

ALASKA

LEGISLATURE

COMMITTEE

FILES

1991-1992

8672

7106

HOUSE

& LABOR

COMMERCE

Sec. 06.50.460 prohibits the department from approving a merger, purchase, or sale under sec. 06.50.430 - 06.50.450 unless the department makes certain determinations.

Sec. 06.50.470 directs the department to administer this chapter and to issue orders and adopt regulations (under AS 44.62) necessary for the chapter.

Sec. 06.50.480 authorizes the department to impose conditions that it determines are necessary to carry out the purposes of this chapter when issuing an order or license under this chapter.

Sec. 06.50.490 authorizes the department to provide an interested person with a declaratory ruling on a provision of this chapter.

Sec. 06.50.500 makes an official act of the department under this chapter subject to judicial review.

Sec. 06.50.510 authorizes the department to make necessary public or private investigations in or out of the state regarding license approvals, violations, enforcement, orders, and regulations under this chapter.

Sec. 06.50.520 gives the department certain listed investigative powers.

Sec. 06.50.530 states that if a person fails to comply with a subpoena issued by the department under this chapter or to testify with respect to a matter covered by this chapter, the superior court may order the attendance of the person and the giving of testimony or production of evidence.

Sec. 06.50.540 authorizes the department to make service of process by registered or certified mail under certain circumstances.

Sec. 06.50.550 establishes the fees to be charged by the department for filing certain applications, for annual fees, and for the examinations of the licensee or a subsidiary of the licensee.

Sec. 06.50.560 requires an application fee to be paid when the application is filed and states that the fee is not refundable.

Sec. 06.50.580(a) requires a licensee to keep records in the form and manner, at the place, and for the period of time that the department establishes by regulation.

Sec. 06.50.580(b) requires a licensee, affiliate of a licensee, and a subsidiary of a licensee to file certain reports.

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Sec. 06.50.580(c) allows the department to require by order that a licensee include an asset on the licensee's books and records at a valuation that represents the current value of the asset.

Sec. 06.50.580(d) requires a licensee to file with the department an annual audit report containing certain items.

Sec. 06.50.590(a) applies this chapter (with respect to the records) to any other person who makes or keeps all or part of the licensee's records.

Sec. 06.50.590(b) applies this chapter (with respect to the records) to a person other than an affiliate or subsidiary of a licensee who makes or keeps all or part of the records of an affiliate.

Sec. 06.50.590(c) authorizes the department, if considered expedient, to require a licensee to obtain the approval of the department before permitting another person to make or keep all or part of the records of the licensee.

Sec. 06.50.600 requires the department to publish and provide to the legislature each year information on the effect of this chapter on promoting economic development in the state. Indicates what information must be included.

Sec. 06.50.610(a) authorizes the department at any time to examine a licensee or a subsidiary of a licensee.

Sec. 06.50.610(b) requires the department to examine a licensee at least once during each calendar year.

Sec. 06.50.610(c) requires certain persons at the department's request to provide the department with the records of a licensee or a licensee's subsidiary and to otherwise facilitate the department's examination of the licensee.

Sec. 06.50.610(d) authorizes the department to retain persons to assist the department's examination of a licensee or the subsidiary of a licensee if the department determines that the assistance is necessary. Sets payment deadline for licensee to pay the person's fees.

Sec. 06.50.620(a) prohibits, except as otherwise provided in sec. 06.50.120, a person who is not a BIDCO licensee under this chapter from representing itself as a BIDCO or a licensee.

Sec. 06.50.620(b) prohibits a BIDCO licensee from misrepresenting the meaning or effect of its license.

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Sec. 06.50.640 prohibits a person having custody of all or part of the records of a licensee from knowingly refusing to allow the department, upon request, to inspect or make copies of the records.

Sec. 06.50.660 prohibits a licensee from directly or indirectly providing financing assistance to an associate of the licensee.

Sec. 06.50.670 prohibits a licensee from directly or indirectly providing financing assistance to discharge, or to free money for use in discharging, part or all of an obligation to an associate of the licensee. Limits the application of the section.

Sec. 06.50.680(a) prohibits in a specified situation a licensee from directly or indirectly providing assistance to a business within one year before or after an associate of the licensee provides financing assistance to the business.

Sec. 06.50.680(b) establishes in a specified situation that the licensee has the burden to prove that the terms of the financing assistance provided by the licensee were at least as favorable to the licensee as the terms on which the associate provided the assistance.

Sec. 06.50.680(c) describes the situations where this section does not apply.

Sec. 06.50.690(a) prohibits in certain situations an associate of a licensee from receiving compensation from a person to whom the licensee provides financing assistance.

Sec. 06.50.690(b) indicates that the section does not apply to certain fees received by an associate of a licensee for certain closing services if certain conditions are met.

Sec. 06.50.690(c) defines "closing services".

Sec. 06.50.700(a) allows the department to exempt certain persons or transactions from secs. 06.50.660 - 06.50.690 if certain conditions are met.

Sec. 06.50.700(b) authorizes the department to make the exemption by order or regulation and to make it unconditional or on specified terms and for specified periods.

Sec. 06.50.700(c) requires the department to consider certain federal requirements when making the exemption.

Sec. 06.50.710(a) makes a knowing violation of AS 06.50.620 - 06.50.700 a class C felony.

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Sec. 06.50.710(b) indicates that the penalty does not apply to certain acts.

Sec. 06.50.720 declares that the chapter doesn't limit the state's power to prosecute under another statute.

Sec. 06.50.730 authorizes the department to bring an action to enjoin a violation or to enforce compliance with this chapter. Addresses the court action to be taken if a proper showing is made.

Sec. 06.50.740 authorizes the department to issue cease and desist orders to an unlicensed person if the person has violated or is about to violate sec. 06.50.120(b) or 06.50.620(a).

Sec. 06.50.750 authorizes the department after notice and a hearing to issue a cease and desist order if a licensee or subject person of a licensee has violated, is violating, or is about to violate this chapter. Order may require the licensee or person to take affirmative action to correct the situation created.

Sec. 06.50.760 authorizes the department after notice and a hearing, to issue cease and desist orders against a licensee or subject person of a licensee if the licensee or person has or is about to engage in unsafe or unsound acts regarding the business of the licensee. Department may require the licensee or person to take affirmative action to correct the situation created.

Sec. 06.50.770 authorizes the department under certain conditions to order a licensee or subject person to cease and desist from certain actions. Department may require the licensee or person to take affirmative action to correct the situation created.

Sec. 06.50.780(a) authorizes the department to issue an order removing a subject person of a licensee from office and prohibiting the person from further participation in the licensee's business if the department makes certain determinations after notice and a hearing.

Sec. 06.50.780(b) authorizes the department to issue an order removing a subject person of the licensee from an office with the licensee and prohibiting the subject person from participation in the licensee's business without the prior consent of the department if, after notice and a hearing, the department makes certain determinations.

Sec. 06.50.780(c) authorizes the department to immediately issue an order suspending a subject person of a licensee from the person's office, if any, with the licensee and prohibiting the person from further participation in the licensee's business without the consent of the department if the department makes certain determinations.

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Sec. 06.50.790(a) authorizes the department to issue an order suspending a subject person from office, if any, with the licensee and prohibiting further participation in the licensee's business until the charge has been disposed of, if the department determines that the person has been indicted or bound over for trial for a crime involving dishonesty or breach of trust and that continuation as a subject person may threaten the licensee's interests or impair public confidence in the licensee.

Sec. 06.50.790(b) authorizes the department to issue an order suspending or removing a subject person, or former subject person, to whom an order was issued under (a) from the person's office, if any, and prohibiting further participation in the licensee's business without the department's prior consent, if the department determines that the person has been convicted of a crime involving dishonesty or breach of trust and that the continuation or resumption of the person as a subject person of the licensee may threaten the interests of the licensee.

Sec. 06.50.790(c) indicates that the failure to convict a subject person who is charged with a crime involving dishonesty or breach of trust does not prevent the department from issuing an order to the person under another provision of this chapter.

Sec. 06.50.800(a) allows a licensee or subject person to whom an order is directed under certain sections of this chapter to request a hearing within 30 days after the issuance of the order.

Sec. 06.50.800(b) rescinds a department order if the department fails to begin a hearing within a specified time.

Sec. 06.50.800(c) directs the department to affirm, modify, or rescind its order after the hearing.

Sec. 06.50.800(d) allows the person to whom an order is issued under this section to apply to the department to modify or rescind the order. Prohibits the department from modifying or rescinding the order unless the department makes certain determinations.

Sec. 06.50.800(e) states that the right to petition for an interlocutory review of certain orders is not affected by the failure to apply for a hearing on the order issued under this section.

Sec. 06.50.810 allows the department to require the licensee to disclose the results of certain department communications or orders to its shareholders.

Sec. 06.50.820(a) authorizes the department to call a meeting of the board or shareholders of a licensee if the department determines it to be expedient.

Sec. 06.50.820(b) directs the department to send notification of the meeting under (a) to the licensee's directors or shareholders, whichever is applicable.

Sec. 06.50.820(c) requires the licensee to pay the notice and meeting expenses for a meeting called under (a).

Sec. 06.50.830(a) authorizes the department to issue an order after notice and a hearing directing a licensee to refrain from providing additional financing assistance to businesses under certain conditions.

Sec. 06.50.830(b) authorizes the department to issue an order under (a) without a hearing under certain conditions.

Sec. 06.50.830(c) authorizes a licensee that has been the subject of an order under this section to resume providing financing assistance if the department consents and under the conditions that the department prescribes.

Sec. 06.50.830(d) allows a person to whom an order is issued under this section to apply to the department to modify or rescind the order. Prohibits the department from granting the application unless the department makes certain determinations.

Sec. 06.50.840(a) authorizes the department to take immediate possession of the property and business of a licensee and to appoint a conservator for the licensee if the department makes certain findings.

Sec. 06.50.840(b) authorizes the department to appoint as a licensee's conservator one of the employees of the division of banking, securities, and corporations of the department or another competent and disinterested person. Requires that the division be reimbursed out of the conservatorship assets for the division's conservatorship expenses. Requires, upon the approval of the department, that the conservatorship expenses paid for by the division be paid out of the assets of the licensee. Directs that the payment of the division expenses will take priority over other payments from the licensee's assets and must be fully paid before a final distribution is made.

Sec. 06.50.840(c) directs the conservator to take possession of the books, records and assets of the licensee. Directs the conservator to take the action that is necessary to conserve the licensee's assets and to ensure payment of the licensee's obligations while the disposition of the licensee's business is pending.

Sec. 06.50.840(d) authorizes the department to terminate the conservatorship and to permit resumption of the licensee's business at an appropriate time subject to conditions prescribed by the department.

Sec. 06.50.850(a) authorizes the department to apply to the superior court to appoint a receiver for a licensee if the department determines the licensee should be liquidated for certain listed reasons.

Sec. 06.50.850(b) directs the receiver to liquidate the property and business of the licensee.

Sec. 06.50.860(a) authorizes the department to impose a civil penalty, after notice and a hearing, for violations of this chapter.

Sec. 06.50.860(b) indicates that this section does not apply to good faith acts made under certain conditions.

Sec. 06.50.860(c) indicates that (a) is in addition to the other provisions of this chapter authorizing the department to issue orders or take other action on account of a violation of this chapter.

Sec. 06.50.860(d) states that a person convicted under sec. 06.50.710 of a violation of secs. 06.50.620 - 06.50.700 is not liable for a civil penalty under (a) of this section.

Sec. 06.50.860(e) states that a person who pays a civil penalty under this section for a violation of sec. 06.50.620 - 06.50.700 is not subject to prosecution under sec. 06.50.710 for the violation.

Sec. 06.50.870 directs that the chapter be liberally construed to accomplish its purposes.

Sec. 06.50.880 subjects a proceeding under sec. 06.50.860 to the Administrative Procedure Act (AS 44.62), and exempts, except as otherwise indicated, from AS 44.62 the other proceedings and actions under this chapter.

Sec. 06.50.885 allows certain final administrative orders to be appealed.

Sec. 06.50.890 indicates that the provisions of the law under which a licensee is incorporated apply to the licensee. However, if that law conflicts with this chapter, this chapter controls.

Sec. 06.50.900 provides guidelines to determine when a person is considered to be an associate of a licensee.

Sec. 06.50.910 allows a corporation licensed under this chapter to hold other licenses, unless transaction of business under the other license would violate this chapter or be contrary to the purposes of this chapter.

Sec. 06.50.920 exempts a licensee from the other provisions of AS 06.

Sec. 06.50.990 defines the terms used in the chapter.

Section 2 adds a new article to AS 44.88, the chapter on the Alaska Industrial Development and Export Authority (AIDEA). The new article establishes a business and industrial development corporation program for making loans for the capitalization of business and economic development corporations (BIDCO's).

Sec. 44.88.600 establishes the BIDCO fund in AIDEA.

Sec. 44.88.605 directs AIDEA to use the money in the BIDCO fund to make loans for the capitalization of BIDCO's.

Sec. 44.88.610 sets the minimum and maximum amounts for loans made from the BIDCO fund.

Sec. 44.88.615 directs BIDCO loan applicants to submit an application to AIDEA on the form and containing the information required by AIDEA by regulation.

Sec. 44.88.620 prohibits the term of a BIDCO loan from exceeding 10 years.

Sec. 44.88.625 establishes how the interest rate on a BIDCO loans is set. Interest accrues on the loan principal but is not compounded.

Sec. 44.88.630 sets the capitalization requirements that must be met in order to receive a BIDCO loan.

Sec. 44.88.635 requires a BIDCO to repay its BIDCO loan, including interest, in a lump sum 10 years after the loan is made.

Sec. 44.88.640 identifies certain provisions that must be included in the loan agreement between AIDEA and the loan recipient.

Sec. 44.88.645 directs AIDEA to reduce the amount of a BIDCO loan made to a rural BIDCO by giving the BIDCO credits for creating jobs and increasing sales activity in rural businesses, and for sustaining the job and sales activity increases.

Directs AIDEA to reduce the amount of a BIDCO loan made to a historically under utilized business BIDCO by giving the BIDCO credits for creating jobs and increasing sales activity in certain businesses.

Sets the credit for each job created at between \$500 and \$2,500 a year. Establishes how the credit for increased sales activity is to be calculated.

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Establishes the procedures for applying for the credits. Authorizes AIDEA to deny the credits under certain conditions. Applies the credits first to accumulated interest and then to the principal of the loan.

Sec. 44.88.650 prohibits a BIDCO that fails to repay a BIDCO loan from receiving another loan.

Sec. 44.88.655 directs AIDEA to determine which geographical areas of the state are rural or distressed and the degree to which they are rural or distressed. Provides AIDEA with some guidelines to make its determinations.

Sec. 44.88.690 defines the terms for the new article.

Section 3 amends AS 44.88, the AIDEA chapter, to state that the purposes of AIDEA are to be carried out in part by making BIDCO loans.

Section 4 amends the AIDEA chapter to give AIDEA the power to implement the BIDCO loan program.

Section 5 directs AIDEA to adopt regulations necessary to carry out the new BIDCO loan program.

Section 6 repeals the current BIDCO chapter.

Section 7 establishes how the new BIDCO chapter (AS 06.50) applies to present BIDCO's, and to certain corporate acts.

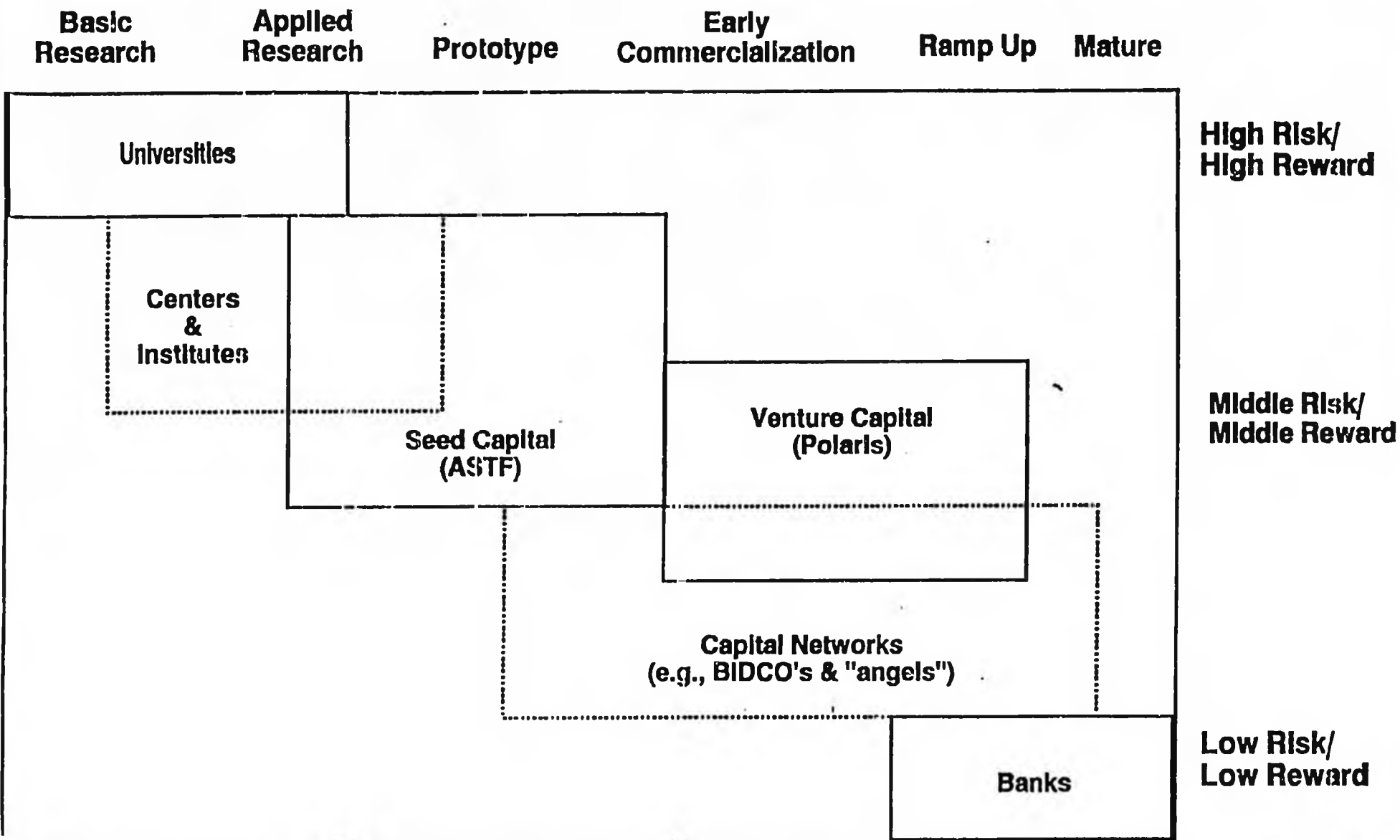
Section 8 indicates that the existing causes of action are not affected by AS 06.50.

