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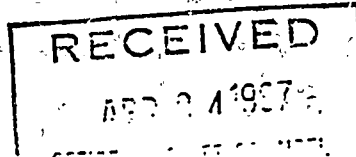
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1933 Act/3(a)(2)
1934 Act/3(a)(12)
1939 Act/304(a)(4)

April 22, 1987

PUBLIC AVAILABILITY DATE: 11-25-87

ACT	SECTION	RULE
1933	---	131
1933	3(a)(2)	---
1934	3(a)(12)	---
1934	3(b)	3b- 5
1939	304(a)(4)	---

William E. Morley, Esq.
Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Arkansas Development Finance Authority

Dear Mr. Morley:

This letter is submitted on behalf of our client, Prudential-Bache Capital Funding, a registered broker-dealer ("Prudential-Bache"), in connection with its proposed underwriting of the sale by the Arkansas Development Finance Authority (the "Finance Authority"), of approximately \$300 million Taxable Revenue Bonds (the "Bonds"), as more fully described below. Friday, Eldredge & Clark, of Little Rock, Arkansas, bond counsel to the Finance Authority, join in making this request on behalf of their client.

We hereby request, on behalf of our client and the Finance Authority, that the Staff of the Division of Corporation Finance confirm that no action will be recommended to the Securities and Exchange Commission (the "Commission") if the Bonds, including the interests afforded the holders thereof in the hereinafter described Bond Fund, (i) are sold without being registered under the Securities Act of 1933, as amended (the "1933 Act"), (ii) are treated as exempted securities under the Securities Exchange Act of 1934, as

amended (the "1934 Act") and (iii) are sold without qualification of the indenture relating to the Bonds under the Trust Indenture Act of 1939, as amended (the "1939 Act"). In this connection, we are also requesting the advice of the Staff to the effect that the application of Rule 131 under the 1933 Act and Rule 3b-5 under the 1934 Act do not result in the creation of a "separate security" within the meaning of such Rules requiring registration under such Acts.

I. THE PROPOSED OFFERING

The Finance Authority is a public body corporate established pursuant to the Arkansas Development Finance Authority Act, Ark. Stat. Ann. §§13-2901--13-2923 (Supp. 1985), (the "Act"), and, as such, is a public instrumentality of the State of Arkansas. It is the successor agency to the Arkansas Housing Development Agency, which had been responsible for issuing tax-exempt housing bonds. The Finance Authority was formed in 1985 for the purpose of serving as the centralized finance agency for the State of Arkansas because of its extensive experience in municipal finance. Pursuant to the Act, the Finance Authority has broad powers to issue bonds to finance housing, education, public facilities, and other public projects and requirements, and to provide financing expertise for state agencies in Arkansas, such as the Arkansas State Department of Education.

Under recently enacted legislation in Arkansas, Act No. 62 of 1987 (February 12, 1987), the Finance Authority was given the power to provide funds for the Arkansas Department of Education-Public School Fund (the "Arkansas Public School Fund") by financing methods that include the issuance of bonds. Monies in the Arkansas Public School Fund will be used by the Arkansas State Department of Education primarily to help remedy the emergency financial situation faced by public schools in the State of Arkansas. This legislation was passed because public schools in Arkansas have been recently experiencing severe financial difficulties due to the unanticipated increase in funds required to comply with minimum educational standards imposed by the State of Arkansas relating to staffs, facilities and curriculum. Because state tax revenues have not met projections, funds from the state budget available for public schools have decreased over \$50 million and are therefore inadequate to meet expenses for complying with the newly imposed educa-

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tional compliance standards. In response to this financial crisis in the Arkansas Public School Fund and pursuant to the recent educational funding legislation, the Governor of Arkansas has asked the Finance Authority to raise funds to remedy this problem.

The purpose of the Finance Authority's proposed Bond issuance is to provide funds for the Arkansas Public School Fund to remedy the financial problems faced by it. As described below, a portion of the funds raised through such Bond issuance will be paid to the Arkansas Public School Fund. The Bonds will be limited obligations of the Finance Authority and will impose no general liability upon the Finance Authority for payment of the debt service thereon. Income on the Bonds will be subject to federal income taxation.

