State participation set forth in this memorandum would provide for an equity return to the State upon completion of the Project; encourage major institutional investors and commercial banks to invest in the Project, thereby aiding the development of Prudoe Bay gas; and add the tax-exempt debt market to the capital sources that will be called upon to complete this large and complex financing.

- The proposed Authority would be empowered to issue $1.0 billion of tax-exempt revenue bonds ("Tax-Exempt Revenue Bonds") backed by the simultaneous purchase of a like amount of Project debt.

This transaction would raise approximately 25% of the Project's debt capital but would not involve the credit of the State. The Authority could in this way pass on to the Project the advantage of an expanded capital market. Additionally, this reduced interest cost would benefit the Project by reducing the transportation cost by approximately 4%.

This transaction would require an amendment to the Internal Revenue Code (the "Code") specifically exempting the

Project from the restrictions set forth in Section 103 of the Code. The Project does not now qualify as an exempt facility under Section 103 of the Code, and tax-exempt status would not be available for revenue bonds in the absence of such an amendment. Obtaining an amendment to Section 103 will require the cooperation of all interested parties, including the State and its representatives and the Administration. If such an amendment is not obtained, bonds issued by the Authority would be taxable and neither the State nor the Project would benefit since such bonds would be simply the equivalent of Project bonds.

- The State would evaluate our proposal that it make an equity-related investment of $500 Million in Project Convertible Debt ("Convertible Debt").

These securities would be convertible after the Project becomes operational, if the Partnership is succeeded by a corporation, into $500 million of participating preferred stock. The participating preferred stock would carry a fixed dividend rate that would increase with the profits of the Project according to an agreed upon formula. If the Partnership is not succeeded by a corporation, the Convertible Debt could be exchanged after operations have begun for a preferred income limited partnership interest.

To maximize net return to the State, this investment could be funded principally by an appropriation of State funds. Alternatively, but with less financial return to the State,

this investment might be funded by the sale of Authority Taxable Revenue Bonds ("Taxable Revenue Bonds"), which would be secured by the Convertible Debt. If the State decides to fund all or part of its purchase of Convertible Debt in this manner, however, additional credit support beyond that of the investment itself would be required. (See Section IV for a discussion of different ways the State could provide additional backing for Taxable Revenue Bonds.)

As an investment vehicle, the Convertible Debt would provide current income to the State during the construction period, as well as an opportunity for the State to participate in an equity return subsequent to the initiation of Project operations.

At the appropriate time, the State's investment could be sold or distributed to its political subdivisions, native corporations and its citizens.

II. THE ALASKA SEGMENT OF THE PROJECT

A. Description

The Alaska segment will begin at Prudhoe Bay and parallel the Alyeska oil pipeline for 539 miles to Delta Junction. At Delta Junction the pipeline will diverge from Alyeska and follow the Alaska Highway and the existing Haines oil products pipeline for 192 miles to the Yukon Territory border.

The Alaska segment will be owned by the Partnership, and designed, constructed, and operated by Northwest Alaskan Pipeline Company ("Northwest Alaskan"), a subsidiary of Northwest Energy Company. The Partnership is currently comprised of subsidiaries wholly-owned of the following six natural gas companies:

- o Northwest Energy Company
- o Northern Natural Gas Company
- o Pacific Gas and Electric Company
- o Pacific Lighting Corporation
- o Panhandle Eastern Pipe Line Company
- o United Gas Pipe Line Company

It is anticipated that additional natural gas companies will join the Partnership in the future.

B. Financing Plan for Alaska Segment

The capital for constructing the Alaska segment will be raised on a project financing basis, through the sale of equity and debt securities by the Project. Debt service and return on equity securities will be provided solely by the cash flow generated from the Project's operations. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and, accordingly, will offer the appropriate market sales of interest or dividend in the case of participating preferred stock.

Under the proposed overall financing plan, a percentage amount over and above the final capital cost estimates will be committed to assure that sufficient funds are available to complete the Project. Upon completion, the Partnership will have contractual arrangements pursuant to a Federal Energy Regulatory Commission ("FERC") approved tariff that will provide funds adequate to pay debt service and provide an attractive return to the equity investors. (For a more detailed discussion of the Project's Financing Plan, see pages 8 to 14 of the Discussion Memorandum Regarding Financial Participation by the State of Alaska in the Alaska Highway Pipeline Project, dated March 15, 1978, attached as Appendix I.)