Section 9 gives the Act an effective date.

If I may be of further assistance, please advise.

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The Innovative Process



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October 1990

RURAL BIDCO PROGRAM

INTRODUCTION

BIDCOs are a new type of private financial institution being formed in Michigan. They provide financing assistance and management assistance to business firms, and are designed to be able to assume more risk in their financings than banks are able to assume. BIDCOs are licensed and regulated by the Michigan Financial Institutions Bureau pursuant to the provisions of the Michigan BIDCO Act.

BIDCOs have wide flexibility in the types of financing instruments that they can utilize. One frequently used concept is to mix some form of current income to the BIDCO in connection with a financing with an approach to share in the upside potential of the company being financed. For example, a BIDCO may provide subordinate debt with warrants to acquire stock, or subordinate debt with a percentage of the company's increased sales.

As of this writing, there are six BIDCOs in operation in the State of Michigan, and others are in the process of formation. The Michigan Strategic Fund (MSF) is implementing its Rural BIDCO Program to spur the creation, as part of this broader emerging BIDCO industry, of one or more BIDCOs which will have, as its primary focus, serving businesses located in rural counties, including rural counties that are economically distressed.

The Rural BIDCO Program is intended to help address obstacles to the formation and successful running of such BIDCOs. For example, obstacles may include the greater dispersion of the population which may necessitate a larger geographic market area in order to develop sufficient deal flow; the prevalence of smaller companies which may necessitate smaller deal sizes; a smaller population base which may complicate fund raising and recruitment of a management team; and most importantly, the fact that many rural counties in Michigan have suffered from chronic economic distress, as measured by unemployment rates and/or poverty levels that have been substantially above the state average.

The formation of any BIDCO is a challenging and highly complex project. An experienced and highly talented management team must be assembled. A well thought out business plan, which generates confidence in the prospects for economic success of the endeavor, must be developed. And capital must be raised in an amount sufficient to make the business plan work. The Rural BIDCO Program contains substantial incentives, in order to invite the private sector to respond

to this challenge for the purpose of forming one or more rural BIDCOs and to promote the success of such BIDCOs once formed.

While the incentives involve a subsidy, a key principle of the program is that the subsidy is performance based, only being realized to the extent that a rural BIDCO is successful in creating jobs and stimulating economic activity in businesses located in rural counties. A rural BIDCO will have the flexibility to finance any Michigan business. However the special incentives, in the form of credits towards converting, into a grant, a loan from the MSF to the BIDCO, apply only to financings of businesses located in rural counties. Moreover, the amount of credits given to the creation of jobs and stimulation of economic activity depends on the degree of economic distress of the rural county in which the business is located.

The conversion credit system is thus designed to enable a rural BIDCO to flexibly serve a broad rural market, while providing incentives to encourage the serving of businesses located in distressed rural areas. It is intended that a rural BIDCO will be a key private institution in taking the lead in making financings happen that might otherwise not occur.

The incentive system is intended to promote the formation of one or more rural BIDCOs which will be self sustaining private financial institutions operating in a profit oriented, market disciplined manner, while remaining committed to the objectives of the Rural BIDCO Program.

The MSF has previously adopted its BIDCO Investment Program to catalyze the formation of BIDCOs. As of this writing, the MSF has allocated \$24 million to this program, of which more than \$9 million is not committed to specific BIDCOs. In submitting an application to the MSF for a funding commitment from uncommitted funds allocated to the BIDCO Investment Program, a prospective BIDCO has the option of applying pursuant to the criteria previously approved for the BIDCO Investment Program, which shall be referred to henceforth as the Standard BIDCO Program, or the prospective BIDCO may apply pursuant to the criteria of the Rural BIDCO Program as described in this paper.

As with the Standard BIDCO Program, applications pursuant to the Rural BIDCO Program shall be made under what the MSF refers to as an "open window" process. As a formal application is received, it will be evaluated in accordance with a number of standards, which are spelled out later in this paper, and then a decision will be made regarding an MSF funding commitment to the applicant.

In order to be considered for a funding commitment under the Rural BIDCO Program, a formal application must be filed with the MSF in satisfactory form by October 31, 1991. The MSF may extend the time for submitting a formal application pursuant to the Rural BIDCO Program if it deems such action advisable.

The concept of "rural counties", as used in this paper, refers to counties in Michigan that are not part of metropolitan areas. Of the 83 counties in Michigan, 22 are considered to be part of metropolitan areas, and the other 61 counties are not part of metropolitan areas and are thus considered rural counties. A list of the 61 rural counties is attached.

Taken together, the Standard BIDCO Program, the Rural BIDCO Program, and the Minority BIDCO Program (another MSF program with a separate funding allocation) are intended to catalyze the formation of a private industry of BIDCOs serving diverse needs throughout the State.

COMPONENTS OF INITIAL CAPITALIZATION

As described on page 2, until October 31, 1991, BIDCOs may file formal applications with the MSF for a loan from the MSF to the BIDCO pursuant to the Rural BIDCO Program. The application shall specify the amount of loan which the applicant seeks, which shall be for an amount not less than \$1.5 million nor greater than \$3.0 million. The MSF loan shall comprise part of the initial capitalization of the BIDCO. Altogether, there shall be three components of initial capital, as follows: 1) at least \$500,000 in equity investment in the BIDCO; 2) the loan from the MSF to the BIDCO, in an amount not less than \$1.5 million nor greater than \$3.0 million, which would be subordinate to matching senior debt sources; and 3) matching financing, typically in the form of a senior loan or loans to the BIDCO from private sources, which at least matches the amount of the MSF loan. Thus if the maximum of \$3.0 million from the MSF is sought, the initial capitalization of the BIDCO from these sources would be at least \$6.5 million (\$500,000 in equity plus \$3.0 million from the MSF plus \$3.0 million in matching financing).

While a formal application shall not be made until the equity investors have been identified, the senior debt or other matching financing need not be lined up prior to the submission of a formal application. The program contemplates that the MSF would make a commitment to make a loan to a BIDCO, with the closing on the MSF's loan contingent on the BIDCO securing matching private debt or other matching financing. The closing on the MSF's loan will also be contingent on the applicant obtaining a BIDCO license from the Michigan Financial Institutions Bureau.

Specific details regarding each of the three components of capital are provided below.

Equity

There must be a minimum of \$500,000 invested from equity investors in the BIDCO. The minimum of \$500,000 must come from the purchase of "private investor stock". For the purposes of this paper, the term "private investor stock" shall refer to shares priced at the predominant price for shares of stock in the BIDCO. By contrast, stock priced below the predominant price for shares of stock in the BIDCO, such as founders shares, seed investor stock and favorably priced employee stock, are referred to in this paper as "incentive stock". The purchase of incentive stock shall not count towards the minimum equity requirement. Organization costs paid by the BIDCO may be paid from the proceeds of the sale of incentive stock. If organization costs are paid from the sale of private investor stock, the \$500,000 minimum shall be net of organization costs.

The minimum equity investment of \$500,000 in the BIDCO must be fully disbursed to the BIDCO as of the time that the BIDCO obtains its license and closes on the MSF's loan.

MSF Loan

The loan from the MSF to a rural BIDCO will be for an amount not less than \$1.5 million and not greater than \$3.0 million, to be fully disbursed to the BIDCO at closing. The MSF is prepared to enter into written subordination agreements, on terms acceptable to the MSF, with respect to any other lenders to the BIDCO. The MSF's loan will be a 10 year loan, with no principal payments due until the end of the 10th year, at which time the entire principal owed will be due in one lump sum. Interest on the loan shall be allowed to accrue (on a noncompounded basis), and shall be payable at the end of the 10th year of the loan. The interest rate on the loan shall be a fixed interest rate at 9% per annum during the life of the loan.

Given the structure of the MSF's loan to a rural BIDCO, as described above, the loan will have no debt service of either principal or interest for a full 10 year period. However, the innovative aspect of this loan is that the MSF believes that it is likely that no interest or principal payments will ever have to be made. The loan will be structured so that it can gradually be converted into a grant, based on the performance of the BIDCO in creating jobs and stimulating increased sales activity in rural businesses, particularly rural businesses located in economically distressed counties. The MSF believes that with a reasonable performance by the BIDCO, the BIDCO should be able to fully convert the loan, including principal and accrued interest, into a grant before the due date of the loan, and that the amount of credit reasonably achievable within the 10 year period of the loan should substantially exceed the amount needed to fully convert the loan into a grant.

As previously indicated the rural BIDCO would be able to provide financing assistance to any Michigan business. However credits toward converting the loan into a grant will only apply to jobs created and increased sales activity in businesses located in rural counties.

Of particular significance is that the conversion formula will give extra credit for sustained economic impact, by giving the BIDCO credit not only for the immediate impact of a financing, but also for sustaining increased jobs and increased sales for a five year period from the date of a financing. This focuses the incentives on meaningful long term impact, and gives the BIDCO an additional incentive to continue working with and assisting a company after a financing is made.

While a rural BIDCO can finance any Michigan business, only financings of businesses located in rural counties are eligible for credits towards converting the MSF's loan into a grant. The basic concept of the conversion formula is that in connection with each rural financing, depending on the level of economic distress of the county in which the business is located, the BIDCO is eligible to receive a credit of from \$500 to \$2,500 for each job created, for each year

during a five year period from the date of the financing. In addition, depending on the county, a credit of from .5% to 2.5% of the increase in annual sales will be given, for each year during the five year period. In each case, the creation of jobs and the increase in annual sales will be measured against a base determined at the time of the financing.

The precise amount of credits available for each job created, and the percentage of the increase in annual sales to be used in computing credits, depends on the conversion factor of the county in which the business is located. Attached is a list of the 61 rural counties in the State, showing the conversion factor for each county. Also attached is a description of the methodology by which the conversion factors were computed.

The conversion factors range from .5 to 2.5. Multiplying the conversion factor by \$1,000 yields the amount of credits for each job created, for each year for a five year period. Multiplying the conversion factor by 1% results in the percentage of the increase in annual sales used to compute conversion credits from sales. If a BIDCO finances a company with locations in more than one county, the initial base for jobs and sales upon which conversion credits are based, and subsequent increases in jobs and sales, must be reasonably allocated among counties in order to compute the appropriate conversion credits.

The workings of the conversion formula can be illustrated concretely by taking the case of a hypothetical financing. Let's say that the BIDCO finances a company on February 8, 1992. Assume that immediately prior to the financing there were 5 jobs (full time equivalents) in the company. Also assume that for the 12 months prior to the financing (February 1991 through January 1992), the total sales of the company were \$200,000. Thus the base to be used is 5 jobs and \$200,000 in sales. Let us further assume that the business is located in a county with a conversion factor of 1.5, so that jobs credits are calculated on \$1,500 per job created, and sales credits on 1.5% of the increase in annual sales. The following charts show, for the five year period following the financing, the number of jobs in the company, the company's sales levels, and the credits earned.

Job Credits

| | # of <u>Jobs</u> | Increase over base of <u>5 jobs</u> | Credits (\$1,500 <u>per increased job</u>) |
|------------------|---------------------|---|--|
| February 8, 1993 | 10 | 5 | \$ 7,500 |
| February 8, 1994 | 12 | 7 | \$10,500 |
| February 8, 1995 | 8 | 3 | \$ 4,500 |
| February 8, 1996 | 8 | 3 | \$ 4,500 |
| February 8, 1997 | 15 | 10 | <u>\$15,000</u> |
| | | Total | \$42,000 |

Sales Credits

| | <u>Total Sales</u> | <u>Increase over base of \$200,000 Sales</u> | <u>Credit (1.5% of increased sales)</u> |
|----------------------------|------------------------|--|---|
| February 1992-January 1993 | \$ 500,000 | \$300,000 | \$ 4,500 |
| February 1993-January 1994 | \$ 800,000 | \$600,000 | \$ 9,000 |
| February 1994-January 1995 | \$ 600,000 | \$400,000 | \$ 6,000 |
| February 1995-January 1996 | \$ 700,000 | \$500,000 | \$ 7,500 |
| February 1996-January 1997 | \$1,100,000 | \$900,000 | <u>\$13,500</u> |
| | | Total | \$40,500 |

The credits in the above example would therefore total \$42,000 for jobs credits, and \$40,500 for sales credits, for an overall total of \$82,500.

On or before March 1 of each year, the BIDCO would file a document with the MSF applying for certification of credits earned during the previous calendar year. Accompanying the application shall be affidavits from the portfolio companies certifying their jobs and sales data as of the respective anniversary dates of the loans.

The MSF staff will review this application and conduct such investigation as it deems appropriate. In some cases, this may involve on-site visits to one or more of the BIDCO's portfolio companies. Decisions regarding whether or not to certify credits shall be made by the President of the MSF. The President of the MSF, in his sole discretion, may deny certification of particular credits in connection with a financing if the President determines that the location of the business was not as specified; that the job or sales for the company were not as specified; that in the President's judgment a financing that the BIDCO made was not a "significant financing"; or that certification of the credits would enable the BIDCO to circumvent the intent of the Rural BIDCO Program.

The determination that a financing was not significant may be based on a judgment that the financing could have been conventionally bankable or that the financing was not for a significant amount and had no meaningful relation to the increase in jobs and sales. If the MSF in one year certifies credits in conjunction with a particular financing, it may not in a subsequent year deny certification based on a finding that the financing was not significant.

It is important to emphasize that it is the intent of the MSF to place substantial reliance on the good faith of the BIDCO in determining whether a financing is a "significant financing" and is therefore appropriate to submit for certification. In general, the MSF does not intend to second guess the BIDCO's good faith determinations. The primary purpose for giving the President of the MSF the discretion to deny certification is to be able to address the

Moreover, the aggregate amount of credits earned by the BIDCO, in all of its financings where the base has been thus lowered, cannot exceed the amount of credits that would have been earned without such lowering of bases, by more than 20% of the original amount of the MSF loan.

- 4) If a financing is used to enable a person or company to acquire another company, the existing employees and sales of the company being acquired shall be counted as part of the base (unless a lowered base can be justified in accordance with 3) above.)
- 5) The aggregate amount of credits earned from financings that the BIDCO makes which have an SBA or other government guarantee shall not exceed an amount equal to 45% of the original amount of the MSF loan. (Since guaranteed financings have less risk to the BIDCO, it is reasonable to limit the amount of credits that can be earned from them.)
- 6) The amount of credits earned by a rural BIDCO from financing any one company shall not exceed an amount equal to 1/3 of the original amount of the MSF loan to that BIDCO.
- 7) If the BIDCO has not fully converted the MSF's loan into a grant by the due date of the MSF's loan, the BIDCO will be able to apply for partial year credits that may be earned through the due date, and if as of such due date there is a pending application for conversion credits or an intent to file an application for partial year credits, the BIDCO need not make its payment until 30 days after the MSF notifies the BIDCO of its decision on any such application.

Commitments made by the MSF under this program shall normally be for a period of one year. The MSF may extend any such commitment, if it deems such extension desirable. All commitments and extensions must be approved by the Board of Directors of the MSF.

The MSF, in issuing a commitment to make a loan to a rural BIDCO, will impose the following contingencies which must be satisfied before the loan will be made:

- 1) The BIDCO must obtain a BIDCO license from the Michigan Financial Institutions Bureau. Under the Michigan BIDCO Act, the Financial Institutions Bureau must conduct its own independent review to determine whether the BIDCO satisfies the licensing requirements established by that law. For additional information on licensing, contact the Consumer and Business Finance Division of the Financial Institutions Bureau at (517) 373-3470.
- 2) The BIDCO must secure firm commitments to receive its matching financing, under satisfactory terms and conditions.
- 3) The BIDCO must satisfy any other conditions that are stated in the resolution adopted by the Board providing for the commitment.

situation, which hopefully will never arise, if the BIDCO were to engage in a pattern of abuse of the intent of the program in its application for certification.

Once certified by the MSF, conversion credits will first be applied to accrued interest, and then to principal.

A number of additional points relating to the calculation of credits should be made:

- 1) If two or more rural BIDCOs participate in the same financing, the total number of credits applicable to that financing must be allocated among those rural BIDCOs.
- 2) If a BIDCO provides a second round of funds to a company, at the time of the second round financing the BIDCO has the option of deciding to consider the second round as a new financing. If the BIDCO elects such option, no new credits can be earned from the first financing, and a new base will be set for the second financing, with credits running for five years from the date of the new financing. (The other option would be to ignore the second round of financing, and to continue to earn credits from the first round, using the first round's base.) If the BIDCO decides to treat the second round as a new financing, credits from the new financing will not be applied to the loan until after an amount is accumulated to offset the amount previously credited from the original financing. For example, if a BIDCO earned \$50,000 in credits from the first financing, and \$150,000 in credits in the second round to the same company, the first \$50,000 in credits from the second financing would not be applied. The last \$100,000 from the second financing would be applied towards conversion of the loan into a grant, resulting in credits applied equal to \$150,000 from the two financings combined. Credits from a second round of financing will be disallowed if the second round does not involve a "significant financing" as described above.
- 3) By using a base equal to the number of jobs in the company immediately prior to the financing, the conversion formula on its surface only gives credit for jobs created, and not for jobs retained. However, in unusual cases, where it can clearly be documented that jobs would have been lost without the financing, the BIDCO, in submitting its application to the MSF for certification of credits, may request that the base for a company be lowered to reflect the jobs that would have clearly been lost without the financing. It is important to emphasize that any request for such a lowered base must be accompanied by a full analysis, including financial statements and other appropriate documentation (which might include, for example, if appropriate, market analysis, cost analysis, analysis of competition, evidence of Chapter 11 proceedings, etc.), clearly demonstrating that the jobs would have been lost absent the financing. The MSF will review such analysis and documentation carefully, before certifying credits based on such a lower base.

The loan agreement between the MSF and the BIDCO will contain at least the following program requirements, which shall apply as long as the loan is outstanding.