The Bonds will be issued pursuant to the terms of a trust indenture (the "Trust Indenture") between the Finance Authority and a banking institution, as Trustee (the "Trustee"). The proceeds from the sale of the Bonds will be used for the following purposes: (1) to make a deposit into a Fund to be created under the Indenture, from which the Trustee will disburse funds to the Arkansas Public School Fund; (2) to deposit funds in a Bond Fund to be created under the Indenture (the "Bond Fund"), which will be immediately invested in a guaranteed investment contract to be obtained from an insurance company or other financial institution; and (3) to provide monies for the issuance costs of the Bonds.

The financing structure of the Bonds is designed so that the funds which will be disbursed to the Arkansas Public School Fund will be derived from the differential between the proceeds of the planned offering and the cost of the guaranteed investment contract. Because no subsequent revenue stream will be generated from the Arkansas Public School Fund, payment of the debt service on the Bonds will be completely dependent upon payments to be received pursuant to the guaranteed investment contract. It is anticipated that, in order to purchase a guaranteed investment contract yielding funds adequate to service interest and principal payments on the Bonds, the great preponderance of the proceeds from the initial issuance of the Bonds will be invested in the Bond Fund for investment in the guaranteed investment contract.

II. DISCUSSION

A. 1933 Act Considerations and Rule 131.

Although the Bonds are securities under Section 2(1) of the 1933 Act, they are exempt from the registration provisions of Section 5 under Section 3(a)(2) of the 1933 Act, which exempts "any security issued or guaranteed by . . . any political subdivision of a State or territory, or by any public instrumentality of one or more States or territories. . . ." As described above, the Finance Authority is a public instrumentality of the State of Arkansas. Thus, the Bonds are exempt under Section 3(a)(2) from the registration provisions of Section 5 because they are securities issued by a public instrumentality of a State.

Under Rule 131(a) of the 1933 Act, any part of an obligation issued by a governmental unit in Section 3(a)(2) that is "payable from payments to be made in respect of property or money which is or will be used, under a lease, sale or loan arrangement, by or for industrial or commercial enterprise," is deemed to constitute a "separate security" for purposes of Section 2(1) of the 1933 Act. Absent an exemption, such a separate security would require registration under the 1933 Act.* Applying Rule 131(a) to the Finance Authority's proposed sale of the Bonds, the issue arises whether payments derived from the guaranteed investment contract in the Bond Fund could be interpreted as being made under a lease, sale or loan arrangement, by or for commercial or industrial enterprise.

In the contemplated transaction, payments made from the Bond Fund, funded by a guaranteed investment contract, clearly are not payments within the purview of the conditions set forth in Rule 131(a). Such payments are not in respect of a "lease, sale or loan arrangement, by or for an industrial or commercial enterprise". Hence the proposed obligation does not involve a separate security within the meaning of Rule 131(a). In the Release proposing Rule

* We do not address herein, nor do we request the views of the Staff, regarding whether the guaranteed investment contract would constitute an exempted security under Section 3(a)(8) of the 1933 Act or Rule 151 promulgated thereunder.

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131(a); Securities Act Release No. 4896, Fed. Sec. L. Rep. ¶77,525 (67-69 Trans. Bdr.) (February 1, 1968), the Commission indicated that Rule 131 is directed to financing plans with respect to the activities of a private company. Id. at p. 83,094. The proposed transaction in no way represents such a financing. Rather, the sale of the Bonds represents a financing by a state instrumentality for a public purpose, as described above, with the investment of proceeds in the Bond Fund serving as an effective means of furthering the public purpose. In a recent no-action letter, the Staff adopted a no-action position regarding the inapplicability of Rule 131 in circumstances in relevant part analogous to the proposed offering. In Cache County, Davis County, Salt Lake County, Utah County and Weber County (available January 16, 1987), the Staff accepted the view that a bond retirement fund consisting of guaranteed investment contracts from one or more insurance companies, public utilities or similar triple A institutions would not constitute a "lease, sale or loan arrangement" deemed to be a separate security by Rule 131(a). That letter involved a transaction under which certain Utah counties proposed to issue zero coupon bonds, over half the proceeds of which were to be used to fund the bond retirement fund, with the remaining proceeds to be invested primarily in venture capital investments in new and developing non-public companies. See also Dunes Community Development District (available March 2, 1987). It is respectfully submitted that, in view of the clear public purpose and related circumstances of the proposed financing to provide funds for the Arkansas Public School Fund, as well as the analysis of Rule 131 accepted in the recent Cache County no-action letter, the payments in respect of the guaranteed investment contract to be utilized in this financing are not with respect to "a lease, sale, or loan arrangement, by or for industrial or commercial enterprise" within the parameters of Rule 131.

