

Bill Hearing Information Sheet

Prepared by AIDEA

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House Bill 120

“An Act creating a new markets tax credit assistance guarantee and loan program within the Alaska Industrial Development and Export Authority; and providing for an effective date.”

This legislation will enable AIDEA to foster more economic development in Alaska, especially in areas with great need for new investment. This program requires both equity and debt financing and there is a scarcity of debt capital available. This legislation provides the mechanism for AIDEA to issue guarantees and make loans to assist in financing projects in these underserved and underdeveloped areas.

The federal New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Essentially, the program provides substantial tax credits to equity investors to projects, which also borrow funds from what is termed a leveraged lender. By combining tax credits on the equity side with favorable loan conditions on the debt side, the cost of financing a qualifying project can be reduced by between 20-30%.

The program offers these benefits to support investment in economically disadvantaged areas. Substantially all of the qualified equity investment must be used by the CDE to provide investments in low-income communities. The credit provided to the equity investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

The program was reauthorized by Congress in December 2010 for an additional two years and has tax credits allocations worth \$3.5 billion for each year. To date, the Fund has made 495 awards totaling \$26 billion in allocation authority.

The program uses census tracts as the geographic unit and only projects in Qualified Census Tracts (QCT) are eligible for the NMTC tax credits. QCTs are those that meet at least one of the following requirements:

- Poverty rate greater than 20%, and/or
- Median income less than 80% of the state/metropolitan median.

There are two portions to financing through the NMTC program.

- The equity portion as described above; and

- The second is a loan usually from a bank that is called a leveraged lender under the program. It is this debt portion of the program that has suffered from the economic downturn because banks have been unwilling to lend and as a result there is a shortage of debt to complete many NMTC deals. While the NMTC program has been a success its current usage is limited by a lack of credit. The leveraged lender is limited to interest only payments for the seven years of the tax credit period. At the end of the seven years the loan is retired through a balloon payment or refinanced.

In order to work, NMTC funding, therefore, must have equity investors seeking tax credits and a willing leveraged lender. SB66 seeks to facilitate adequate participation by debt lenders to support the equity portions of this program.

HB120 will vitalize the NMTC program in Alaska by allowing AIDEA to provide loan guarantees to the leveraged lender in an NMTC deal. This AIDEA guarantee would incentivize participation by financial institutions. Before issuing a NMTC guarantee or a loan, the Authority will determine that the project will promote economic development in the state. In cases where the applicant can show that they have been unable to obtain a leveraged loan, under commercially reasonable terms, from two financial institutions then AIDEA may make a direct leveraged loan to the project.

The combined outstanding principal balance of AIDEA's loan guarantees and loans may not exceed \$50 million.