

EDT 2.8.11 HB 120 – AIDEA: NEW MARKETS TAX CREDIT PROGRAM

Questions for AIDEA

Committee Question #1

HB 120, P.2, lines 29-31 says that AIDEA “may require submission of an economic benefit analysis prepared by a person acceptable to the authority.” Please describe the criteria for determining whether or not AIDEA would actually require such an analysis of the applicant.

AIDEA’s Response

It is AIDEA’s intention to make sure that projects for which it might offer a New Markets Tax Credit loan guarantee or a direct loan support the agency’s economic development goals. Therefore, AIDEA does anticipate that, if this bill becomes law, it would, at times, require the submission of a written report documenting the economic development objectives furthered by a project financed with NMTCs. Such goals would include new job creation, diversification of the economy, or the development and application of new technology. AIDEA would also be interested in projects that bring new economic opportunities to rural areas, as well as to areas that are experiencing economic difficulties due to high-energy costs or a lack of needed infrastructure.

This screening of projects is consistent with AIDEA’s Strategic Plan, which is aimed at the concept of AIDEA supporting projects that enhance and develop Alaska’s economy. Further, a goal of the Plan is to document what AIDEA does and how it arrives at its decisions. Requiring an economic benefit analysis authored by a qualified person would meet this objective.

Committee Question #2

AIDEA’s hearing request letter states that The federal tax credits are only eligible to communities “with poverty rates above 20 percent; median income less than 80 percent of the state median and with unemployment rates 1.5 times greater than the national average.” Has AIDEA already determined which Alaskan communities would be eligible under these criteria?

AIDEA’s Response

AIDEA’s Business Development Officer, Mike Catsi, has been researching the location of census tracts in Alaska that could qualify for the NMTC program. As noted in AIDEA’s hearing request letter, NMTCs are usually available in census tracts in which poverty rates are significant. However, this federal tax credit program, like many other federal programs, is complex and has a significant number of rules. The IRS Circular that describes the program and gives general guidance is 51 pages long.

In addition to poverty levels in a census tract, the program can also apply, for example, to census tracts that have less than 2000 in population. The program can be used in conjunction with projects that offer economic opportunities to what is termed "targeted populations"; Native Americans can be considered such a "targeted population".

In sum, AIDEA does not have a definitive list of areas that would qualify for NMTCs. It has, however, identified census tracts that have poverty levels that would satisfy the program's qualification requirements. While many of these census tracts are in rural areas, they also are in boroughs, which are more urban or which are close to metropolitan areas.

Committee Question #3

The White Paper dated Oct. 11, 2010 on New Market Tax Credits mentions only New Jersey as a state whose development finance authority is making leveraged loans. Has AIDEA contacted the New Jersey Economic Development Authority to learn how leveraged loans are working out for them? Has AIDEA become aware of any other states with a development finance authority making such loans?

AIDEA's Response

AIDEA has been in contact with the New Jersey Economic Development Authority ("NJEDA"). AIDEA conducted a survey of states in which an economic development agency is involved with NMTCs. To our knowledge, NJEDA is the only state agency that offers loan guarantees on the leveraged lender side of NMTC financing; this is the role proposed for AIDEA in HB 120.

States that have used NMTCs have usually acted as their own Community Development Entities ("CDEs) by becoming certified by the Community Financial Institutions fund in the U.S. Department of Treasury. As explained in the October 11, 2010 memorandum by Vincent Ravaeschiere to AIDEA, a qualified CDE annually applies to the Treasury for an allocation of NMTCs. Once a CDE receives a federal tax credit allocation, it then offers the tax credits to investors in exchange for equity capital which is invested in the project. New Mexico's economic development agency, for example, acts as a CDE and this same approach is used in New York. In these states, the state agency is brokering the transaction, but is usually not putting any funds into the project or guaranteeing any funds.

As AIDEA examined the use of NMTCs in Alaska, it noted that a qualified CDE already exists here, Alaska Growth Capital. Further, in researching the use of NMTCs in Alaska, AIDEA determined that there are a number of CDEs willing to offer credits to potential projects in this state. However, due to the national constriction of credit, it has become difficult to find commercial lenders willing to provide the debt portion of the required NMTC financing structure. That is, there are potential NMTC equity investors and CDEs for Alaska projects, but there is a paucity of available loans. As Mr. Ravaeschiere noted, "The lack of leveraged lenders currently participating in the Program

creates a need for AIDEA... to fulfill that role". See October 11, 2010 letter at p.2. Alaska Growth Capital made a similar recommendation.

As a result, AIDEA determined that its appropriate role with regard to NMTCs would be to offer loan guarantees as a means to encourage lenders to participate in the program. Additionally, AIDEA could act as a direct lender if no lender was available.