We believe that the grounds for the inapplicability of Section 131 and any related registration requirements are most correctly premised on the above analysis. However, it should also be noted that a secondary ground for exemption from registration can be found in the actual language of subsection (b)(2) of Rule 131. Rule 131(b)(2) provides that an obligation is not a "separate security" for purposes of Rule 131(a) if it "relates to a public project or facility owned and operated by or on behalf of and under the control of a governmental unit" specified in Section 3(a)(2). Thus, even if the contemplated transaction could

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be interpreted to involve a "lease, sale or loan arrangement, by or for industrial or commercial enterprise," the exception provided by Rule 131(b)(2) should be applicable. As indicated above, the purpose of the proposed Bond financing, and the related investment in the guaranteed investment contract, is to generate funds to be used for the Arkansas Public School Fund. In Dunes Community Development District, the Staff recently took a no-action position under Rule 131(b)(2) where there was a substantial degree of governmental purpose and control involved in a project. The governmental purpose of providing funds for public education in Arkansas is even more apparent than in Dunes and the no-action letters cited therein. Thus, the guaranteed investment contract contemplated by the proposed Arkansas Public School Fund financing comes within the specific exemptive language of Rule 131(b)(2), since such obligation is an integral part of the effectuation of a financing which relates to a facility with clear public purpose and ownership, to wit the Arkansas Public School Fund and school system.

B. 1934 Act Considerations and Rule 3b-5.

Although the Bonds are securities as defined in Section 3(a)(10) of the 1934 Act, they are "exempted securities" within the meaning of Section 3(a)(12) of the 1934 Act. "Exempted securities" include "municipal securities," as defined in Section 3(a)(29) of the 1934 Act. Section 3(a)(29) of the 1934 Act defines "municipal security" as

securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof,

As described above, the Bonds are obligations of the Finance Authority, an instrumentality of the State of Arkansas. Thus, the Bonds are "municipal securities" under Section 3(a)(29) and therefore are "exempted securities" under Section 3(a)(12). The Staff in prior no-action letters has agreed that revenue bonds payable otherwise than from the general revenues of municipal issuers, as is the case in the proposed transaction, are municipal securities for purposes of Section 3(a)(29). See, e.g., Kidder, Peabody & Co. Incorporated (available July 17, 1984); Cache County.

Rule 3b-5 of the 1934 Act is the companion to Rule 131 in the 1933 Act and contains provisions substantially identical to Rule 131. We submit, for the reasons stated above with respect to Rule 131, that the Finance Authority's proposed sale of the Bonds does not involve a "separate security" under Rule 3b-5 that would require registration under the 1934 Act.

C. 1939 Act Considerations.

Section 304(a)(4)(A) of the 1939 Act states that the Act does not apply to

any security exempted from the provisions of the Securities Act of 1933, as heretofore amended, by paragraph (2), (3), (4), (5), (6), (7), (8) or (11) of subsection 3(a) thereof. . . .

As discussed above, the Bonds are exempt from the registration provisions under Section 5 of the 1933 Act under Section 3(a)(2) of the 1933 Act. Thus, the Bonds are exempt from the provisions of the 1939 Act under Section 304(a)(4)(A) of the 1939 Act. Furthermore, for the reasons stated above, the Bond Fund and the guaranteed investment contract are also exempt from the registration provisions of the 1933 Act under Section 3(a)(2) of 1933 Act because they do not constitute "separate securities" under Rule 131(a). Thus, the Bond Fund and the guaranteed investment contract also are exempt from the 1939 Act under Section 304(a)(4)(A) of the 1939 Act.

III. CONCLUSION

Based upon the foregoing, we respectfully request the advice of the Staff to the effect that (a) it will not recommend any action to the Commission if (i) the Bonds are offered and sold without registration under the 1933 Act, (ii) the Bonds are treated as exempted securities under the 1934 Act, and (iii) the Bonds are sold without qualifying the Indenture relating to the Bonds under the 1939 Act; and (b) no "separate security" is created under the foregoing facts within the meaning of Rule 131 under the 1933 Act or Rule 3b-5 under the 1934 Act that would require registration under such Acts, in reliance upon the opinion of our firm that such registration and qualification are not required and that such treatment is appropriate. Friday, Eldredge & Clark, bond counsel to the Finance Authority, concur in the views and opinions set forth herein.