While the ratio between the equity and debt securities of the Project, as well as the timing of any takedowns, will be subject to various factors, including the financial requirements of the Project, the fundamental element of the financing plan

is that all funds -- equity and debt -- must be committed at the same time and remain committed throughout the construction period. However, no commitment shall be binding (including that of Alaska) until all equity and debt commitments necessary to complete the Project have been received.

The project's capital structure would consist of the following:

o Equity and Equity-Related Securities

1. General Partnership Interests - The owners of the Partnership will contribute equity capital in a total amount of approximately $1.0 billion. Their partnership interests will earn the rate of return provided by the FERC approved tariff.

2. Convertible Debt - It is proposed that Convertible Debt in a principal amount of $500 million be offered to the State of Alaska. This debt will bear an interest rate dictated by market conditions at the time of issuance, which today would be in the range of 10% to 12% per annum. After the completion of construction and the commencement of operations of the Project, the Convertible Debt will be convertible into an equivalent amount of a participating preferred stock of the corporate successor to the Partnership or into an equivalent limited partnership interest in the Partnership. The participating preferred stock would have a minimum

annual dividend rate of approximately 10%, and, in addition, would share in the profits of the Project on the basis of a pre-determined formula.

o Debt Securities

1. Series A First Mortgage Pipeline Bonds - Series A First Mortgage Pipeline Bonds in a principal amount of $2.0 to $3.0 billion will be offered to institutional investors and commercial banks at an annual interest rate that in today's market would be approximately 10%. These securities will have various maturities of up to twenty-five years, subject to sinking fund provisions.

2. Series B First Mortgage Pipeline Bonds - Series B First Mortgage Pipeline Bonds in a principal amount of $1.0 billion will be purchased by the Authority. The Series B First Mortgage Pipeline Bonds will have an annual interest rate which incorporates the maximum interest differential allowed by law (i.e., 1/8 of 1%) over the interest rate on the equivalent amount of Tax-Exempt Revenue Bonds sold by the Project through the Authority to fund the purchase. These Series B First Mortgage Pipeline Bonds will be subject to sinking fund provisions, and the underlying Tax-Exempt Revenue Bonds will have concurrent maturities.

III. ALASKA'S PARTICIPATION

As part of the financing plan described above, it is proposed that the Alaska legislature this session enact legislation to provide a mechanism for the issuance of $1.0 billion in Tax-Exempt Revenue Bonds, the proceeds of which would be simultaneously invested in $1.0 billion of the Project's Series B First Mortgage Pipeline Bonds and establish a committee to consider the proposal for investment in $500 million of equity-related securities of the Project. This Section III describes the proposed revenue bond financing mechanism, the advantages of Convertible Debt as an investment vehicle for Alaska and the returns Alaska might realize from this investment and a possible time schedule for Alaska's financial participation.

A. Revenue Bond Financing Mechanism

As was discussed earlier, the State should establish an Authority for the issuance of $1.0 billion of Tax-Exempt Revenue Bonds. Contingent upon and concurrent with the sale of the Tax-Exempt Revenue Bonds, the Authority would purchase $1.0 billion of Series B First Mortgage Pipeline Bonds, and would receive annually a 1/8 of 1% interest differential on the aggregate amount of Tax-Exempt Revenue Bonds issued by the Authority. This differential, amounting to $1,250,000 per year, is the highest allowed by Federal law and would be generated from the difference in interest rates between the Tax-Exempt Revenue Bonds and the Series B First Mortgage Pipeline Bonds.

B. Convertible Debt

During the period in which the Convertible Debt is outstanding, the interest received by the State, assuming the entire amount is outstanding, would be approximately $55 million. This debt would be convertible into participating preferred stock of any successor corporation to the Partnership. After conversion the State would receive a fixed dividend of approximately $55 million, which would increase according to an agreed upon formula as the profits of the Project increase.

In recommending that Alaska's equity participation take the form of a fixed income security convertible into equity upon completion of the construction period, the following two considerations are particularly important:

1. Form of Ownership - The State, as a tax-exempt entity, cannot utilize the Federal income tax benefits relating to construction (e.g., the Investment Tax Credit and interest and other deductions) which will be passed through to the general partners in the Partnership. However, these tax benefits are significant to the taxable general partners who will provide the principal source of the Project's equity capital. Thus, by allocating the tax benefits exclusively to these taxable entities, the financing of the Alaska segment will be greatly facilitated at no disadvantage to the State. In addition, by structuring the State's participation during the construction period as Convertible Debt, any

conflict between the State's role as an equity investor and its role as a regulator would be minimized.