- 1) The MSF shall have the right to have a representative be present at all meetings of the BIDCO's board of directors and at all shareholders' meetings, the right to receive all notices and information sent to the BIDCO's board of directors or shareholders, and to have the same rights that members of the board of directors or shareholders have to obtain information.
- 2) The BIDCO shall provide financing assistance only to business firms located in Michigan. If the business firm has multi-state operations, the criterion that shall be used by the BIDCO is whether Michigan is the state where the largest economic benefit of the financing transaction is likely to occur.
- 3) The BIDCO shall endeavor to maintain as its primary focus the provision of financing assistance and management assistance to business firms in rural counties, which financing assistance is subject to greater risk than the financing assistance generally provided by conventional banking sources.
- 4) Without the consent of the President of MSF, the BIDCO shall not buy back, or obligate itself to buy back, any share or shares of its stock.
- 5) For a period of five years from the date of the MSF's loan, for the purpose of promoting continuing compliance with the original evaluation criteria of the MSF, the BIDCO shall not sell any share or shares of private investor stock or consent to the transfer of any share or shares of its private investor stock, without the prior approval of the President of the MSF.
- 6) The BIDCO shall not apply to the Financial Institutions Bureau to surrender its license pursuant to Section 317 of the BIDCO Act unless the reason for such application is that the BIDCO is no longer a viable BIDCO and thus intends to liquidate itself; provided however, that no such application shall be filed unless a) the BIDCO has provided the MSF with a written notice of its intent to file such application, b) the MSF has had 60 days thereafter to review the viability of the BIDCO and consult with the BIDCO's owners and operators, and c) the MSF has provided its written consent, which consent will not be unreasonably withheld.

The MSF may negotiate additional program operating requirements with rural BIDCOs on a case-by-case basis, as may be appropriate to promote achievement of the objectives of the Rural BIDCO Program or the Michigan Strategic Fund Act.

Matching Financing

The third component of initial capital shall be matching financing, typically in the form of a long term loan or loans from a private debt source to the BIDCO. Matching financing shall be in an amount at least equal to the total amount of the MSF's loan. Matching debt shall be senior in status to the MSF loan. Matching debt must be structured on terms and conditions satisfactory to the MSF, in a manner which enables it to be a long term source of capital for lending and investing by the BIDCO. Matching debt may, however, have a maturity of less than 10 years.

The matching financing must either be fully disbursed at closing or may be phased in if the following conditions are met: 1) There must be an irrevocable commitment by the matching financing source or sources to fully disburse the proceeds of the matching financing to the BIDCO; 2) The schedule for such disbursement must be established and be such that all of the proceeds of the matching financing are disbursed to the BIDCO within 3 years from the date of closing on the MSF's loan; and 3) Information satisfactory to the MSF staff must be provided to give the MSF complete confidence that the matching financing source or sources will be able to fulfill their irrevocable commitment.

While it is generally assumed that the matching financing requirement described herein will be satisfied from private sources and be in the form of debt, several other possibilities are available to contribute to satisfying the requirement. First, provision of funds from government sources other than the State of Michigan can be used to contribute to the matching requirement. Second, if the BIDCO obtains a grant or grants from private sources or government sources other than the State, such funds can be used to contribute to the matching requirement.

Finally, if investments for more than \$500,000 in private investor stock are received, any portion of such excess that is not used for organizational costs may be considered to be matching financing.

POTENTIAL FOR ADDITIONAL FUNDING

After a period of years have elapsed from the time of formation of a rural BIDCO, the MSF may consider an allocation of funds to enable the rural BIDCO potentially to receive a second round of funding from the MSF. In evaluating the effectiveness of a rural BIDCO's performance for the purpose of considering a second round of funding, it is contemplated that emphasis would be given, among other things, not only to financial performance, but also to the BIDCO's overall effort in promoting the objectives of the Rural BIDCO Program, and adhering to the spirit and intent of the Rural BIDCO Program.

INFORMATION TO BE SUBMITTED BY APPLICANTS

To apply to the MSF for a loan commitment, a prospective rural BIDCO shall specify the amount of loan for which it is applying and shall submit detailed information, as specified below, covering the following categories: Experience

and Qualifications, Securing Matching Financing and Starting Up the BIDCO, and the Business Plan. The applicant is free to use its own format, as long as the basic information is provided. Moreover, the applicant should feel free to provide additional information it views as relevant. The MSF may request additional information beyond what is specified below.

Experience and Qualifications

1. Submit resumes and references for all principal members of the management team. Include five references for each principal, and specify, for each reference, name, telephone number, address, their professional position and title, and the nature of the principal's relationship with the reference.
2. Submit a personal financial statement for each principal member of the management team. There is no precise format prescribed. However, the personal financial statement should be signed and dated (no more than 90 days old), should contain listings of assets and liabilities, and should include a statement of any pending lawsuits or other contingent liabilities. The personal financial statement need not include a statement of income.
3. For each principal, specify the amount of time the principal will be devoting to the work of the BIDCO. If the person has or is expected to have other professional responsibilities outside the work of the BIDCO, briefly describe these other responsibilities.
4. Describe the responsibilities of each principal with respect to the BIDCO.
5. Specify the names of directors that have been identified, and submit resumes.
6. Identify other key people and/or institutions that have been identified, such as advisors, consultants, attorneys, and accountants, and submit resumes and/or descriptions of firms.
7. Provide a list of equity investors in the BIDCO, providing for each investor, a) name, mailing address and telephone number; b) the amount that they will invest; c) evidence of their commitment or intent to invest; d) background information on the investor, and e) the expected role, if any, that the investor will play in contributing to the success of the BIDCO.
8. Describe the basic legal structuring of the proposed classes of equity investment in the BIDCO, including positioning, pricing, voting control, and any other major parameters. A formal private placement memorandum is not required as part of the application. However if a formal offering document is not included but is to be subsequently prepared, before the closing of the MSF's loan such formal offering document will need to be filed with the MSF and will need to be satisfactory to the MSF staff in form and substance.

Securing Matching Financing and Starting Up the BIDCO

1. Describe your strategy for securing matching financing, and the status of efforts to implement that strategy. What sources are you targeting? What is the nature of the rationale you are presenting or planning to present? Describe any commitments or demonstrations of interest, including documentation where possible. If you have not secured a commitment for the matching financing, discuss why you believe you will be successful in securing the financing.
2. How do you anticipate that matching debt will be structured (e.g. term, repayment provisions, interest rate). Is it anticipated that any of the matching financing will come from any source other than senior debt? If so, describe how much is anticipated and the expected terms.
3. Set your projected timetable, following an MSF commitment, for securing the matching financing and obtaining a BIDCO license and closing on the MSF's loan. Specify your startup budget for the BIDCO. Specify the person or people who will be working on the startup phase, including how much of their time they will spend, how, if at all, they will be compensated, and their resumes and references. Specify what financial resources are available or are expected to be available to assist in this effort. List seed investors, if any, that have already invested in the BIDCO, and list the amount invested by each, and how many shares of stock they own.

Business Plan

1. Market
 - a. Specify the city or county in which the BIDCO intends to locate its principal office, and discuss intentions, if any, to establish any additional offices.
 - b. Discuss the geographic area in which the BIDCO plans to focus. Have you identified a primary market area and a secondary market area, or do you have some other approach to focusing your geographic markets?
 - c. Discuss the market that exists in your geographic area of focus, and why you believe that the projected numbers of deals contained in your projections are realistic.
 - d. Approximately what percentage of the BIDCO's financings do you anticipate will be in rural counties? What do you anticipate will be the approximate distribution among counties with differing degrees of economic distress?
 - e. Describe and discuss the types of businesses that the BIDCO will finance. Are there particular industries or types of

industries that the BIDCO will emphasize more than others?

- f. Describe the size range of businesses that it is contemplated the BIDCO will finance, with a general indication of where the primary focus or focusses are expected.
 - g. Discuss the life cycle stage or stages of the companies which the BIDCO will likely finance, indicating where the primary focus or focusses are expected.
 - h. If the BIDCO intends to make SBA guaranteed loans, to the extent applicable distinguish between SBA loans and non SBA financings in your responses to a) through g) above.
2. Financings - Describe and discuss the financial instruments that are intended to be used by the BIDCO (e.g. debt with royalties, debt with warrants, equity, pure debt, etc.) Describe how it is anticipated that deals would be structured. Discuss the anticipated mix of the various types of financing instruments. Discuss the anticipated size range of loans/investments to be made, and information regarding pricing, terms, and other conditions. Discuss risk/return expectations on deals. Discuss method of exit from investments. If the BIDCO intends to make SBA guaranteed loans, what proportion of your capital do you anticipate will be devoted to SBA and how much will that be leveraged by selling the guaranteed portion in the secondary market. What approach do you intend to use in pricing the sale of the guaranteed portion of the loan and the interest rate spread to be achieved over time on the guaranteed portion.
 3. Case Studies - Provide case studies to illustrate types of companies and financings as described in discussions of the market and financings in accordance with 1) and 2) above. These case studies should include information such as: a) a brief description of the business of the company; b) a brief description of the history of the company; c) how much capital the company needs ; d) why BIDCO financing is appropriate; e) the BIDCO's role in the financing and how much it would provide; f) how the deal would be structured; g) how the BIDCO would achieve its return on the deal; h) what the BIDCO expects as a realistic rate of return; and i) projected conversion credits. The narrative and financial information in the case studies need not be detailed, but should be sufficient to present the essence of the case to the reader. The case studies need not be based on real companies.
 4. Marketing Strategy - Describe the BIDCO's plans and approach to marketing its services, including the identification of potential applicants for financing assistance. For each member of the management team, what is the anticipated percentage of their time that will be devoted to marketing.
 5. Screening Process & Evaluation Criteria - Discuss the anticipated number of business firms that will be reviewed for possible financing

assistance, in comparison with the number that will actually be financed. Discuss the process for screening and evaluating prospective financings, including estimates of person time involved at each phase for various members of the management team. These estimates should include time for deals that don't get done as well as time for deals that do get done, right through to the structuring and the closing on a deal. What evaluation criteria will the BIDCO use in deciding whether and under what terms and conditions to do a deal? To what extent and in what manner will the potential for conversion credits enter into the screening and evaluation process?

6. Fee Income - Discuss the potential for fee income, and any plans that the BIDCO might have for generating fee income.
7. Monitoring and Management Assistance - Discuss the BIDCO's plans for monitoring its financings and for providing management and/or technical assistance to companies for which the BIDCO provides financing. Discuss the BIDCO's plans for enforcing provisions of loan or investment agreements. Discuss how the BIDCO plans to handle problem loans and investments. Which members of the management team will be involved in monitoring and management assistance activities? How much professional person time do you anticipate will be spent on average per portfolio company per month on monitoring and management assistance activities? To what extent, if any, does the BIDCO plan to provide management assistance to companies that the BIDCO is not financing?
8. Complementary Relationships - Discuss the nature of complementary relationships that are anticipated with banks, commercial lenders, other BIDCOs, investment bankers, venture capitalists, and other institutions. This discussion can be based on general types of institutions and/or can identify specific institutions where complementary relationships have already been discussed.
9. Management Structure - Describe the proposed management structure for the BIDCO, and anticipated compensation for principal members of the management team, including salaries, bonuses (if any), and incentive stock (if any).
10. Post Conversion Adjustments - Discuss the process you expect to undertake in considering possible adjustments to the BIDCO's business plan, as the BIDCO approaches the time when the MSF's loan would be fully converted into a grant? Have you identified any specific aspects of the plan that you think may need to be adjusted?
11. Idle Funds - Describe plans for the management of the BIDCO's idle funds.
12. Realization of Returns by Investors - To what extent do you believe that there will be a long term need to provide a mechanism for investors to cash out of their investment? Discuss options.

13. Tax and Accounting Issues - Comment on relevant tax and accounting issues for the BIDCO that merit discussion.
14. Financial Projections
 - a) Provide performance projections, year by year, for a 10 year period. These projections should show cash flow, income and expense (including taxes), and balance sheet data, and should incorporate assumptions and show the effect of the gradual conversion of the loan into a grant. For these performance projections, operating expenses can be consolidated into one line item as long as a more detailed breakout is provided as requested in b) below.
 - b) Provide a detailed projected operating budget for the first 10 years of the BIDCO's operation. For each year's projected budget, indicate anticipated salary for each staff position.
 - c) Specify the assumptions used for the performance projections. It is permissible but not required to submit several sets of performance projections based on differing assumptions. However, if you submit several sets of projections based on differing assumptions, specify which set of assumptions are your primary assumptions.
 - d) Specify computer programs used for the projections, and specify formulas used.

EVALUATION STANDARDS

In order to obtain a commitment from the MSF, an applicant must satisfy a number of standards, which are spelled out below. The MSF is free to make whatever investigations are needed in order to determine whether an applicant satisfies these evaluation standards. The MSF may suggest or negotiate changes in the application that may be needed in order to satisfy the standards.

1. Promotion of Objectives - The MSF's prospective commitment to make a loan to the BIDCO, and the loan itself, must promote the basic objectives of the Rural BIDCO Program and the Michigan Strategic Fund Act. For example, the MSF must be satisfied that the investors, management team and business plan are structured in such a way that the BIDCO will be committed to addressing a market niche or niches that are not adequately being addressed by other financial sources, and will maintain a primary focus on serving businesses in rural counties, including rural counties which are economically distressed.
2. Good Investment for Private Investors - The purchase of private investor stock in the BIDCO by private investors needs to be judged by the MSF as being a good investment from a private market perspective, after taking into account the benefits of the prospective subsidy inherent in the convertible nature of the MSF's

loan. The distribution of ownership interests in the BIDCO must be such as to satisfy the MSF that the BIDCO will be a self-sustaining private financial institution operating in a profit oriented, market disciplined manner, while remaining committed to the objectives of the Rural BIDCO Program.

3. Good Management Team - The management team needs to demonstrate appropriate experience, education, and training in order to successfully manage the BIDCO. The management team should have appropriate balance, and contain the variety of skills needed to accomplish the tasks identified in the business plan. Skills to be evaluated include, for example, overall leadership, judgment, financial analysis, ability to evaluate and structure potential financings, marketing, and management assistance. In oral discussions, there needs to be evidence of thoughtfulness, insights and grasp of issues.

There must be good evidence of strong personal commitments by the principals to the financial success of the BIDCO as well as to the objectives of the Rural BIDCO Program. There must be a strong commitment to a business plan designed to fully convert the MSF's loan plus accrued interest into a grant.

Salaries and incentives (whether through incentive stock and/or bonuses) need to be reasonable to provide fairness to investors, but should also indicate that management's stake in the success of the BIDCO will be adequate to provide reasonable incentives. The principals must have a reputation for integrity and a high degree of competence in their financial and business activities.

The evaluation of the experience and qualifications of the management team will focus primarily on professionals devoting their full time or a majority of their time to the BIDCO, but also will encompass a review of the management team in its broadest sense, including, for example contributions by identified supporting people (such as consultants, advisors, board members, legal advisors, accountants), and the potential contribution of equity investors to the success of the BIDCO.

4. Good Business Plan - The applicant must have a good business plan. The business plan must be thorough, clear, have reasonable assumptions, identify realistic markets which indicate good market opportunities, and demonstrate thoughtfulness and grasp of issues. The various aspects of the business plan need to mesh well with each other and be internally consistent. The financial projections need to be accurate, be based on realistic assumptions, be consistent with the business plan, and promote confidence in the prospect for long term viability and success of the BIDCO.
5. Probability of Securing Matching Financing and Making the BIDCO Operational - Satisfactory evidence must be presented to indicate that if the MSF makes a loan commitment to the BIDCO, it is probable

that the applicant will be able to secure the required matching financing and accomplish such other tasks as may be required to obtain a BIDCO license. Since prospective debt sources may be reviewing the quality of the management team and business plan, the better the performance on these measures, the better will be the prospects for securing private debt. However evaluation of information specifically relating to the process of raising private debt or other matching financing is also necessary to appropriately assess the applicant's prospects. The evidence provided could involve a variety of types of information. Documentation of commitments or demonstrations of interest can be very useful and positive, but are not a necessity. Other potential evidence may include, for example, personal relationships and contacts of the principals, the prior track record of the principals in raising capital, and the effectiveness of the applicant's strategy for securing the matching financing. The MSF must also conclude that adequate resources are likely to be available to the applicant to fund the process of raising the matching financing, obtaining the license and starting the BIDCO.

ATTACHMENT A

RURAL COUNTIES AND THEIR CONVERSION FACTORS

| <u>County</u> | <u>Conversion Factor</u> | <u>County</u> | <u>Conversion Factor</u> |
|----------------|------------------------------|---------------|------------------------------|
| Alcona | 2.50 | Kalkaska | 2.50 |
| Alger | 1.38 | Keweenaw | 2.50 |
| Allegan | .50 | Lake | 2.50 |
| Alpena | 1.77 | Leelanau | .50 |
| Antrim | 1.60 | Lenawee | .50 |
| Arenac | 1.94 | Luce | 1.77 |
| Baraga | 2.50 | Mackinac | 2.50 |
| Barry | .50 | Manistee | 1.77 |
| Benzie | 2.45 | Marquette | .50 |
| Branch | .55 | Mason | 1.65 |
| Cass | .50 | Mecosta | 1.06 |
| Charlevoix | 1.21 | Menominee | .67 |
| Cheboygan | 2.50 | Missaukee | 2.21 |
| Chippewa | 2.50 | Montcalm | 1.70 |
| Clare | 2.16 | Montmorency | 2.50 |
| Crawford | 1.57 | Newaygo | 1.67 |
| Delta | 1.65 | Oceana | 2.26 |
| Dickinson | .50 | Ogemaw | 2.50 |
| Emmet | .99 | Ontonagon | 2.33 |
| Gladwin | 2.01 | Osceola | 1.87 |
| Gogebic | 1.40 | Oscoda | 1.74 |
| Grand Traverse | .50 | Otsego | .50 |
| Gratiot | 1.18 | Presque Isle | 2.50 |
| Hillsdale | .62 | Roscommon | 1.23 |
| Houghton | 1.04 | St. Joseph | .50 |
| Huron | 1.43 | Sanilac | 1.38 |
| Ionia | 1.21 | Schoolcraft | 2.50 |
| Iosco | 1.28 | Shiawassee | .81 |
| Iron | 1.60 | Tuscola | 1.13 |
| Isabella | .50 | Van Buren | 1.57 |
| | | Wexford | 1.60 |

ATTACHMENT B

The conversion factors for each rural county were determined as described below. First, each rural county receives .5 points towards the conversion factor as a general incentive for rural investment. Next, a distressed index score was computed for each county, by taking the 7 year average (1983-1989) for the annual average unemployment rate for the county, and adding it to the percentage of families below the poverty level for that county.

Those counties that have a distressed index score at or below the distressed index score for the State as a whole receive no additional points for distress, and thus have a conversion factor at the minimum of .5.

