

HOUSE BILL NO. 410

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 2/26/10

Referred: Labor and Commerce, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to loan participations and development finance projects of the Alaska
2 Industrial Development and Export Authority; and relating to loans from the rural
3 development initiative fund."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 * **Section 1.** AS 44.88.159(e) is amended to read:

6 (e) The interest rate on a loan participation purchased directly from the assets
7 of the authority shall be determined under the regulations adopted by the authority
8 under AS 44.88.085(g)(2)(C) **and shall be no less than the total of a percentage as**
9 **determined by the authority to represent the allocable expenses of operation and**
10 **costs of loan origination and servicing, plus the cost of funds. In this subsection,**

11 **(1) "comparable financial security" means a type or category of**
12 **financial security the authority identifies in the regulations adopted by the**
13 **authority under AS 44.88.085(g)(2)(C), that has a term and financial conditions**
14 **comparable to the term and financial conditions of a loan participation, and for**

1 which a regularly published, nationally recognized market index is available;

2 (2) "cost of funds" means the earnings, expressed as an annual
 3 interest rate, the authority would receive on a comparable financial security, and,
 4 for a loan participation with a fixed interest rate, the cost of funds must equal or
 5 exceed the minimum interest rate;

6 (3) "minimum interest rate" means the five year return on
 7 investment funds of the authority, expressed as an annual interest rate, achieved
 8 by all internal and external investment managers of the authority combined.

9 [HOWEVER, THE MINIMUM INTEREST RATE ON A LOAN PARTICIPATION
 10 PURCHASED FROM ASSETS OF THE AUTHORITY MAY NOT BE LESS THAN
 11 THE MINIMUM INTEREST RATE DETERMINED

12 (1) UNDER (a) OF THIS SECTION IF THE PROJECT IS OF A
 13 TYPE THAT COULD BE FUNDED WITH TAX-EXEMPT BONDS; OR

14 (2) UNDER (b) OF THIS SECTION IF THE PROJECT IS OF A
 15 TYPE THAT COULD NOT BE FUNDED WITH TAX-EXEMPT BONDS.]

16 * **Sec. 2.** AS 44.88.159 is amended by adding a new subsection to read:

17 (g) The authority may in the regulations adopted by the authority under
 18 AS 44.88.085(g)(2)(C), establish a program to pay to borrowers of loan participations
 19 determined by the authority to meet sufficient job creation, rural development, or other
 20 economic development criteria, incentive rate rebates of no more than one percent of
 21 the interest rate charged on the authority's portion of a loan participation. The
 22 following standards apply to the program:

23 (1) the payment of an incentive rate rebate may reduce the interest rate
 24 to a rate that is less than the minimum interest rate required under (a), (b) or (e) of this
 25 section;

26 (2) the authority may not commit to pay an incentive rate rebate for a
 27 proposed loan participation if the total of the amount of the proposed loan
 28 participation plus the combined outstanding balance of all loan participations for
 29 which the authority has committed to pay incentive rate rebates would exceed five
 30 percent of the total of the amount of the proposed loan participation plus the combined
 31 outstanding balance of all loan participations of the authority;

(3) an incentive rate rebate may not accrue for more than five years after the date the loan participation is purchased;

(4) the authority may establish a separate account for the incentive rate rebate program.

* **Sec. 3.** AS 44.88.172(a) is amended to read:

(a) The economic development account is established in the revolving fund. The economic development account consists of money or assets appropriated, loaned, or transferred to the authority for deposit in the account and other money or assets deposited in the account by the authority. While money is on deposit in the economic development account, the money may be used only to finance, acquire, manage, and operate development projects that the authority intends to own and operate. **In this subsection**

(1) [THE TERM] "operate" includes operation directly by the authority, [OR] by an agent of the authority, or by a person as determined under an agreement between the authority and other owners of the development project;

(2) "own" includes ownership by the authority of all or a percentage of a development project.

* **Sec. 4.** AS 44.88.610(a) is amended to read:

(a) The authority may use money from the rural development initiative fund to make **loans** [A LOAN] of up to **\$150,000** [\$100,000] to a person, or **loans** [A LOAN] of up to **\$300,000** [\$200,000] to two or more persons, to be used for working capital, equipment, construction, or other commercial purposes by a business located in a community with a population of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks. [A PERSON WHO HAS RECEIVED A LOAN UNDER THIS SUBSECTION MAY NOT BE GRANTED ANOTHER LOAN UNTIL AFTER THE ORIGINAL LOAN IS ENTIRELY REPAYED.] For purposes of this subsection,

(1) "community" means a city as defined in AS 29.71.800 or a place in the unorganized borough that is not incorporated as a city and in which 25 or more individuals reside as a social unit; and

1 (2) "connected by road" does not include a connection by the Alaska
2 marine highway system.

3 * **Sec. 5.** AS 44.88.610(b) is amended to read:

4 (b) The authority shall require collateral for each loan made under this section
5 and shall require that a reasonable amount of money from other nonstate sources be
6 committed for use on any project or enterprise for which money from a loan will be
7 used. The authority by regulation may establish other conditions for loans. The
8 authority shall by regulation establish rates of interest that are not less than **four** [SIX]
9 percent a year and terms of repayment for loans made under this section.