2. Return on Investment - During construction, the return on the general partners' investment will be capitalized and subject to downward adjustments depending upon the relationship between the final construction estimate and the actual construction costs.*/ Upon completion of construction and the commencement of operations, the return on common equity will be fixed by the FERC (estimated at approximately 15%). A return will be distributed first to the holders of participating preferred equity, and second to the holders of common equity, with the amounts to be distributed to holders of common equity based upon the cash requirements of the Project. As a debtholder during construction, the State's return will be fixed and distributed currently as interest. Upon the completion of construction, the State would have the option of converting its interest into participating preferred stock or the equivalent limited partnership interest.

---

*/ A variable rate of return to equity investors during the construction period has been mandated by the President's Decision and the details thereof are being formulated by the FERC.

C. Timing of Alaska's Investments

The debt and equity funds to be raised from all Project investors must be committed at the same time and remain committed during the construction period. The exact timing of any draw-down will be determined as construction progresses. The current thinking is that debt and equity funds will be drawn down, pro-rata, and invested over the projected three year construction period. Accordingly, there will be some flexibility as to when Alaska's equity-related investments would be made within the constraints of the final capital drawdown schedule.

IV. IMPLEMENTATION OF ALASKA'S PARTICIPATION

This Section recommends a plan for implementing the State's participation and discusses the pertinent financial, legal, and administrative issues on which this recommendation is predicated.

A. Establishment of the Authority

It is recommended that the State establish through legislation enacted during the current legislative session a new Authority to administer the issuance of tax-exempt revenue bonds for the Project.

The establishment of the Authority during the current legislative session would greatly facilitate the financing and completion of the Project. In doing so, the State will have taken an important first step to participate in the Project's financing. This will be not only of considerable symbolic and substantive assistance in encouraging early private sector financial participation, but it is a prerequisite for Congressional action in this session of Congress to amend Section 103 of the Code.

B. Funding the Purchase of Series B First Mortgage Pipeline Bonds

It has been recommended that the Authority fund the purchase of $1.0 billion of Series B First Mortgage Pipeline Bonds through the simultaneous sale of a like amount of Tax-

Exempt Revenue Bonds. The purchase of the Series B First Mortgage Pipeline Bonds by the Authority would be contingent upon a successful placement of the Tax-Exempt Revenue Bonds with institutional investors.

Since the Partnership is a "non-exempt person" under Section 103 of the Code, interest on Authority Bonds currently would be subject to Federal income taxes. However, the President's Decision and the importance of the Project to national energy policy strongly suggest Administration support for an amendment to Section 103. Alaska legislation authorizing the Authority to issue $1.0 billion of revenue bonds during this session is essential to any effort in Congress to amend Section 103.

It is important to point out that the issuance of Tax-Exempt Revenue Bonds would not require additional State backing. The tax-exempt status of the Bonds in and of itself would assure that the Bonds would appeal to a class of investors different from those who would purchase the Project's First Mortgage Pipeline Bonds. Moreover, the value of additional credit backing in reducing the interest rate on the Authority's Tax-Exempt Revenue Bonds would be nullified by proposed Treasury Department regulations that would limit to 1/8 of 1% the spread between the tax-exempt interest on the Authority's Revenue Bonds and interest income on the Series B First Mortgage Pipeline Bonds. Accordingly, it has been concluded that additional security for Tax-Exempt Revenue Bonds would be unnecessary and an inefficient allocation of the State's credit resources.

C. Alternatives for Funding the Purchase of Convertible Debt

The funding of the State's equity-related investment will impact the State's ability to finance other State programs. Therefore, all alternatives for investment in the Project should be carefully considered. The following outlines several alternatives.

1. From the General Fund and/or the Permanent Fund - At June 30, 1977, the General Fund Investment Account had a balance of approximately $623 million. New legislation could appropriate a specified amount of monies from the General Fund for the purchase of the Convertible Debt.

The State has projected that from 1978 through 1982 the Permanent Fund will receive approximately $632 million from various mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses. New legislation could direct the Commissioner of Revenue to exercise existing statutory authority to transfer a specified amount of monies from the Permanent Fund for investment in the Convertible Debt.

The State could purchase $500 million of the Project's Convertible Debt with the monies it receives from the General Fund, the Permanent Fund or a combination thereof. Importantly, the State's commitment would not become binding until all commitments necessary to

complete the Project are received and all conditions necessary to protect the State's investment are fulfilled.