Those counties with a distressed index score in the top 20% of rural counties (the 12 most distressed of the 61 rural counties) receive an additional 2 points towards the conversion factor, for a total conversion factor of 2.5.

Those counties with a distressed index score above the State score, but below the minimum distressed index score to get in the top 20%, receive additional points towards the conversion factor as follows: Take the number of points by which the county's distressed index score exceeds the State score, divide by the number of points by which the minimum distressed index score to get in the top 20% exceeds the State score, and multiply the resulting fraction by 2. The result is then added to the .5 points for the general rural incentive to yield the total conversion factor.

SUMMARY

More than 22 years of experience leading public policy formulation and program development and implementation relating to development finance and financial institutions.

PROFESSIONAL EXPERIENCE

October 1991 to Present: Hansen, McOuat, Hamrin & Rohde, Inc. (a consulting firm)

Principal. In charge of the firm's activities in providing consulting services to state governments, cities, federal agencies and other organizations interested in developing and implementing innovative development finance programs. Focus is on cutting edge programs such as:

- Capital Access Program to provide a flexible and extremely nonbureaucratic tool to assist banks in making loans to small businesses.
- BIDCOs (Business and Industrial Development Corporations) to provide risk capital and management support to promote the growth of small and medium sized businesses.
- Specialized BIDCOs, such as Minority BIDCOs and Rural BIDCOs, to meet specialized needs.
- Seed Capital and Venture Capital programs to provide high risk equity investments in companies with major growth potential.
- Community Development Banking to support neighborhood preservation and revitalization for the benefit of existing residents.
- Innovative export finance initiatives.
- Innovative housing finance initiatives to address urban and rural mortgage credit needs.

1985 to October 1991: Michigan Strategic Fund, Lansing

Served, from the inception of this state government agency, as Director of Policy and Program Development and as Director of Private Institutions Programs. Responsible for designing and implementing a pioneering series of state program initiatives for development finance. Through these programs, the state uses limited public resources to help build a more comprehensive and effective private financing infrastructure, leveraging public resources with private capital many times over, and attracting high caliber private sector talent. Programs implemented and accomplishments as of March 1992 include the following:

- Capital Access Program, which assists banks in taking more risk than normal, consistent with safety and soundness, thereby providing access to financing for small businesses. To date, more than 1,400 companies have received financing, and the state is leveraging its resources by more than 20 to 1.
- BIDCO programs, including the Standard BIDCO Program, Minority BIDCO Program, and Rural BIDCO Program, which have catalyzed the formation of a new industry of private financial institutions to help meet the financing needs of Michigan businesses for decades to come. BIDCOs provide growth capital to businesses with financing needs that are too risky for bank financing but cannot provide the super-high rates of return sought by venture capitalists. To date, nine BIDCOs are operational in Michigan, and others are in the process of being formed.

- Seed Capital Program, which launched three private seed capital funds which, to date, have made equity investments in 34 startup companies with very rapid growth potential. According to an independent review, a number of these companies have potential to become significant companies in Michigan.

Also played a significant role in other state government initiatives not involving the Strategic Fund, including, for example, consulting in the design of the Michigan Training Incentive Fund Program; designing a program targeting CDBG Small Cities funds for economic development in distressed areas, and designing innovative home mortgage lending initiatives.

1984-1985: Office of the Governor of Michigan, Lansing

Deputy Director of the Governor's Cabinet Council on Jobs and Economic Development. Specialized in financial institutions policy, making recommendations on legislative and administrative policies. In charge of developing and negotiating a comprehensive banking reform legislative package. Although the package as a whole barely failed to pass, it did help set the agenda for subsequent enactment of significant reforms, including statewide branching to promote competition, community reinvestment provisions, and changes in credit life insurance practices.

In charge of performing the initial program development work for what subsequently became the Michigan Strategic Fund's Capital Access Program and Standard BIDCO Program.

1982-1984: Mountain Association for Community Economic Development
(a nonprofit economic development corporation serving rural Eastern Kentucky)

Director of Real Estate Finance. Initiated and directed a project which resulted in major changes in home mortgage lending practices in Eastern Kentucky, making available long-term, low down payment mortgages to make mortgages more affordable. Created, organized and directed the 94-bank Eastern Kentucky Bankers Consortium, working closely with banks throughout the region. The consortium served member banks by 1) organizing seminars and providing information mailings; 2) successfully lobbying for reforms in federal secondary market and insurance agency programs to make them easier to use by small, rural banks; and 3) creating and implementing multi-county mortgage revenue bond programs.

1981-1982: Consultant on Financial Institution Issues

Provided consultant services to a variety of organizations on alternative mortgage instruments, neighborhood lending, rural mortgage credit needs, and consumer credit.

1978-1981: U. S. Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C.

Professional Staff Member. Served as Committee Chair's staff specialist in charge of all issues affecting housing and community development. Initiated and carried out a number of significant legislative initiatives which became law, relating to subjects such as FHA, secondary market programs, mobile home lending, subsidized housing, UDAG, community development block grants, and neighborhood lending. Initiated and carried out committee oversight activities which had significant impact. Served as Committee Chair's representative working with the National Commission on Neighborhoods.

Resume for Steven M. Rohde, Page 3

1977-1978: Consultant on Financial Institution Issues

Provided consultant services to federal and state government agencies and public interest groups on community reinvestment, fair lending, consumer credit, electronic funds transfer systems, and economic development.

1975-1977: California Business and Transportation Agency, Sacramento
(a cabinet-level state agency, including Departments of Banking, Savings and Loan, Corporations and others)

Special Assistant to the Secretary. Served as the principal policy specialist and advisor in the executive branch of state government for coordinating public policy affecting financial institutions. Reviewed and made recommendations on all legislative and major administrative policy issues affecting financial institutions in the state. Responsible for overseeing the development of the budgets for the Banking and Savings and Loan Departments, overseeing policy implementation, and spearheading legislative efforts. Led effort which resulted in establishment of Interagency Task Force on Electronic Funds Transfer. In charge of developing a major initiative which resulted in increases in lending in inner city neighborhoods.

1971-1975: Center for National Policy Review, Washington, D.C. (a public interest group)

Research Associate. Served as the Center's specialist on housing finance and financial institutions. In charge of initiating, developing, and carrying out projects relating to fair lending practices and neighborhood lending, and to issues involving bank and savings and loan structure and lending powers. Major successes, among others, included leading the effort which resulted in mortgage lenders throughout the nation changing their practices to give full credit to a wife's income in determining eligibility for a home loan.

1970: Federal Home Loan Bank of Boston
(a quasi-federal agency covering the New England region)

Assistant to the Bank Economist. Responsible for various research projects and analyses relevant to Federal Home Loan Bank policies and programs.

EDUCATION B. A., Tufts University, February, 1970, with major in Political Science and minors in Economics and Mathematics.



***Jim Knapp and Steve Markee,
co-owners of I/NET in
Kalamazoo, needed funding for
the development of an exciting
new computer software product.***

***It took financing
from a BIDCO to
make their dream
come true.***

UNET specializes in computer software applications in the fields of digital imaging, telecommunications, and voice recognition technology. Knapp and Markee needed funds to complete the development of a new product, Adstar, an automated document storage, transmission, and retrieval system. But, because of past obstacles that the company had faced, "no bank was willing to lend to us," Knapp says.

It stepped Arcadia BIDCO. "The BIDCO principals had followed our ups and downs," Knapp says, "They believed in us."

Markee explains that the \$225,000 obtained from the BIDCO "let us buy equipment and contract with additional people for their expertise." UNET was then able to complete its product and sell it to IBM. The sale was not only good for I/NET—it brought a substantial profit to Arcadia BIDCO.

"Sure, they made a lot of money on the deal, but we also benefited greatly," Knapp adds.

"We were in need and they allowed us to get through the IBM product sale. We really appreciated their assistance."

Program Objectives

The MSF's BIDCO Investment Program is an ambitious initiative designed to catalyze the formation of a new industry of private financial institutions to help meet the financing needs of small and medium-sized businesses in Michigan. Many businesses with economically sound growth financing needs are unable to obtain needed capital because they have financing needs that are viewed as too risky for conventional bank lending, yet cannot provide the super high rates of return sought by venture capitalists. BIDCOs (business and industrial development corporations) provide flexible financing, often in the form of subordinated debt combined with some form of equity kicker such as warrants to acquire stock or a royalty on increased sales. They thus compensate for taking greater risk by sharing to a modest degree in the success of the company. In addition, compared to banks, BIDCOs provide a much greater degree of hands-on support and management assistance, in order to reduce risk and facilitate the growth of their portfolio companies.

The MSF is helping to launch Michigan's BIDCO industry by providing information and technical assistance for BIDCO organizers and by making equity investments in these new private financial institutions. A key objective of the MSF's program is leverage. The initial leverage of the MSF's investment comes from private equity invested in the BIDCOs. However, the ultimate leverage comes from using a relatively small amount of public investment to catalyze the formation of a new industry of self-sustaining private financial institutions. By investing its capital, by borrowing additional funds over time from institutional debt sources up to three times equity, and by recycling some of the proceeds from their investments, BIDCOs can help meet the expansion financing needs of Michigan businesses for generations to come.

A key test of the fundamental concept of the BIDCO investment Program was whether

or not the private sector would respond to the MSF's challenge. The program's success is dependant on the willingness of talented private sector people to engage in the challenging and time-consuming task of organizing BIDCOs, and the willingness of private sector investors to invest alongside the MSF in BIDCOs.

Program Results

The private sector has responded to the MSF's challenge, and the BIDCO industry is being built. Organizers of BIDCOs include former bank presidents, former finance company presidents, successful entrepreneurs, accountants, and people who have run venture capital firms and investment banking firms.

As of this writing, the BIDCO Investment Program has already succeeded in helping five BIDCOs to become operational, and two additional BIDCOs have received MSF investment commitments under the program and are in the process of raising their private equity. It is estimated that these first seven BIDCOs will themselves provide more than \$500 million in financings to Michigan businesses during their first 10 years of operation, and will help attract substantial additional private capital as part of these financings.

Of the \$14.9 million which the MSF has committed to the seven BIDCOs, \$9.0 million has been invested in the five BIDCOs that have become operational. These five BIDCOs raised a total of \$19,750,000 of additional equity, for a total initial equity of \$28,750,000.

The BIDCOs that are already operational include two BIDCOs that serve a broadly defined western Michigan market area. These BIDCOs, Arcadia BIDCO and Discovery BIDCO, are located in Kalamazoo and Grand Rapids respectively. In southeastern Michigan, operational BIDCOs include Great Lakes BIDCO, which serves a statewide market from its Birmingham office, and Onset BIDCO, which has a primary market area consisting of all Michigan locations within roughly a two-hour drive from its Farmington Hills office. And Jackson BIDCO serves Michigan locations within roughly a two-hour drive from Jackson, Michigan. (A

sixth operational BIDCO received funding under the MSF's Minority BIDCO Program, and is discussed in the section of this report on the Minority BIDCO Program.)

The two BIDCOs which have received MSF commitments under the BIDCO Investment Program, but which were still fund raising as of this writing, were Capital BIDCO, which intends to serve a statewide market focusing especially on the Lansing, Grand Rapids, Flint and Saginaw markets, and Liberty BIDCO, which intends to emphasize financing service businesses and women-owned businesses on a statewide basis.

Other BIDCOs are in the process of development. The goal of a diverse, new industry of private financial institutions to help meet the growth capital needs of Michigan businesses is well on its way to being achieved.

How the Program Works

BIDCOs are licensed and regulated by the Michigan Financial Institutions Bureau as a new class of private financial institutions. Organizers seeking to form BIDCOs may apply to the MSF for an investment. If the BIDCO satisfies high quality standards for its management team and business plan, the MSF will commit to invest up to \$3 million per BIDCO, contingent on the BIDCO then raising private equity of at least \$1.50 for each \$1.00 to be invested by the MSF.

Because of the MSF's high quality standards, obtaining an MSF commitment enhances the credibility of BIDCOs as they seek private investment. Moreover, as an expression of its confidence in the quality of the BIDCOs in which it invests, the MSF subordinates 80% of its stock to the private equity, in the unlikely event of failure of the BIDCO. However, the MSF shares fully in the upside returns from its investment.

The MSF's stock in BIDCOs is non-voting stock, to emphasize that the MSF's purpose is to catalyze the formation of this new type of private financial institution, and not to be involved in interfering with the operation of BIDCOs. Ultimately, the MSF intends to sell its stock in BIDCOs, leaving behind an industry of private financial institutions operating without any MSF investment.

BIDCO Investment Program



Catherine Lockhart has learned what it takes to succeed at financing small business.

So when the chance came to head the Greater Detroit BIDCO, she jumped at it.

"This is the first minority BIDCO in the nation," she explains. "I knew it was an excellent opportunity. The minority development program I helped form in Maryland was a public agency. Being part of a private corporation, like the one here in Detroit, really attracted me."

So Lockhart packed her bags, moved to Michigan, and began her duties as CEO of the Greater Detroit BIDCO. Along with Locksley Smith, senior vice president, she is targeting growth businesses for BIDCO financing. "We're looking to finance a broad range of businesses, including business and consumer services, health care, manufacturing, retail, and wholesale," she says. "Though we're especially interested in minority businesses, we're also looking at non-minority businesses in distressed areas."

The BIDCO expects to help bring jobs, sales, and growth to the metro Detroit area. "Detroit has a significant amount of opportunity," Lockhart says. "People just need to seize those opportunities. Greater Detroit BIDCO can help make a difference."

Program Objectives

The Minority BIDCO Program is the newest of the MSF's private institutions programs, having been adopted by the MSF Board in January, 1988. The purpose of the program is to catalyze the formation of minority-owned and -operated BIDCOs as part of the broader, emerging BIDCO industry in Michigan. The Minority BIDCO Program enables minorities to play a central role in the financial institutions system that provides capital to businesses.

BIDCOs are licensed and regulated private financial institutions which are able to take more risk in financing businesses than banks are able to assume. For more information on the broader, emerging BIDCO industry in Michigan, see the section of this report on the BIDCO Investment Program.

In order to maximize prospects for long-term viability and success of private, minority-owned BIDCOs, they are given the flexibility to finance any Michigan business. At the same time, strong incentives have been included in the program to encourage minority-owned BIDCOs to finance minority-owned companies and companies located in distressed areas.

Like the BIDCO Investment Program, the Minority BIDCO Program's success is dependent on the willingness of talented private sector people to undertake the challenging and time-consuming task of building a new financial institution, including building a management team and a comprehensive business plan, and securing private investment.

Program Results

The Minority BIDCO Program reached a landmark in January 1990 when Greater Detroit BIDCO became the first minority-owned and -operated BIDCO to become operational. The BIDCO is operational with \$8.6 million in initial capital, including \$600,000 in equity investments from minority individuals and minority businesses, \$3 million from the MSF, and \$1.5 million each in senior debt from the Ford Foundation and the Metropolitan Life Insurance Company's foundation. A national recruitment for key management team members resulted in the hiring of Ms. Catherine Lockhart from Baltimore as Chief Executive Officer, and Mr. Locksley Smith from New York as Senior Vice President.

Greater Detroit BIDCO intends to finance businesses across the service, manufacturing and retail sectors, including some start-ups. While substantial focus will be given to businesses in the City of Detroit, where its office is located and where most of the state's minority businesses are located, the BIDCO has defined its broader geographic market to include businesses in Michigan located within a 100-mile radius of its office. A heavy emphasis will be given to financing minority-owned companies. Many of Greater Detroit BIDCO's financings will also be in distressed areas. Greater Detroit BIDCO anticipates that its average financing may be about \$200,000, and that it will provide a total of about \$15 million in financings during its first 10 years of operation.

Other minority BIDCOs are in the process of being developed.

How the Program Works

Organizers seeking to form a minority BIDCO apply to the MSF for a funding commitment. The same high quality standards that the MSF uses to evaluate BIDCO management teams and business plans under the BIDCO Investment Program are also used in reviewing applications under the Minority BIDCO Program. As with the BIDCO Investment Program, the MSF's role is to catalyze the formation of minority BIDCOs, not to be involved in their operation.

The initial capitalization for a minority BIDCO consists of three components, as follows: 1) at least \$500,000 from equity investors in the BIDCO, more than 50% of which must be from minorities; 2) a subordinate loan of up to \$3 million from the MSF; and 3) a senior loan or loans from a private debt source or sources, at least matching the amount of the MSF loan. Thus, the typical minority BIDCO which obtains \$3 million from the MSF would open its doors with at least \$6.5 million in initially committed capital from the three components.

The MSF's loan is structured as a 10-year loan, with no principal payments until the end of the 10th year, and with interest allowed to accrue without being paid until the end of the 10th year. However, the key to the program design is that the MSF's loan can be gradually converted into a grant over a period of years based on the performance of the BIDCO in creating jobs and stimulating increased sales in minority-owned businesses and businesses located in distressed areas. The conversion formula gives the BIDCO credit not only for immediate job creation and sales stimulation in the companies it finances, but also provides extra credit for long-term impact. This gives the BIDCO additional incentive to continue working with and assisting a company after a financing is made. The conversion formula provides the BIDCO with credits against the principal and accrued interest on the MSF loan. In connection

Minority BIDCO Program

Minority BIDCO Program

with each minority-owned business or distressed-area business it finances, the BIDCO receives \$1,000 of credit for each job created, for each year during a five-year period from the date of the financing. In addition, a credit of 1% of the increase in the portfolio company's annual sales will be given, for each year during the five-year period. Thus the program's subsidy is completely performance-based, and is earned only if the BIDCO is having real social and economic impact.

The formula has been designed so that, with reasonable performance by the BIDCO, the BIDCO should be able to fully convert the MSF's loan into a grant well before the due date of the loan. In addition to providing strong incentives for financing minority-owned businesses and businesses in distressed areas, the conversion of the loan into a grant will promote the long term viability and success of the minority BIDCOs themselves, by helping them to substantially enhance their equity base.



Greater Detroit BIDCO, Inc. Management Team and Investors. From left to right seated: Locksley A. Smith, Catherine D. Lockhart, Dr. Karl D. Gregory. From left to right standing: Thaddaus Foster, Ralph J. and Dorothy J. Burrell, O'Neil D. Swanson II, David L. Griffin, Joseph J. Leo, B.D. Hill, Richard T. White, Dr. Julius V. Combs. Not shown: Clayborn Allen, Don H. Barden, Nathan G. and Diana Conyers, Charles and Peggy Harrell and James O. Lewis.