William E. Morley, Esq.
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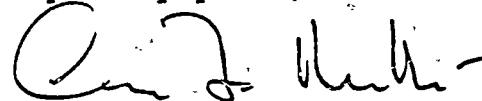
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In accordance with the procedures outlined in Securities Act Release No. 6269 (December 5, 1980), we enclose seven extra copies of this letter for the convenience of the Staff.

The Finance Authority expects shortly to offer and sell the Bonds. Accordingly, we respectfully request a response to this request as soon as practicable, and, if possible, a response within 30 days of your receipt of this letter.

If you have any comments or questions relating to this request, or if you anticipate formulating a response not consistent with our interpretation, please feel free to contact either the undersigned at (212) 715-8080 or Peter R. O'Flinn, Esq. of this office at (212) 715-8017. Please also feel free to contact J. Shepherd Russell III, Esq. of Friday, Eldredge & Clark at (501) 376-2011.

Very truly yours,



Cameron F. MacRae III, P.C.

LEBOEUF, LAMB, LEIBY & MACRAE

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1933 Act/3(a) (2)

1934 Act/3(a) (12)

1939 Act/304(a) (4)

April 22, 1987

William E. Morley, Esq.
Chief Counsel
Division of Corporation Finance
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Confidentiality for No-Action Request Filed
April 22, 1987 for the Arkansas
Development Finance Authority

Dear Mr. Morley:

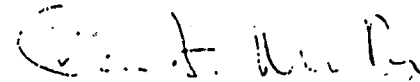
Pursuant to 17 C.F.R. § 200.81(b)(1986), we are submitting this letter on behalf of our client, Prudential-Bache Capital Funding ("Prudential-Bache"), to request that the Staff of the Securities and Exchange Commission ("Commission") grant confidential treatment until 90 days after the expiration of 30 days from the date of the Staff's response to the no-action letter submitted on April 22, 1987 by this firm on behalf of our client relating to the Arkansas Development Finance Authority (the "Finance Authority") proposed bond financing. Friday, Eldredge & Clark, of Little Rock, Arkansas, bond counsel to the Finance Authority, join in making this request on behalf of their client.

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As more fully described in our no-action request, the proposed bond financing by the Finance Authority, which involves the investment of a portion of the proceeds from the sale of the bonds in a guaranteed investment contract, is a relatively unique concept developed by Prudential-Bache. The disclosure of the Finance Authority's no-action request and the Staff's response thereto without granting confidential treatment for 90 days after the expiration of 30 days from the Staff's response could jeopardize the highly proprietary nature of the concept and could detrimentally affect the success of the Finance Authority's proposed offering. Therefore, we are of the view that confidential treatment should be accorded to the Finance Authority's no-action request.

If you have any comments or questions relating to this request, please feel free to contact either the undersigned at (212) 715-8080 or Peter R. O'Flinn, Esq. of this office at (212) 715-8017. Please also feel free to contact J. Shepherd Russell III, Esq. of Friday, Eldredge & Clark at (501) 376-2011.

Very truly yours,



Cameron F. MacRae III, P.C.

July 29, 1987

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RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF CORPORATION FINANCE

Re: Arkansas Development Finance Authority
Incoming letter dated April 22, 1987

Based on the facts presented, this Division will not recommend enforcement action to the Commission if the Finance Authority, in reliance on your opinion that the exemptions afforded by Section 3(a)(2) of the Securities Act of 1933 (the "1933 Act"), Section 3(a)(12) of the Securities Exchange Act of 1934 (the "1934 Act") and Section 304(a)(4) of the Trust Indenture Act of 1939 (the "1939 Act") are available, offers and sells the Bonds (including the interests of the holders thereof in the Bond Fund) as described in your letter without registering the Bonds under the 1933 Act or the 1934 Act or qualification under the 1939 Act. It is also our view that payments from the Bond Fund would not be made in respect of property or money which is or will be used, under a lease, sale or loan agreement, by or for industrial or commercial enterprises, and would thus not be deemed separate securities under Rule 131(a) under the 1933 Act and Rule 3b-5 under the 1934 Act.

Because these positions are based on the representations made to the Division in your letter, it should be noted that different facts or conditions might require another conclusion. Moreover, this letter only expresses the Division's position on enforcement action and does not purport to express legal conclusions on the questions presented.

With regard to your request for confidential treatment for an additional 90 days pursuant to 17 CFR 200.81, please be advised that your request has been granted for that period.

Sincerely,

Sara Hanks
Attorney-Fellow