Until the State's monies are drawn down to fund its commitment to the Project, they could be invested in short term securities of the U.S. Government or its agencies. This is significant because the income from such investments could either be retained by the State or used to fund its investment in the Project. Assuming the latter, a commitment by the State to invest $500 million in the Project from 1980-1982 would not require that the full $500 million be taken from the General and Permanent Funds. If monies were escrowed by the State in early 1979 and invested at a 6-1/2% rate of return, the State could meet its $500 million commitment in 1980-1982 with an initial appropriation of approximately $442 million.

2. <u>From the Sale of Revenue Bonds</u>*/

(a) <u>Taxable vs. Tax Exempt</u>

As previously discussed, a sale by the State of tax-exempt debt to fund its purchase of Convertible Debt would be much less financially attractive than a direct investment by the State. Specifically, the U.S. Treasury Department has

---

*/ The issuance of General Obligation Bonds to fund the purchase of Convertible Debt would require the approval of a majority of the voters of the State under time consuming and costly bond referendum procedures required by the Alaska Constitution. Their use therefore is not recommended.

proposed arbitrage regulations that would limit the positive "spread" between the yield on the Convertible Debt and the interest paid on tax-exempt State debt to 1/8 of 1%. The arbitrage regulations do not apply to taxable debt. Accordingly, the issuance of taxable debt would be the only practical alternative if funds on hand are not utilized.

The spread between the yield on the Convertible Debt and the interest on such taxable debt would be much less than the spread between the yield on the Convertible Debt and the yield the State is now earning on its existing investments of the General and Permanent Funds. Consequently, the net income to the State would be significantly higher if the State's purchase of the Convertible Debt were financed from State funds than if such purchase were financed from the sale of taxable State debt.

(b) Additional Credit Backing for Taxable Revenue Bonds

In the event that Alaska decides to fund all or a portion of its purchase of Convertible Debt through a sale of Taxable Revenue Bonds, the State's debt would be secured by Convertible Debt. However, to provide meaningful assistance in financing the Project, it would be necessary for

the State to back its taxable debt with additional security unrelated to the Project.

If the State elects to issue Taxable Revenue Bonds, however, the two most readily available sources of additional State backing are the Permanent Fund and the State's "moral obligation." Both would involve the State's credit resources.

(i) Permanent Fund - Legislation could direct the Commissioner of Revenue to utilize assets of the Permanent Fund to meet any deficiency in Taxable Revenue Bond debt service, whether directly from monies contained in the Permanent Fund and dedicated, or indirectly by dedicating Permanent Fund monies to a special reserve fund to be used when needed to meet any such deficiency. If the latter approach were adopted, the special reserve fund could be replenished in the same manner, that is, by legislatively authorizing the Commissioner of Revenue to use Permanent Fund monies for such purpose.

(ii) "Moral Obligation of the State - It may be advisable to combine a dedication of the Permanent Fund with a legislative resolution pledging the State's moral obligation (not its legal obligation) to allocate funds if

and when it should become necessary to meet a deficiency in Taxable Revenue Bond debt service.

Moral obligation bonds have traditionally been used to finance public purpose projects such as housing, health care and educational facilities. Approximately $10 billion of the total $250 billion tax-exempt municipal bonds currently outstanding are backed by a moral obligation pledge. The State of Alaska has $240 million of bonds outstanding, issued by the Alaska Housing Finance Corporation and the Alaska Municipal Bond Bank Authority, which are the type of bonds that may be considered to be moral obligation bonds.

APPENDIX I

III. CAPITAL REQUIREMENTS AND FINANCING

The following table summarizes, by segment, the estimated capital requirements under the System design as described in the President's Decision:

Segment	Line Miles	Total (in Billions)
Alaskan	731	$ 3.7
Canadian	2,028	4.0
Eastern Leg	1,117	1.7
Western Leg	911	.9
Total	4,787	$10.3*

It should be noted that these dollar amounts do not reflect pre-delivery of Alberta gas,** minor re-routing of the line, or design changes consistent with the U.S. - Canadian negotiations. Final cost estimates of the Project will not be available until full agreement is reached on System design, governmental requirements are defined and definitive engineering is completed.

---

* 1975 dollars adjusted for assumed inflation through completion of the Project.

** If agreement is reached for the sale and transportation of excess current supplies of Alberta gas, the construction of certain southern portions of the pipeline will be accelerated, resulting in lower capital requirements for certain Southern portions of the pipeline.

The capital for the Project is to be raised on a project financing basis. That is, the Project's debt service and return on equity will be provided solely by the cash flow generated from the Project's operations. Under the proposed financing plan, first sufficient funds will be committed to assure completion of the Project. Then, upon completion, the Project's sponsors will have contractual arrangements under a Federal Energy Regulatory Commission ("FERC") approved tariff providing for sufficient funds to cover debt service and an attractive rate of return to the equity investors.