H B

5 3 8

(7)

Date Referred: April 6, 1992

FURTHER REFERRALS:

Judiciary

Date of Committee Action: 4-7-92

The LABOR AND COMMERCE Committee considered:

HB 538

HOUSE BILL NO. 538

DISABILITY/COMP BENEFITS: FIREFIGHTERS

"An Act relating to workers' compensation and occupational disability benefits for firefighters; and providing for an effective date."

RECOMMENDATIONS: the same title
be replaced with _____ a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

fiscal impact _____

zero fiscal note _____

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) Administration

zero fiscal note(s) Labor

| SIGNING DO PASS | DP | OTHER RECOMMENDATIONS | DNP | NR | AM |
|---------------------|----|---------------------------|-----|----|----|
| <i>David Douley</i> | | <i>Kevin P. O'Connell</i> | | ✓ | |
| <i>[Signature]</i> | ✓ | | | | |
| <i>[Signature]</i> | ✓ | | | | |
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[Signature]
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO : CSHB 538 (HES)

Revision Date: _____
 Title: "An Act relating to workers' compensation ... for firefighters ..."
 Sponsor: Representative Ellis
 Requestor: House Labor & Commerce

Department Affected: Labor
 BRU: Workers' Compensation
 Component: Workers' Compensation
 COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|------------------------|------------|------------|------------|------------|------------|------------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND&STRUCTURES | | | | | | |
| GRANTS,CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|----------------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|----------------|--|--|--|--|--|--|

| | | | | | | |
|-----------------------------|--|--|--|--|--|--|
| REVENUE FUND SOURCE: | | | | | | |
|-----------------------------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|------------|------------|------------|------------|------------|------------|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary)

Prepared by: John A. Abshire, Deputy Commissioner
 Division: Commissioners' Office

Phone: 465-2700
 Date: 4/7/92

Approved by Commissioner: C. W. Mahlen
 Agency: Department of Labor

Date: 4/7/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO : HB 538

Revision Date: _____
Title: "An Act relating to workers' compensation ... for firefighters ..."
Sponsor: Representative Ellis
Requestor: House HES

Department Affected: Labor
BRU: Workers' Compensation
Component: Workers' Compensation
COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND&STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|----------------------|--|--|--|--|--|--|
| REVENUE FUND SOURCE: | | | | | | |
|----------------------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|-----|-----|-----|-----|-----|-----|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Linda Rexwinkel, Director Phone: 465-2790
Division: Workers' Compensation Date: 3/26/92
Approved by Commissioner: C. W. Mahlen
Agency: Department of Labor 3/26/92 Date: 3/26/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 538

Revision Date: _____
Title: An Act relating to workers' compensation and occupational disability benefits for fire fighters
Sponsor: Ellis, Donlev, Finkelstein
Requestor: _____

Department Affected: Administration
BRU: Risk Management
Component: Risk Management

COMPONENT SERIAL NO. 0 1 0 1 7 1

Expenditures/Revenues: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|-------------------|-------|-------|-------|-------|---------|---------|
| 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 | 300.0 | 500.0 | 700.0 | 900.0 | 1,200.0 | 1,500.0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 300.0 | 500.0 | 700.0 | 900.0 | 1,200.0 | 1,500.0 |

| | | | | | | |
|---------|---|---|---|---|---|---|
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
|---------|---|---|---|---|---|---|

| | | | | | | |
|----------------------|---|---|---|---|---|---|
| REVENUE FUND SOURCE: | 0 | 0 | 0 | 0 | 0 | 0 |
|----------------------|---|---|---|---|---|---|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|-------------------------|-------|-------|-------|-------|---------|---------|
| GENERAL FUND | 0 | 0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER FUND SOURCE: 1007 | 300.0 | 500.0 | 700.0 | 900.0 | 1,200.0 | 1,500.0 |
| TOTAL | 300.0 | 500.0 | 700.0 | 900.0 | 1,200.0 | 1,500.0 |

POSITIONS:

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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)
See Attached.

Prepared by: Don Hitchcock, Director
Division: Risk Management

Phone: 465-2180
Date: February 28, 1992

Approved by Commissioner: Nancy Bear Userra
Agency: Administration

Date: 3/24/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Cfc., & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 538

ANALYSIS:

HB 538 creates a new and very broad presumption that any form of heart or respiratory disease or cancer affecting an individual with more than five years of fire fighting exposure arises from their work experience. This presumption is further expanded to apply for an additional 20 years beyond the last date the individual was employed as a fire fighter.

The terms "heart disease, respiratory disease and cancer" are very broad and will be construed to extend this presumption such that any form of the many variations of these diseases will be deemed caused by work rather than personal exposures.

The fiscal impact for this bill is difficult to estimate as it will extend not only to the 175 regular full-time fire fighters employed by the State, but also to the 130 regular seasonal fire fighters engaged by the Department of Natural Resources (average of 5.3 months per year) and possibly to the 600-800 emergency fire fighting crews that are hired for anywhere between 3 weeks to 2 months a year.

Conservative cost estimates (medical and wage loss) range between \$240,000 and \$400,000 for each potential permanent disability claim. We project future claims to increase each year due to the very broad language and 20-year extension period. Even by very conservative estimates we anticipate several cases in the early years, with ever increasing obligations even beyond our five-year projection.

Since the Division of Risk Management claims funds are collected entirely through interagency receipts, if enacted premium allocations to the employing agencies would be increased to meet this additional exposure.

ALASKA STATE HOUSE

3111 C STREET, SUITE 455
ANCHORAGE, ALASKA 99503
(907) 581-7628

WHILE IN SESSION
P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3704



CHAIR
RULES COMMITTEE

JUDICIARY

SPECIAL COMMITTEE ON INTERNATIONAL
TRADE & TOURISM

LEGISLATIVE COUNCIL

REPRESENTATIVE JOHNNY ELLIS

SPONSOR STATEMENT

House Bill 538

Firefighters face occupational dangers that are unique to their work. They rush into uncontrolled environments where they are exposed to carcinogenic, poisonous or toxic smoke or fumes. They are also exposed to a growing list of hazardous chemicals, the effects of which are not fully known. The effects of exposure may not manifest itself until long after the exposure occurred.

House Bill 538 was introduced due to the unique hazards faced by firefighters. Under the state workers compensation program, this bill changes the burden of proof from the firefighter to the state, that any heart disease, respiratory disease, cancer or circulatory problems that the firefighter develops was not due to the firefighter's employment.

Alaska is one of the few states that has not established this presumption in regard to occupational diseases of firefighters. Forty-three other states have done so. House Bill 538 includes volunteer firefighters.



Alaska State Legislature

SENATOR DICK SHULTZ

P.O. Box V
Juneau, Alaska 99811
(907) 465-4940
Home: P.O. Box 487
Tok, Alaska 99780


Member
Finance Committee
Transportation Committee
Special Committee on Oil & Gas

Senate
District J

MEMORANDUM

District 17

ALCAN BORDER
ANDERSON
BIG DELTA
BOUNDARY
CANTWELL
CHICKEN
CHISTOCHINA
CLEAR
COPPER CENTER
DELTA JUNCTION
DENALI PARK
DOT LAKE
DRY CREEK
EAGLE
EAGLE VILLAGE
GAKONA
GLENNALLEN
GULKANA
HEALY
HEALY LAKE
KENNY LAKE
MENDELTA
MENTASTA LAKE
NABESNA
NELCHINA
NENANA
NORTHWAY
PAXSON
SLANA
TUNACROSS
TJAZLINA
TETLIN
TOK
TOLSONA
TONSINA

TO: REP. FINKELSTEIN / CHAIR HOUSE LABOR & COMMERCE
FROM: SENATOR SHULTZ 
DATE: APRIL 6, 1992
RE: HB 538

I am very concerned with the risks volunteer fire fighters expose themselves to the normal course of their service to communities. I have therefore after receiving permission from the sponsor had an amendment drafted for HB 538 which is presently in your committee. This amendment would include volunteer fire fighters outside as well as inside organized communities for workers compensation coverage.

I would appreciate inclusion of this language in HB 538 and hope this bill would be reported out of committee in the near future.

District 18

BADGER ROAD
EIELSON/
MOOSE CREEK
NEWBY
NORTH POLE
PLACK
RICHARDSON
SALCHA

Please advise me if I may assist in any way with either the amendment and the legislation.

Thank you very much.

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 538

Page 2, following line 15:

Insert a new bill section to read:

"* Sec. 3. AS 23.30.243(a) is amended to read:

(a) For the purposes of workers' compensation, any injury, disability, or death incurred by a fire fighter by reason of the fire fighter's proceeding to or engaging in a fire suppression or rescue operation, or the protection or preservation of life or property, anywhere in the state is considered to have arisen out of and been sustained in the course of employment, and the fire department or regularly organized volunteer fire department of the fire fighter's primary employment or registration is considered to be the employer, except when the injured, at the time of injury or death, is acting for compensation from another person or when the regularly organized volunteer fire department is not located within a municipality. If the regularly organized volunteer fire department is not located within a municipality, the state shall be considered the employer for purposes of this chapter."

Renumber the following bill sections accordingly.



ANCHORAGE FIRE FIGHTERS UNION

LOCAL 1264
INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS
AFL-CIO

1200 E. 76TH #1227
ANCHORAGE, ALASKA 99518



February 13, 1992

To The Honorable Members of the Alaska Legislature:

Representative Ellis is sponsoring legislation that would provide Alaskan firefighters with a rebuttable presumption of causation between occupational hazards associated with firefighting and certain diseases prevalent among active and retired firefighters. Specifically, the diseases covered by the presumption include heart and respiratory disease and cancer.

The presumption is necessary in order to ensure that firefighters will qualify for medical cost reimbursement, disability payments and death benefits associated with such illnesses. Under existing Alaska law, firefighters bear the legal burden of proving that such illnesses are occupationally related.

It should be noted that Alaska is one of only a few states that have not established a presumption with regard to occupational diseases. According to information recently received from the International Association of Firefighters, approximately 43 states have statutes establishing a presumption with regard to occupational diseases. The scope of the presumption varies from state to state.

Recognizing that most communities in Alaska have volunteer fire departments, this legislation would extend the benefit of the presumption to any firefighter, volunteer or paid, with five or more years active service.

We look forward to working with the Seventeenth Legislature for passage of this critically important legislation and will be happy to meet with members individually or in committee to foster its advancement. This legislation is the Anchorage Firefighters Union's number one legislative priority.

We respectfully encourage all legislators to consider co-sponsorship and would be happy to provide you with additional information and answer any questions you or your staff may have.

Sincerely,

Tim Cornelius
President

Times 7-12-91

Injured Soldotna firefighter now battles for air



ASSOCIATED PRESS

Lung damage from a Soldotna blaze keeps firefighter Rusty Grilley constantly on oxygen.

ASSOCIATED PRESS

KENAI — A brief breath of toxic smoke has brought Soldotna fireman Rusty Grilley face to face with a deadly lung disease. Now he's not fighting fires, he's fighting for his life.

Grilley, 33, injured his lungs during a fire in January at Alaska Fast Foto in Soldotna. With other firefighters from Central Emergency Services, he was outside the small store when an unexpected gust blew fumes containing photo processing chemicals into his face.

After two visits to a Denver hospital specializing in respiratory problems, Grilley was diagnosed with bronchiolitis obliterans, a disease in which white cells, fighting infection in the lungs, produce scar tissue that closes off the lungs' smallest airways.

In his case, Grilley's lungs admit only 40 percent of the needed oxygen into the blood stream. He is on oxygen 24 hours a day to avoid any organ or brain damage.

Since doctors have little experience combatting the relatively rare lung disease, the effectiveness of his treatment is something of an unknown.

"The problem is, there's no scientific data on this kind of treatment," Grilley said as he inhaled oxygen through a tube secured around his nose. "I'm waiting to be written up."

Grilley is taking steroids to fight the inflammation in his lungs, which constantly burn, he said. The steroids, however, increase the amount of white cells in the lungs which cause the scar tissue, so he must also take chemotherapy pills to counterbalance the increase.

Doctors will not know if the steroids and chemotherapy are working for another three to six months, Grilley said. And if they do work, it will require at least another year of treatment and the oxygen.

Unfortunately, his lungs feel like they are getting worse. Others who have had similar but more severe diseased lungs have died within six

weeks, he said.

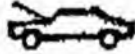
Grilley is confined to a breathing cord connected to a machine that boosts his intake of oxygen. His daily, 15-minute walk outside with a portable oxygen tank tires him substantially.

The situation has also been hard on his family. His wife, Cherie, and his three sons, David, 6, Daniel, 13, and Stephen, 16, have had to pick up the slack on tasks he used to do around the house. He cannot work, but he will receive a full-time salary for up to a year from the date of the fire.

Fire Chief Greg Barclay said Grilley's injury in the line of duty is the most severe in his memory.

Since the fire, the fire department has revised its procedures for working around toxic smoke. Firefighters now have better breathing apparatuses, and use a detector that determines the concentrations of carbon dioxide and other chemicals at a fire site.

(907) 443-2855



NOME MACHINE WORKS
AUTO - TRUCK REPAIR

DOUGLAS A. DOYLE
Owner

FIRST & METTLER
P.O. BOX 861
NOME, ALASKA 99782

DATE 4-7-92

TO REP FOSTER

FROM Doug Doyle

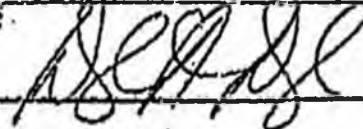
PAGE 1 of 1

FAX (907) 443-3125

I encourage the passage of
HB 538 - I cannot believe
the position of the AMU -

As far as fire fighters being
compensated, I am paid about
\$300⁰⁰ annually to put my life
and health on the line for the
people of the STATE OF ALASKA

21 YR VOLUNTEER FIRE
Fighter - Nome

S/ 
Douglas A. Doyle

RASMUSSEN'S MUSIC MART

LEO, ERNA, AMANDA & KRISTINA
P. O. BOX 2-77 FEDERAL WAY
NOME, ALASKA 99762-0002

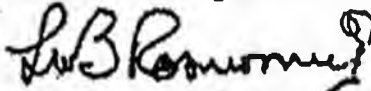
AK. BUS. LIC. 8033362
NOTARY PUBLIC
LEO

6 April 1992

Rep. Richard Foster
FAX #465-3242
JUNEAU, ALASKA

Dear Richard,

Noticed that House Bill No. 538 was due to be discussed in the near future and wanted you to know after having been on a Volunteer Fire Dept. here in Nome for 25 years, that I support the concept of protecting those that protect so many others. Workman's Compensation Benefits for the Volunteer Fireman has been a long time in coming. The Volunteer Fireman serves the public in no less form than does the Paid Fireman. They serve the public at full exposure to financial loss to their families for those diseases and dangers that effect all Firemen. Although I am inside as a Fireman, I suspect from my other backgrounds that Volunteer Departments would attract more Firemen towards Volunteering if they had the security afforded them thru Workman's Compensation.
Thanks for your time.



LEO B. RASMUSSEN NVPD Lt. 1967-Pres.
Mayor of Nome, 1977-1985

Appointed: "Alaska's Goodwill Ambassador to Chukotka"
"Iditarod National Historic Trail Advisory Council"
"Alaska Special Task Force on Governmental Roles"

Tely # (907) 443-2798 or -2919 FAX (907) 443-5777 or -2973

Rep' Ing: "Northern Outfitters"
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"ACHE PROVISIONERS"
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AGENTS for

ASORING: "The GREAT BATHUB RACE"
Noon Labor Day
HOPE '91 & '92, 21 March
"The ANVIL MOUNTAIN RUN"
8am - 4th of July

Board of Trade Inc.

P.O. BOX 967
NOME, ALASKA 99762

4.7.92

Gen. Richard Lister

Dunsmuir AK

Fax # 465-3242

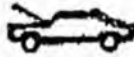
Dear R. Lister,

This Letter is in support of HB 538
I hope that is Bill will pass as it has
served the Alaska Volunteer Fire Dept. for
the past 10 years and I know that
life / health insurance is the occupation
is a great concern. We require approximately
\$250⁰⁰ / \$300⁰⁰ which is not enough to
to cover the expenses.

Again in support HB 538

Thank you
J. M. H.
J. M. H.
10 YAK-NUFD Member

(907) 443-2335



NOME MACHINE WORKS
AUTO - TRUCK REPAIR

DOUGLAS A. DOYLE
Owner

FIRST & METTLER
P.O. BOX 861
NOME, ALASKA 99762

FAX (907) 443-3125

DATE 4-7-92

TO REP FOSTER

FROM Doug Doyle

PAGE 1 of 1

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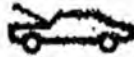
21 YR VOLUNTEER FIRE

FIGHTER - NOME

S/ [Signature]

Douglas A. Doyle

(907) 443-2955



NOME MACHINE WORKS
AUTO - TRUCK REPAIR

DOUGLAS A. DOYLE
Owner

FIRST & METTLER
P.O. BOX 881
NOME, ALASKA 99762

FAX (907) 443-3125

DATE 4-7-92

To Rep Foster

From HOMER WHITE

PAGE 1 of 1

I am in favor of House Bill

538.

H. G. A.

HOMER G. WHITE

Fairbanks AK.

H B

5 5 0

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 550

Revision Date: 12-Mar-92 Department Affected: Natural Resources
 Title: Water Use Fees and Sale BRU: Water Management
 Components: Water Management
 Sponsor: Rules Committee for Governor
 Requestor: House Labor & Commerce COMPONENT SERIAL NO. 916

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | 150.9 | 110.3 | 110.3 | 110.3 | 110.3 | 110.3 |
| TRAVEL | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| CONTRACTUAL | 88.5 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 |
| SUPPLIES | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| EQUIPMENT | 45.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| LAND&STRUCTURES | | | | | | |
| GRANTS,CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 298.4 | 183.3 | 183.3 | 183.3 | 183.3 | 183.3 |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|-----------------|-------|---------|---------|---------|---------|---------|
| REVENUE | | | | | | |
| Funding Source: | 800.0 | 2,500.0 | 3,000.0 | 3,250.0 | 3,500.0 | 3,500.0 |

FUNDING: (Thousands of Dollars)

| GENERAL FUND | | | | | | |
|-----------------|-------|-------|-------|-------|-------|-------|
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| Funding Source: | 298.4 | 183.3 | 183.3 | 183.3 | 183.3 | 183.3 |
| TOTAL | 298.4 | 183.3 | 183.3 | 183.3 | 183.3 | 183.3 |

POSITIONS:

| | | | | | | |
|-----------|-----|-----|-----|-----|-----|-----|
| FULL-TIME | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| PART-TIME | | | | | | |
| TEMPORARY | 1.0 | | | | | |

Estimate of Current year impact:

| | |
|--------------|---------------------------------------|
| ANALYSIS: | (Attach a separate page if necessary) |
| See Attached | |

Prepared by: David Orr Phone: 762-2572
 Division: Water Management Date: 12-Mar-92
 Approved by Commissioner: Harold C. Heinze Date: 12-Mar-92
 Agency: Department of Natural Resources

Distribution (by preparer) : Legislative Finance, legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Additional Information
Water Use Fees and Sale of Water Bill

Operations

- 100 Personal -- One Hydrologist II, Range 16, Southeast (pft)
Services One NRM I, Range 18, Southeast (pft)
One NRT II, Range 12, Southcentral (temp. -- update of
water records during 1 year period)
- 200 Travel -- For field work throughout Southeast on streams and
other water bodies; to regional offices to update water
files
- 300 Contractual Aircraft and boat charters, office space rent for two
new employees, newspaper advertising, water marketing
services and analyses, etc.
- 400 Supplies -- Misc. office supplies, small professional tools, survey
supplies for field work
- 500 Equipment -- Computer terminals for two positions to support data
collection and storage; professional hydro-survey
equipment

Requested funds would be used to process and administer large scale water appropriations, assess and collect water user fees, and market water and ice resources.

Revenues:

1. Water Use Fees: Once water user records are updated, water fees from existing appropriations can be collected. New applications for 350,000 acre feet of water have been received, and we expect applications for an additional 500,000 acre feet by the end of FY 93 (for water export to California).
2. Water Sales: The sale of water for export could generate significant new revenues for the State of Alaska. Delivery and infrastructure costs are yet to be determined, but prices paid for water in California provide some indication of the potential size of water fees. The California water bank is buying water rights from agricultural sources at \$125 per acre foot. The cost of local water delivered to coastal communities of California is about \$500 per acre foot, and the price of reclaimed water is about \$1400 per acre foot. Current estimates for desalinated water are \$1800 to \$2000 per acre foot. Santa Barbara has authorized paying up to \$1960 per acre for desalinated water delivered to that county. The initial target volume for sales would be 1-2 million acre feet per year. Alaska's rivers discharge between 800 million and 1 billion acre feet into the ocean each year.

Funds collected from water fees and sales could be used to offset the cost of water management programs, increase the network of stream gages, augment the STORET water data base, and fund village safe water projects.

| | | | | | | | | | | | | | |
|-------------------------------|-----|----------------|----|------------------|---|---|-----|-------------------|-----|--|--|--|--|
| Position Title | | Hydrologist II | | No. of Positions | 1 | Range/Step | 16A | Barg. Unit | GGU | | | | |
| Time Status | PFT | Staff Months | 12 | Location | | AWA | | Election District | | | | | |
| TYPE OF EXPENDITURE | | | | Amount | | Justification This position will inventory water resources in Southeast Alaska and collect data on waterbodies, especially those that have been selected, or are highly likely to be selected, for large scale water appropriations and withdrawals. | | | | | | | |
| Salary | | 7.0 | | 37.0 | | | | | | | | | |
| Benefits | | | | 14.6 | | | | | | | | | |
| Premium Pay | | | | - | | | | | | | | | |
| Other | | | | - | | | | | | | | | |
| Total Personal Services | | | | 51.6 | | | | | | | | | |
| Travel | | | | 2.5 | | | | | | | | | |
| Contractual | | | | 20.0 | | | | | | | | | |
| Commodities | | | | 3.0 | | | | | | | | | |
| Equipment | | | | 35.0 | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| Total Cost | | | | 112.1 | | | | | | | | | |
| FUNDING SOURCE FOR TOTAL COST | | | | | | | | | | | | | |
| Federal Receipts | | 1002 | | | | | | | | | | | |
| G.F. Match | | 1003 | | | | | | | | | | | |
| General Fund | | 1004 | | 112.1 | | | | | | | | | |
| I-A Receipts | | 1007 | | | | | | | | | | | |
| CIP Receipts | | 1061 | | | | | | | | | | | |
| Other | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |

**Request For
New Position**
FNPW01

AGENCY Natural Resources
BRU Water Management
COMPONENT Water Management

Page 1 of 3
Revised Date: _____

FY 93

| | | | | |
|---|--------------------|-----------------------|---|------------------------|
| Position Title Natural Resources Manager I | | No. of Positions 1 | Range/Step 18A | Barg. Unit GGU |
| Time Status PFT | Staff Months 12 | Location AWA | | Election District 4 |
| TYPE OF EXPENDITURE | | Amount | Justification The adjudication of water rights facility . Large scale water extraction in Southeast Alaska for intake and out of state use and the administration of water management (user) fee program for the Southeast region. This includes coordination of the project permitting process through the Alaska Coastal Management Program, and specific permitting requirement under AS 46.15 and other State and federal permits. | |
| Salary | | 42.6 | | |
| Benefits | | 16.1 | | |
| Premium Pay | | 0.0 | | |
| Other | | 0.0 | | |
| Total Personal Services | | 58.7 | | |
| Travel | | 2.5 | | |
| Contractual | | 9.25 | | |
| Commodities | | 1.5 | | |
| Equipment | | 10.0 | | |
| Other | | | | |
| Total Cost | | 81.95 | | |
| FUNDING SOURCE FOR TOTAL COST | | | | |
| Federal Receipts 1002 | | | | |
| G.F. Match 1003 | | | | |
| General Fund 1004 * | | 81.95 | | |
| I-A Receipts 1007 | | | | |
| CIP Receipts 1061 | | | | |
| Other | | | | |

Request For
New Position
FNPW02

AGENCY Natural Resources
BRU Water Management
COMPONENT Water Management

Page 2 of 3
Revised Date:

FY 93

| | | | | |
|--|--------------------|-----------------------|---|-------------------------------------|
| Position Title Natural Resources Tech. II | | No. of Positions 1 | Range/Step 12A | Barg. Unit GGU |
| Time Status Temp FT | Staff Months 12 | Location EBA | | Election District 99 (Statewide) |
| TYPE OF EXPENDITURE | | Amount | Justification This position will be a one (1) year temporary assigned the task of updating up to 10,000 water right files on the DNR, Land Administration System (LAS) computer system. The updated information will be needed in order to implement the water management user fee program through the State's Revenue and Billing System within the Division of Management. | |
| Salary | | 28.3 | | |
| Benefits | | 12.3 | | |
| Premium Pay | | 0.0 | | |
| Other | | 0.0 | | |
| Total Personal Services | | 40.6 | | |
| Travel | | 3.0 | | |
| Contractual | | 9.25 | | |
| Commodities | | 1.5 | | |
| Equipment | | 0.0 | | |
| Other | | | | |
| Total Cost | | 54.35 | | |
| FUNDING SOURCE FOR TOTAL COST | | | | |
| Federal Receipts | 1002 | | | |
| G.F. Match | 1003 | | | |
| General Fund | 1004 | 54.35 | | |
| I-A Receipts | 1007 | | | |
| CIP Receipts | 1061 | | | |
| Other | | | | |

Request For
New Position
FNPW03

AGENCY Natural Resources
BRU Water Management
COMPONENT Water Management

Page 3 of 3
Revised Date: _____

FY 93

WALTER J. HICKEL
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 19, 1992

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to specifically authorize the Commissioner of the Department of Natural Resources to establish water use fees or provide for the sale of water resources.

The bill is designed to provide for the recovery of the market value of water resources conveyed by the state, particularly under circumstances involving the conveyance of rights to consumptive uses of large quantities of water.

Regulations developed with public involvement will spell out the details of who will be charged for water, but we estimate that only those who use 50 or more acre feet per year (approximately 45,000 gallons a day) will be affected. State agencies, nonprofit groups, such as hatcheries, single family domestic users, and other water users to be identified during the legislation and regulation writing process would not be subject to the fee.

Water revenues can be used to support a wide variety of water-related programs, including safe drinking water, water quality and water flow measurements.

The waters of the State of Alaska are an important and extremely valuable natural resource. The state has an important interest in recovering, for the benefit of the people of Alaska, the real value of the state's water and the real costs of managing and conserving water resources. I urge your early and favorable consideration of this bill.

Sincerely,

A large, stylized handwritten signature in black ink that reads "Walter J. Hickel".

Walter J. Hickel
Governor

DRAFT**WATER USER FEES****WHY A WATER USER FEE ?**

The State of Alaska is considering a water user fee for a number of reasons, not the least being a method for the state to recover the cost of managing Alaska's water resources from the users of that resource. A user fee (management fee) has a few other benefits that the Department feels make the overall user fee proposal a complete management package. The user fee concept in addition to management cost recovery, promotes the idea that water is a valuable natural resource that is required by all Alaskans to fulfill their basic needs, such as for drinking and bathing, but is also used for the generation of power (hydroelectric, natural gas and oil), food (agriculture, seafood and other processing), timber, other petroleum products, mining, and many other products and services used on a day-to-day basis. These same water resources are used in their natural state to protect fish and wildlife and their habitat, recreation, transportation and water quality. The user fee concept may also promote water conservation. There are a number of studies that show, as the cost of water increases, the use of water decreases. The management of Alaska's water resource will also benefit the state's water rights program by providing the opportunity to update many of its water right files by eliminating those water rights no longer in use or by decreasing those water rights where the total quantity of water is no longer being used. The holders of these water rights will let the Department of Natural Resources know when they stopped using water or are using less water than what was originally granted to them when they receive their user fee notice each year. The updating of the water rights system will help the water manager better understand the water use requirements for specific commercial and industrial water users, sources of water in specific areas, where water is used and what it's used for.

WHO PAYS ?

Individuals and commercial and/or industrial businesses who use Alaska's water resources. In reality, it's not cost effective or feasible to charge all water users a fee. It has been estimated to cost the state \$50.00 to send and receipt a bill, so the lower limit of a user fee would have to be \$50.00. If the user fee is set at \$1.00 per acre foot of water used, no water user using less than 50 acre feet per year would be charged. 50 acre feet of water is equal to about 44,600 gallons of water per day. The homeowner using an individual water system (well, stream, or lake), most small businesses, community water systems (serving less than 90 homes), and placer miners using a suction dredge smaller than 6 inches would not be subject to a user fee. The larger water users (50 acre feet per year or more) would be subject to the user fee. These could include commercial and industrial businesses, seafood processors, public water supply, agriculture, mining, pulp mills, oil and gas development, oil and gas processing and other large water users.

WOULD THE AVERAGE HOMEOWNER BE AFFECTED BY THE USER FEE?

No, a homeowner using a well, spring, stream or lake for his water supply would not be affected by the user fee. The user fee would only apply to those water users using a quantity of water equal to or greater than 50 acre feet of water per year. A typical single family home uses about 500 gallons of water per day or 0.6 acre feet per year.

WHAT WILL THE FEES BE USED FOR ?

The revenue generated from the user fees cannot be dedicated for a specific purpose. The Department of Natural Resources would account for these revenues under a separate accounting system and would request the legislature to appropriate these revenues each year to the Department for the purpose of managing the state's water resources. The yearly revenues would be used to collect, analyze and distribute water resource data, administer the water rights program, water resource planning, enforcement and compliance, and public education. Any revenues generated in excess of those necessary for management purposes can be used to strengthen the state's stream gaging network, establishment of instream flow reservations, and to provide funds to improve or construct remote water systems for towns and villages.

HOW MUCH REVENUE CAN BE GENERATED ?

Currently there are about 12,000 active water right files in the state. Those water users with a Permit to Appropriate Water or a Certificate of Appropriation would be subject to user fees if their use of water is 50 acre feet per year or more. Of the 12,000 active files less than 1265 use a quantity of water equal to or greater than 50 acre feet per year. The quantity of water associated with these 1400 water right files is about 16,720,000 acre feet per year. The largest single category of water user, if you include pending water right applications, is for fish and wildlife conservation. There are 43 files in this category with a total quantity of 9,780,000 acre feet or 58% of the total quantity associated with the 1265 water right files. The water in this category is proposed for use, or used, for instream flow reservations, fish ladders, and habitat enhancement projects. Of the 43 water rights in this category, 42 belong to the Alaska Department of Fish and Game. It is the intent of the department to exempt state agencies and non-profit organizations from the user fee. If the water used by these exempted agencies and organizations are subtracted from the total quantity of water (16,720,000 acre feet), the quantity subject to user fees would total 3,400,000 acre feet. Assuming the user fee was set at \$1.00 per acre foot per year, the revenues generated could total as much as 3.4 million dollars a year. As the state grows and water appropriations increase accordingly, the revenues would also increase.

NOTE: These revenue figures are subject to the review and updating of the estimated 1265 water right files in which water use of 50 acre feet a year or more is on record.

| WATER APPROPRIATIONS 50 ACRE-FT. PER YEAR OR GREATER | | | |
|--|--------------------|-----------------------|------------------------|
| Type of Use | No. of Large Users | Ave. Acre-Ft Per User | Total Acre-Ft per Year |
| Cash Grains | 2 | 405 | 810 |
| Potatoes | 1 | 100 | 100 |
| Field Crops | 12 | 145 | 1744 |
| Farms-general | 31 | 1584 | 49099 |
| Animals-noncommercial | 1 | 123 | 123 |
| Lawn and Garden | 5 | 266 | 1331 |
| FinFish Fishing | 1 | 5000 | 5000 |
| Fish Hatcheries | 79 | 4478 | 353736 |
| Lode Gold | 11 | 861 | 9472 |
| Placer Gold | 896 | 2130 | 1908270 |
| Molybdenum Mining | 1 | 1447 | 1447 |
| Metal Mining | 5 | 678 | 3389 |
| Coal Mining | 1 | 281 | 281 |
| Crude Petroleum | 2 | 1253 | 2505 |
| Sand and Gravel | 1 | 539 | 539 |
| Aggregate Wash | 2 | 328 | 657 |
| Highway Construction | 2 | 1202 | 2403 |
| Frt. Trucking Terminal | 1 | 484 | 484 |
| Meat Packing | 2 | 1086 | 2171 |
| Seafood Canned | 8 | 2874 | 22993 |
| Seafood Fresh | 1 | 81 | 81 |
| Pulp Mills | 1 | 5415 | 5415 |
| Urea and Fertilizer | 4 | 1149 | 4597 |
| Petroleum Refining | 1 | 855 | 855 |
| Electric Power Generation | 21 | 81983 | 1721650 |
| Hydro Power Generation | 72 | 35577 | 2561528 |
| Public Supply | 42 | 6531 | 274303 |
| Sanitary and Waste | 1 | 1954 | 1954 |
| Steam Supply | 3 | 67 | 202 |
| Construction Material Whsl. | 1 | 4000 | 4000 |
| Office Building | 1 | 61 | 61 |
| Golf Course | 2 | 60 | 120 |
| Rec. Services | 6 | 519 | 3115 |
| Colleges | 2 | 175 | 351 |
| Wildlife Conservation | 43 | 227537 | 9784083 |
| Total | 1265 | | 16728869 |

* Does not include applications accepted, and pending.

LARGEUSE.XLS

| WATER APPROPRIATIONS 50 ACRE-FT. PER YEAR OR GREATER | | | |
|--|--------------------|-----------------------|------------------------|
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| FinFish Fishing | 1 | 5000 | 5000 |
| Fish Hatcherles | 79 | 4478 | 353736 |
| Lode Gold | 11 | 861 | 9472 |
| Placer Gold | 896 | 2130 | 1908270 |
| Molybdenum Mining | 1 | 1447 | 1447 |
| Metal Mining | 5 | 678 | 3389 |
| Coal Mining | 1 | 281 | 281 |
| Crude Petroleum | 2 | 1253 | 2505 |
| Sand and Gravel | 1 | 539 | 539 |
| Aggregate Wash | 2 | 328 | 657 |
| Highway Construction | 2 | 1202 | 2403 |
| Frt. Trucking Terminal | 1 | 484 | 484 |
| Meat Packing | 2 | 1086 | 2171 |
| Seafood Canned | 8 | 2874 | 22993 |
| Seafood Fresh | 1 | 81 | 81 |
| Pulp Mills | 12 | 5415 | 5415 89,840 |
| Urea and Fertilizer | 4 | 1149 | 4597 |
| Petroleum Refining | 1 | 855 | 855 |
| Electric Power Generation | 21 | 81983 | 1721650 |
| Hydro Power Generation | 72 | 35577 | 2561528 |
| Public Supply | 42 | 6531 | 274303 |
| Sanitary and Waste | 1 | 1954 | 1954 |
| Steam Supply | 3 | 67 | 202 |
| Construction Material Whsl. | 1 | 4000 | 4000 |
| Office Building | 1 | 61 | 61 |
| Golf Course | 2 | 60 | 120 |
| Rec. Services | 6 | 519 | 3115 |
| Colleges | 2 | 175 | 351 |
| Wildlife Conservation | 43 | 227537 | 9784083 |
| Total | 1265 | | 16728869 |

* Does not include applications accepted, and pending.

Comparison of selected water volumes permitted to large users in Southeast:

Juneau:

| | |
|----------------------------------|-----------|
| Public Water Sys. (LCB Aquifers) | 5,657 afy |
| DIPAC Salmon Cr. Hatchery | 9,965 afy |
| AEL&P Gold Cr. Hydro | 5,658 afy |

Snettisham Hydro Project:

| | |
|-------------|-------------|
| Long Lake | 547,500 afy |
| Crater Lake | 154,657 afy |

Snettisham FRED Hatchery: 59,914 afy (water used from hydro tailrace.)

Sitka:

| | |
|----------------------|-------------|
| Public Water System: | 9,665 afy |
| Hydro: | 438,000 afy |

Ketchikan:

| | |
|----------------------|-------------|
| Public Water System: | 11,275 afy |
| City Hydro: | 173,448 afy |
| Swan Lake Hydro: | 338,448 afy |

Petersburg:

| | |
|----------------------|-------------|
| Public Water System: | 3,137 afy |
| Tyee Hydro | 144,795 afy |

Thorne Bay:

| | |
|----------------------|---------|
| Public Water System: | 281 afy |
|----------------------|---------|

Note: Quantities are certified or permitted quantities and may not reflect actual use. Although some projects also have additional water rights that are not represented here, these figures represent the best known active water rights of these projects.

The water being requested by Sun Belt are on sources that have annual average rainfall of from 150" to 400" per year.