1. Completion of Construction - First, before construction begins, commitments will be obtained providing for an amount of capital large enough to assure all investors that there will be sufficient funds to complete the Project. The size of this committed pool will be determined through negotiations with lenders and investors, but will reflect evaluations of the Project's final cost estimate and the estimating procedures used to develop it. These evaluations will first identify the variables that could affect the Project's capital cost (i.e., inflation, delays, etc.). Then, using probability analyses, a percentage amount over and above the final capital estimate will be determined so as to reduce to zero (or as a practical

matter as close to zero as possible) the probability of having insufficient capital to complete the Project. It is this percentage amount that when added to the final cost estimate will constitute the total capital pool to assure completion of the Project under any and all circumstances.

2. Pipeline Operations - Second, the Project's operating entities will execute service agreements that, upon completion of the Project, will unconditionally bind purchasers of Prudhoe Bay gas to pay a FERC approved transportation tariff that reflects the final cost of the Project. The terms of the proposed tariff will provide sufficient funds to meet all debt service, and will be binding even in the unlikely event of service interruption and non-delivery of gas.

As presently envisioned, the capital for constructing the Project will be raised through the sale of equity and debt securities. These securities will be designed at the time of issuance to compete successfully in the public and private capital markets and will therefore offer the appropriate market rates of return. Under current market conditions, the debt might carry an interest rate of approximately 10%. As for the equity rate of return, in previous filings and studies with FERC, Northwest Alaskan

has assumed a 15% rate of return. A substantial portion of that return would be paid out annually as dividends to the equity investors.

While the percentage breakdown between the equity and debt as well as the timing of any takedowns will be subject to market conditions, the final composition of the investor group and other factors, the fundamental element of the financing plan is that all funds -- equity and debt -- must be firmly committed at the outset and throughout the construction period.

Although it is presently contemplated that the sponsors of each segment of the Project will be responsible for separately financing its respective capital costs, the plan outlined above requires that all financing for the Project be closely coordinated. Since Northwest Alaskan's tariff payments will not begin until all segments of the Project are completed, lenders and investors undoubtedly will require that sufficient funds (whether they are raised separately or not) be available to complete all segments. Thus, close coordination between the segments is essential.

In this regard, the probability of additional costs above the final estimate is currently perceived by lenders to be higher for the Alaskan segment and Yukon

portion of the Canadian segment than for the other sections of the pipeline. This perception relates primarily to the negative publicity of Alyeska, the adverse weather conditions and the lack of pipeline construction history in perma-frost and discontinuous perma-frost regions. Accordingly, lenders will probably require higher percentage adjustments above the final estimates for these northerly sections of the Project than for the other sections. While the final capital costs and percentage adjustments cannot be determined at this time, an illustrative example of the separate capital pools lenders may require is set forth below:

Segment	Preliminary Capital Requirement Estimate (billions)	Capital Pool Size As A Percent of Capital Requirement Estimate	Capital Pool Size Estimate (billions)
Alaskan	$ 3.7	125% - 150%	$ 4.6 - $ 5.6
Canadian	4.0	120% - 140%	4.8 - 5.6
U.S. Eastern Leg*	1.7	110% - 125%	1.9 - 2.1
U.S. Western Leg*	.9	110% - 125%	1.0 - 1.1
Total	$10.3	119% - 140%	$12.3 - $14.4

As previously mentioned, capital for the Project will be raised through sales of equity and debt securities.

---

* The capital requirements for these segments may not be provided for on a project financing basis.

Although natural gas transmission companies will be the principal purchasers of the equity securities and institutional lenders the principal purchasers of debt securities, the size of the Project, compared with the individual and collective financial strength of the sponsors, necessitates as broad a base of financial support as possible. Consequently, the financing plan is predicated on the basis that all beneficiaries participate in the financing. These beneficiaries would include the sponsors, the producers, the suppliers and the State of Alaska. The following is a list of the various investor classes which will be asked to commit to purchase Project securities:

U.S. Transmission Companies

Canadian Transmission Companies

U.S. Banks

Canadian Banks

U.S. Long-Term Lenders

Canadian Long-Term Lenders

Producers, Suppliers, Alberta & Others

Alaska

It should be noted that all investors will be called upon to fund their commitments to the Project as construction proceeds. Because the committed capital pool will reflect the amount necessary to complete the Project,

even in the event of adverse occurrences, it is unlikely that the entire commitment of any investor will be called upon.