WATER CONVERSION FACTORS

1 Acre-foot per day (AF/d) = 325,851 gallons
 = 226 gpm
 = 0.505 cfs
 = 1,358.8 tons
50 AF/y (365 days/year) = 44,640 gpd

1 Gallon per minute (gpm) = 1440 gpd
 = .0044 AF/d
 = .0022 cfs
 = 1.6 AF/y
 = 0.72 tons

1 Cubic-Foot per second (cfs) = 646,358 gpd
 = 449 gpm
 = 1.98 AF/d
 = 722.7 AF/y
 = 2695.3 tons

1 million gallons per day = 694 gpm
 = 1.55 cfs
 = 3.07 AF/d
 = 1,120 AF/y
 = 4,170 tons

AF/d = Acre feet per day
AF/y = Acre feet per year
gpm = Gallons per minute
gpd = Gallons per day
cfs = Cubic foot per second
tons = 2000 pounds (1 gallon weights 8.34 pounds)

Withdrawal of 2 million acft/yr is flow of 2760 cu.ft/sec or 1780 mgal/day. This water withdrawal is about the same flow in the following rivers at these gaging stations, average daily discharge.

Kenai R. at Cooper Landing
Kasilof R. at Kasilof
Susitna R. at Denali (Denali Hwy. Bridge)

This water withdrawal is about the listed percentage of flow of the following rivers at these gaging stations, average daily discharge.

250% Mendenhall R. nr Auke Bay
175% Farragut R. nr Petersburg
10% Nushagak R. at Ekwok
200% Chena R. at Fairbanks
20% Kobuk R. nr Kiana
200% Kuparuk R. nr Deadhorse

This water withdrawal is about the listed percentage of flow of the following rivers at the mouth of the river, average daily discharge.

1% Yukon R.
4% Kuskokwim R.
5% Copper R.
5% Stikine R.
8% Nushagak R.
13% Kvichak R.
14% Colville R.
15% Kobuk R.

The estimated surface water outflow for the entire state of Alaska is 1.5 mil cu.ft/sec or 989,000 mgal/day or 1110 mil acft/yr. This withdrawal of 2 million acft/yr is 0.2% of the surface water outflow.

Withdrawal of 2 million acft/yr is flow of 2760 cu.ft/sec or 1780 mgal/day which is 8 times the surface-water withdrawal for offstream water-use for 1990 of 221 mgal/day and 28 times the ground-water withdrawal for offstream water use for 1990 of 63 mgal/day in Alaska. This withdrawal is 6.25 times the total of surface and ground water withdrawals of 284 mgal/day for 1990 in Alaska. Hydroelectric power instream water use in 1990 in Alaska was 1790 mgal/day or 2 million acft/yr, the same as the proposed withdrawal.

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF WATER RESOURCES

TO: Harold Heinze
Commissioner

DATE: September 3, 1991

FILE NO:

TELEPHONE NO.: 762-2145

FROM: Ric Davidge
Director

SUBJECT: Water User Fees

After some considerable discussion we have prepared some revenue estimates and an assessment of impacts on our proposed water user fee. In addition to the points raised in the attached memo from the Chief of Water Management, please consider that these numbers are based on 1987 water rights data. We are presently undergoing a review to update these numbers to 1991 with projections over the next year based on large new water users.

An example is the anticipated application for 500,000 acre feet a year for export from Alaska by Sunbelt Energy. An appropriation of this amount of water, almost 163 trillion gallons annually, will generate, at \$1 per acre foot, \$500,000 every year. Over 20 years this would mean an additional \$10 million of revenue to the State. Without the user fee the state, under current authorities, will only realize a one time application fee of up to \$500.

As the attached memo points out our proposal only anticipates assessing a user fee for uses in excess of 50 acre feet per year. This means that all single family domestic supplies/uses, most small businesses, villages, small municipal uses would not pay a fee.

In the case of a community such as Anchorage the total per customer cost @ 10,000 customers would be about \$2.25 per year.

We have also reviewed user fees for non-consumptive uses of water at a far lesser rate (\$.25 per acre ft) than consumptive uses which we recommend at \$1 per acre ft. Please note the tables that illustrate the income variables.

In my informal discussion of this concept with friends and neighbors I find most are more than willing to pay. I also find that many are shocked that the State is not charging for the use of its water, especially to the larger users.

Given the importance of this effort to our FY93 objectives, and to the FY95 objectives of the Governor as outlined in our budget instructions, I would like to ensure that we are in line with the policies of ourself and the Governor. May I suggest we develop and provide you with some briefing materials for a meeting with the Governor and/or the Cabinet?

cc: Sharon Barton
Carol Wilson

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES

State of Alaska

DIVISION OF WATER

TO: Ric Davidge 
Director

DATE: August 27, 1991

TELEPHONE NO.: 762-2253

FROM: Gary J. Prokosch 
Chief, Water Management Section

SUBJECT: Water User Fees

In 1987 the Division of Land and Water Management put together a report on ways the water section could increase revenues to support the cost of water management activities. Most of the suggestions in that report have been implemented including increasing the application fees. Increasing filing fees is one way to generate additional revenues but, the revenues generated will not come close to covering the actual cost of managing Alaska's water resources. In the 1987 report it was recommended that the Department conceded charging a yearly water user fee to those larger water users in the State. This recommendation was reviewed and discussed but, was not considered necessary at the time. Maybe, now the time is right.

By charging a water users fee of between ten cent and \$1.00 per acre foot of water appropriated each year, a large portion of the present cost of the Division of Water's water management programs can be met. This is not a unique idea, the states of Arizona, Minnesota and Kansas currently have a water user fee program which helps to support those states water management programs. The Yukon Territory charges a user fee of \$1.00 for each 10,000 gallons of water used per day up to 500,000 gallons and 0.50 cents for each 10,000 gallons per day over 500,000 gallons and 0.10 cents for each 10,000 gallons per day over 1 million gallons per day. At 10,000 gallons per day or 11.2 acre feet per year the user fee works out to \$32.60 per acre foot. In Minnesota a water user must pay 5 cents per 1000 gallons for the first 50,000,000 gallons per year and 1 cent per 1000 gallons for the amount greater than 50,000,000 gallons per year. A water use of 50,000,000 gallons per year in Minnesota would cost \$16.30 per acre foot. In Kansas a water user pays 3 cents per 1000 gallons of water or \$7.50 per acre foot. In Arizona the user fee ranges from 0.50 cents to \$5.00 per acre foot depending on the projected financial requirements of the Arizona Department of Water Resources for the next fiscal year. The cost difference between the Yukon fees and those paid in Arizona, Minnesota and Kansas appear to be due to State and Federal subsidies of water and unsubsidized water in the Yukon Territory.

Based on Alaska's 1987 water rights data, the attached table shows the potential water user fee revenues that might be generated from charging a fee of between 0.10 cents and \$1.00 per acre foot of water used as authorized under the State water rights program.

TRUCK USED REVENUE RECEIPT PROGRAM FEE

| Type of Water Use | Gallons/Day Certified/Permitted | Acre feet/year af/y | 1.00/af | 75¢/af | 50¢/af | 25¢/af | 10¢/af | |
|--|---|------------------------|----------------|----------------|--------------|--------------|--------------|-----------------|
| Hydro-Elec. Power Prod. | 1,269,144,454 gpd | 1,421,624.38 af/y | \$1,421,624.38 | \$1,066,218.28 | \$710,812.19 | \$325,406.10 | \$142,162.44 | non-consumptive |
| Mining | 165 day/year 1,362,009,788 gpd | 689,676.00 af/y | 689,676.00 | 517,257.00 | 344,838.00 | 177,419.00 | 68,967.00 | " " |
| Hatchery | 106,113,083 gpd | 118,861.92 af/y | 118,861.92 | 89,146.44 | 59,430.96 | 29,715.48 | 11,886.19 | " " |
| Environmental Quality Management | 9,047,802 gpd | 10,134.84 af/y | 10,134.84 | 7,601.13 | 5,067.42 | 2,533.71 | 1,013.48 | " " |
| Public Water Supply | 244,117,463.3 gpd | 273,446.68 af/y | 273,446.68 | 205,085.01 | 136,723.34 | 68,361.67 | 27,344.67 | |
| Seafood Industry | 122 day/year 123,901,851.3 gpd 365 day/year 41,413,769.5 gpd | 46,389.38 af/y | 46,389.38 | 34,792.04 | 23,194.69 | 11,597.34 | 4,638.94 | |
| Oil & Gas/Petro Chemical | 8,332,322.5 gpd | 9,333.40 af/y | 9,333.40 | 7,000.05 | 4,666.70 | 2,333.35 | 933.34 | |
| Federal/National Security | 12,492,636.3 gpd | 13,993.55 af/y | 13,993.55 | 10,495.16 | 6,996.78 | 3,498.39 | 1,399.36 | |
| Agriculture | 122 days 104,472,638.3 gpd 365 days 34,919,621.6 gpd | 39,115.00 af/y | 39,115.00 | 29,336.25 | 19,557.50 | 9,778.75 | 3,911.50 | |
| Gravel Extraction and Washing & Concrete Plants | 989,774.64 gpd | 1,108.69 af/y | 1,108.69 | 831.52 | 554.34 | 277.17 | 110.87 | |
| Large Domestic Water Use (Non-Public) | 3,926,656.3 gpd | 4,398.42 af/y | 4,398.42 | 3,298.82 | 2,199.20 | 1,099.60 | 439.84 | |
| Sawmills & Pulp Mills | 3,338,812.2 gpd | 3,739.95 af/y | 3,739.95 | 2,804.96 | 1,869.98 | 934.99 | 374.00 | |
| Heat Packing | 1,938,813.4 gpd | 2,171.75 af/y | 2,171.75 | 1,628.81 | 1,085.88 | 542.94 | 217.18 | |
| Dams/Rec. Activities | 1,907,246.1 gpd | 2,136.39 af/y | 2,136.39 | 1,602.29 | 1,068.20 | 534.10 | 213.64 | |
| Bus. Services & Offices | 1,913,995.2 gpd | 2,143.95 af/y | 2,143.95 | 1,607.96 | 1,071.90 | 535.99 | 214.40 | |
| Total | 3,101,626.234 gpd (1) | 2,638,274.30 af/y | 2,638,274.30 | 1,978,705.72 | 1,319,137.15 | 659,568.58 | 263,827.43 | |

(1) Total using 365 days/year

The revenues presented in the first table represent only those revenues that might be generated by charging a fee to water user using more than 50 acre feet per year or 45,000 gallons per day. These revenue figures were based on water rights issued by the Department prior to 1986 and only included the rights where a Permit to Appropriate Water or Certificate of Appropriation was issued. Since 1986 the number of issued permits and certificates has increased along with the total quantity of water being used in Alaska.

When the final fee schedule is determined, it will be necessary to consider fees for the non-consumptive use of water differently than those for consumptive uses. Hydro-electric, power plant cooling, hatcheries and placer mining are non-consumptive water uses and the largest water users in the State. Unlike other water use, non-consumptive water is usually returned to its original source with little change to the actual amount of water diverted. The following table shows examples of potential revenues that could be generated by charging different fees for consumptive and non-consumptive uses.

CONSUMPTIVE/NON-CONSUMPTIVE FEES

| Consumptive Fee | Sub-total | Non-consumptive Fee | Sub-total | Total |
|-----------------|------------|---------------------|------------|--------------|
| \$1.00/af | 397,977.16 | 25¢/af | 530,074.29 | \$928,051.45 |
| \$1.00/af | 397,977.16 | 10¢/af | 224,029.11 | \$622,006.27 |
| \$.75/af | 298,482.87 | 25¢/af | 530,074.29 | \$828,557.16 |
| \$.75/af | 298,482.87 | 10¢/af | 224,029.11 | \$522,511.98 |
| \$.50/af | 198,988.59 | 10¢/af | 224,029.11 | \$423,017.70 |

If the user fee was set at \$1.00 per acre foot for consumptive water users and 0.25 cents for non-consumptive users the estimated revenues would be between \$800,000 and one million dollars a year. These revenues would increase over time as use of Alaska's water increases.

1¢ WORTH OF WATER

| Cost/Acre Foot | \$1.00/af | 75¢/af | 50¢/af | 25¢/af | 10¢/af |
|----------------|-----------|-----------|-----------|------------|------------|
| Gallons per 1¢ | 3,258 gal | 4,344 gal | 6,516 gal | 13,032 gal | 32,585 gal |

It would not be cost effective to collect user fees for any water use less than 45,000 gallons per day based on \$1.00 per acre foot, since it would cost the Department over \$50.00 to collect and process the \$50.00 fee. This would exclude small domestic, commercial and industrial water users from paying the user fee. A fee of \$1.00 per acre foot would not be an unreasonable cost to larger water users, for example a petrochemical plant that uses 3,000,000 gallons a day would be expected to pay \$3,360 per year and a public water supplier using 20,000,000 gallons a day would pay about \$22,500.00 per year. If the public water supplier had 10,000 customers the cost per customer would be about \$2.25 per year.

The program would be administered under the Department's Revenue Billing system within the Division of Management. In 1987 when this concept was first addressed the Division of Management claimed that the added workload would be minimal and would cost about 0.29 cents per billing. The impact on the staff to receive the returned payments would average 20 new receipts per day and could be handled by existing staff.

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES

State of Alaska

DIVISION OF WATER

TO: Ric Davidge
Director

DATE: August 9, 1991

TELEPHONE NO.: 762-2253

FROM: Gary J. Prokosch *JB*
Chief, Water Management Section

SUBJECT: Glacier Ice & Water

On August 8, 1991 you requested that I provide you with some figures on the sale of glacier ice and water.

Glacier Ice: Currently there are 26 separate Temporary Water Use Permits issued for the harvesting of free floating glacier ice. These permits have been issued to 10 separate individuals who have the authority to harvest about 5700 tons of glacier ice per week.

To date only one individual has harvested glacier ice under the authority of our permit. The total quantity of ice harvested was 50,000 pounds or 25 tons. About 36,000 pounds of ice was sold to a retailer in Hawaii for 45 cents per pound. The retailer sold the ice for between \$1.45 and 2.50 a pound. In this case the wholesaler made about \$16,200.00 and the retailer made about \$72,000.00. The rest of the ice was sold in Anchorage for \$500.00 per clean ton or about \$3500.00.

Prior to DNR requiring that a Glacier ice harvester obtain a permit, an Anchorage based water bottling company harvested ice from the Prince William Sound and sold the ice in Japan. The glacier ice sold for \$ 1.00 a kilo (2.2 lbs). The company harvested and sold about 500 metric tons of ice (1 metric ton equals 2204.6 lbs) or 1.1 million pounds. The company's return on the ice sold was about \$500,000.00. The retail price in Japan averaged about \$7.00 per kilo. The retailer's return on the ice was about 3.5 million dollars.

To date the State of Alaska has collected about \$ 900.00 in application fees for the harvesting of glacier ice.

Water Sales: The Division of Water is in the process of authorizing a Temporary Water Use Permit to withdraw water from a lake in Southeast Alaska. The water is going to be sold to a local company at 1 cent a gallon. The company is going to ship the water to California where it is going to be bottled.

The total quantity of water to be withdrawn for this purpose is 52,000,000 gallons per year or 1,000,000 gallons a week. The wholesale cost of this water will generate about \$520,000.00 per year. The retail value of this water is unknown but could be as much as \$2.49 per gallon (based on bottled water in Anchorage) or 129 million dollars a year. This figure does not include the cost of shipment or production. The agreement between the seller and the buyer calls for the purchase of as much as 1 billion gallons per year. The Temporary Water Use permit will be issued for only 52,000,000 gallons per year. The State received an application fee of \$200.00.

ALASKA

Water Supply and Use

Alaska's water supplies might appear to be unlimited because of the large quantities of precipitation received in the State (fig. 1A). Statewide average annual precipitation is about 1,050,000 Mgal/d (million gallons per day), and average annual runoff is about 989,000 Mgal/d. Alaska contains more than 40 percent of the Nation's surface-water resources. Three rivers (the Yukon, the Kuskokwim, and the Copper) are among the 10 largest in the United States. More than 3 million lakes range in area from pond size to about 1,000 mi² (square miles). Also, large amounts of water are stored within two principal aquifers. Environmental conditions, legal restrictions, and technological problems, however, limit the usability of these abundant supplies.

Alaska encompasses a land area of about 586,000 mi², or about one-fifth of the area of the conterminous United States. Climates range from frozen desert in the Arctic Slope basin to maritime rain forest in the Southeast Alaska basin. Average annual precipitation and temperatures range from about 5 inches and 10° F (degrees Fahrenheit) in the Arctic Slope basin to about 300 inches and 45° F in the Southeast Alaska basin. Much precipitation occurs as snow. Glaciers and icefields cover 28,500 mi², or nearly 5 percent of the land (Post and Mayo, 1971) and affect the timing and the quantity of runoff. Many of the rivers are silt laden, are affected by mid-winter overflow icing or ice-jam flooding at spring breakup, or are ice covered much of the year. The occurrence and the availability of ground water are limited by permafrost. The extent and thickness of the permafrost decrease southward from a continuous layer as much as several hundred feet thick in the Arctic Slope basin to areas

that are generally free of permafrost in the South Central Alaska and the Southeast Alaska basins. Because of these conditions, there is no certainty that either surface or ground water will be available at a given time and location.

Several water issues in Alaska result from this variability in the availability and occurrence of the water resource. Additionally, the legal precedents for obtaining water rights cause conflicts. Com-

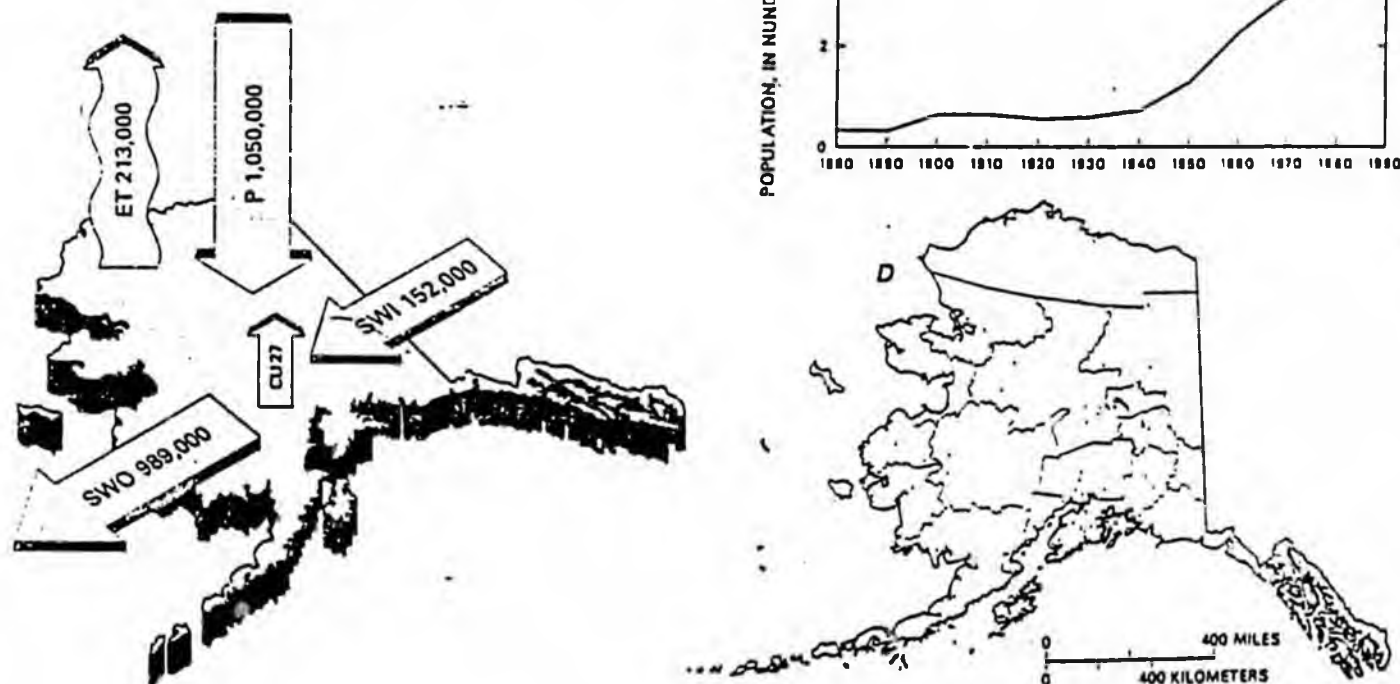


Figure 1. Water supply and population in Alaska. A, Water budget, in million gallons per day. B, Cumulative normal storage of reservoirs with at least 5,000 acre-feet capacity, 1880 to 1985. C, Population trend, 1880 to 1985. D, Population distribution, 1985; each dot on the map represents 1,000 people within a census tract. Abbreviations: CU, consumptive use; ET, evapotranspiration; P, precipitation; SWI, surface-water inflow; SWO, surface-water outflow. (Sources: A, R. D. Lamka (U.S. Geological Survey, written commun., 1985). B, U.S. Army Corps of Engineers, 1981. C, D, Compiled by U.S. Geological Survey from U.S. Bureau of the Census data.)

petition for limited surface-water resources exists among industry, fish hatcheries, recreation, and fish and wildlife habitat demands. Ground-water-rights issues primarily involve public supply in basins where surface water is scarce. Currently (1987), the Arctic Slope, the South Central Alaska, and the Southeast Alaska basins are the focus of these issues.

HISTORY OF WATER DEVELOPMENT

In 1914, the first large reservoir was constructed to provide power for the mining and the timber industries in the Southeast Alaska basin. Since then, 19 additional reservoirs that have storage capacities greater than 5,000 acre-ft (acre-feet) have been built for electric power generation and public supplies. Of these 20 reservoirs, 13 are in the Southeast Alaska basin, 6 are in the South Central Alaska basin, and 1 is in the Yukon basin. These reservoirs contain a cumulative capacity of about 1.78 million acre-ft (fig. 1B).

The first significant increase of Alaska's population occurred during the gold rushes of the late 1800's (fig. 1C). Postwar migration and homesteading increased the population during the late 1940's and 1950's. Population growth during the 1960's and 1970's can be attributed to the development of oil fields in Cook Inlet and at Prudhoe Bay and the related pipeline-construction activities. The continued rapid population growth of the early 1980's can be attributed to the general economic well-being that oil production brought to the State. The population reached 558,000 in 1985; 77 percent of the inhabitants live within 5 of the 28 census districts, or county equivalents (fig. 1D). Anchorage contained 44 percent of the State's population; the next largest concentrations of population were in Fairbanks (13 percent), Kenai (8 percent), Matanuska-Susitna (7 percent), and Juneau (5 percent).

Interest in Alaska's water supplies began during the gold rushes of the late 1800's; miners washed the placer deposits to extract the gold. The population growth and the corresponding urban development, especially after 1940, placed increasing emphasis on water supply. Increasing needs for water supplies for power in the Southeast Alaska and the South Central Alaska basins, for the pulp and paper industry in the Southeast Alaska basin, and for the canneries in the Southeast Alaska and Southwest Alaska basins created demands for water-resource information. Intensive development of other natural resources began during the 1960's and continued through the 1970's. Water was critical to support the oil fields in the Arctic Slope basin and the petrochemical, the seafood, and the timber production industries in the South Central Alaska and the Southeast Alaska basins. Continued population growth, especially in the South Central Alaska basin, increased the demand for public supplies; ground water became a major source of supply. Maintaining instream flows became an issue during the late 1970's, and that concern has increased during the 1980's. Instream flow for hydroelectric power generation and fish hatcheries is an additional water issue today.

WATER USE

The State's water budget is shown diagrammatically in figure 1A. Several natural conditions limit the quantity of freshwater that can be recovered efficiently from Alaska's hydrologic environment; for example, the availability of surface water may be affected by the timing of winter freezeup and spring breakup and by the quantity and the timing of runoff derived from melting snow and glacier ice. The availability of ground water is limited by thick lenses and layers of relatively impermeable sediments and by the limited extent of coarse-grained permeable sediments. In permafrost zones, even coarse-grained sediments may be frozen. Thus, although a substantial quantity of water may be present within the State, the water may not be available when and where it is needed.

Hydroelectric powerplants used 1,480 Mgal/d to generate 18 percent, or 746 GWh (gigawatt-hours), of the electricity used statewide. About 90 percent of this power was generated in the Southeast Alaska basin. The water was used instream, and no water was considered for consumptive use.

Surface-water withdrawals supplied 82.2 percent of the water needed for offstream uses; ground water provided the remaining 17.8 percent. These values were determined by using the results of a cooperative survey conducted by the Alaska Department of Natural Resources and the U.S. Geological Survey in 1985, in which communities and industries estimated their water use. Where quantities of water use were not available, such data were estimated on the basis of similarities between communities and uses. The statewide distribution of total, surface-water and ground-water withdrawals is aggregated by county in figures 2A, 2B, and 2C, respectively. Surface-water withdrawals by principal drainage basin and ground-water withdrawals by principal aquifer are shown in figures 3A and 3B, respectively. Aquifers have been grouped informally into unconsolidated alluvium and glacial outwash aquifers and bedrock aquifers (U.S. Geological Survey, 1985, p. 129-131). Major ground-water withdrawals were from the unconsolidated aquifers.

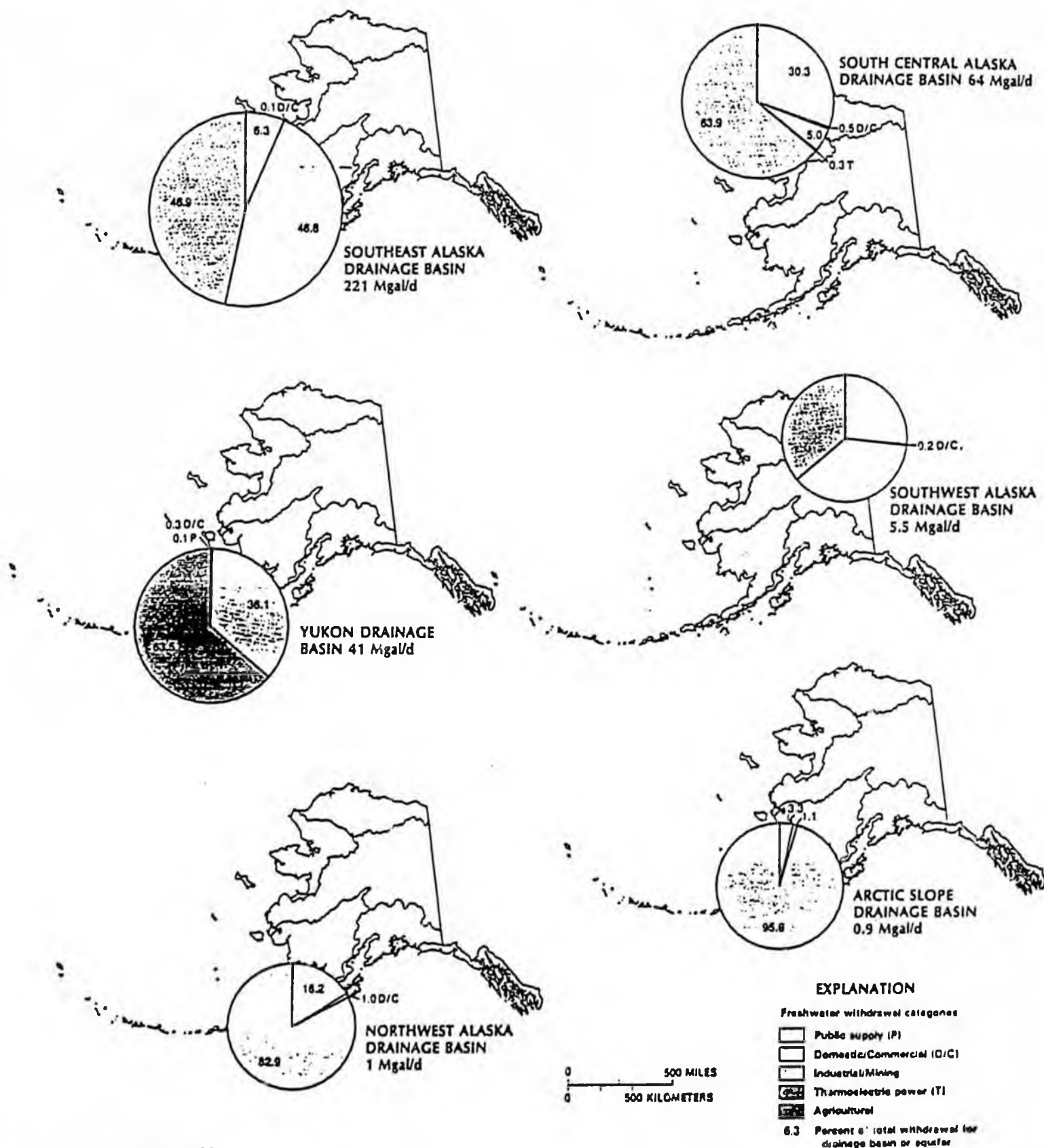
Most withdrawals occur in three of the principal river basins—Southeast Alaska, South Central Alaska, and Yukon (fig. 3A). Withdrawals in the Southeast Alaska basin were 55 percent (221 Mgal/d) of total water use in Alaska. About 99 percent of these withdrawals was surface water. Industry and fish hatcheries were the primary users of this water. In contrast, the South Central Alaska basin accounted for about 27 percent (110 Mgal/d) of the total withdrawals during 1985. This basin withdrew about 64 percent (64 Mgal/d) of the total ground water during 1985. The large withdrawals for public supply and self-supplied domestic uses provide water to the comparatively large population of the area. Public supply, self-supplied domestic, and industry were the major water users. The Yukon basin accounted for 15 percent (41 Mgal/d) of the total withdrawals. Water used for mining and fossil-fueled powerplants was 74 percent of the 61 Mgal/d withdrawn in the Yukon basin. Surface water was used for nearly two-thirds of this quantity.

The remaining basins, the Arctic Slope, the Southwest Alaska, and the Northwest Alaska, included 8 percent of the population and used 3 percent of the total water. Public supply and self-supplied domestic and commercial uses accounted for 61.9 percent of the ground-water withdrawals within the Yukon basin.

The source, use, and disposition of Alaska's water resources are shown diagrammatically in figure 4. The quantities of water given in this figure and elsewhere in this report may not add to the totals indicated because of independent rounding. The source data indicate that total freshwater withdrawals were 406 Mgal/d, of which 334 Mgal/d was surface water and 72 Mgal/d was ground water. The use data indicate that, of total freshwater use, industry and mining accounted for 34.7 percent and agriculture accounted for 38.6 percent. The disposition data indicate that most water (93.3 percent) was returned to natural sources and was available for reuse. Estimated consumptive use was 6.7 percent (27 Mgal/d).

Alaska's water is generally of sufficient quantity and acceptable quality for most uses. However, population increases during the last decade, especially in urban areas, have strained water-distribution systems and generated concern about water availability. In Anchorage, a measurable decline in ground-water levels has been attributed to increased withdrawals. Saltwater intrusion has halted further ground-water development in Auke Bay, near Juneau. In Kenai and in the Arctic Slope basin, water supply is a concern to communities near petrochemical industry activities.

Surface- and ground-water quality problems have been caused either by natural processes or by human activities. Natural processes include suspended sediment caused by glaciers, salinity, and undesirable concentrations of iron or arsenic produced by geo-



A. SURFACE WATER

Figure 3. Freshwater withdrawals by category of use and hydrologic unit in Alaska, 1985. A, Surface-water withdrawals by principal drainage basin. B, Ground-water withdrawals by principal aquifer. Abbreviations: Mgal/d is million gallons per day. (Sources: A, Drainage basins from Saaber and others, 1987; data from U.S. Geological Survey National Water Data Storage and Retrieval System. B, Data from U.S. Geological Survey files.)

chemical processes. Human activities include petrochemical contamination, the addition of nitrates through septic-tank systems, and the encroachment of saltwater in response to intensive ground-water withdrawal. Nevertheless, even in areas of water-supply difficulties, Alaska's water is generally satisfactory for most uses, although locally it may not be readily obtainable from the nearest or most economical source.

PUBLIC SUPPLY

Public-supply systems withdraw, treat, and distribute water to users. The total withdrawals for public-supply in Alaska were an estimated 76 Mgal/d (fig. 4), which was 18.7 percent of total withdrawals in 1985. Surface water provided 46.2 percent (35

Mgal/d) of public-supply withdrawals, and ground water provided 53.8 percent (41 Mgal/d). Of total withdrawals for public supply, 40.3 percent was delivered for commercial use, and 39.0 percent was delivered for domestic use. About 60 percent (45 Mgal/d) of public-supplied water was delivered in the South Central Alaska basin.

About 62 percent of Alaska's population was served by public water suppliers in 1985. The Municipality of Anchorage supplied water to one-half of the population served by public-supply systems. The per capita use by all public-supply customers ranged from 10 to 380 gal/d (gallons per day) in 1985. Public-supplied domestic use ranged from 6 to 170 gal/d per capita. These values reflect the different types of water-distribution systems; for example, a public-supply system in the Arctic Slope basin may consist of a water-

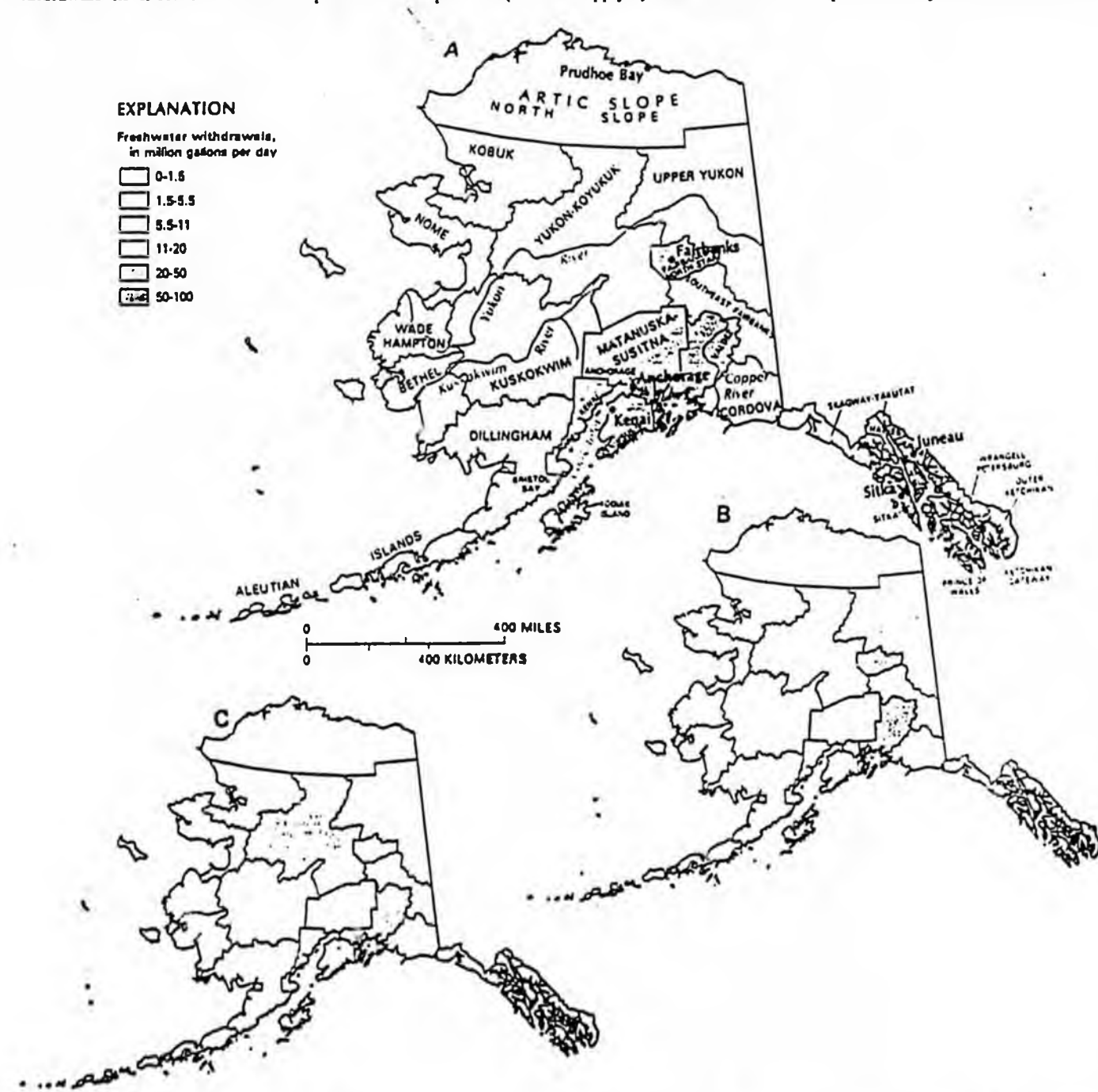


Figure 2. Freshwater withdrawals by county in Alaska, 1985. A, Total withdrawals. B, Surface-water withdrawals. C, Ground-water withdrawals. (Source: Data from U.S. Geological Survey National Water Data Storage and Retrieval System.)