THE STATE of ALASKA
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Tax Credit Bond Legislation
HB 331
SECTIONAL ANALYSIS

FOR HOUSE RESOURCES

Section 1:

Exempts the bond corporation created in Sec. 2, and any overriding royalty interests negotiated under Sec. 11, from the procurement code.

Section 2:

Establishes the Alaska Tax Credit Certificate Bond Corporation within DOR. *[Largely patterned after Alaska Pension Obligation Bond Corporation, AS 37.16]*

37.18.010	Creates the corporation.
37.18.020	Establishes the board of directors, all of whom are state department commissioners.
37.18.030	Authorizes the corporation to issue bonds up to $1 billion and contract for associated services.
37.18.040	Authorizes the corporation to have a reserve fund which will hold funds to be used for repurchase, as well as funds appropriated for the purpose of interest and principal payments to bond holders.
37.18.050	Authorizes the corporation to set the terms of bonds to be issued.
37.18.060	Corporation must adopt a resolution to approve the issuance of bonds.
37.18.070	Gives certain enforcement rights to certain bond holders.
37.18.080	Bonds may not be issued unless the discount rate by which tax credits are purchased is at least 1.5% greater than the total interest cost of the bonds.
37.18.090	Corporation may refund bonds prior to the maturity date.
37.18.100	Bonds are legal instruments.
37.18.800	This chapter shall be liberally construed to carry out its purposes.

37.18.810 Corporation may adopt regulations necessary to implement this chapter.
37.18.900 Definitions.

Section 3:
Amends the Gas Storage Credit to enable repurchase of any credits via the bond program.

Section 4:
Amends the LNG Storage Credit to enable repurchase of any credits via the bond program.

Section 5:
Amends the Refinery Infrastructure Credit to enable repurchase of any credits via the bond program.

Section 6:
Amends various provisions of AS 43.55.028, the tax credit repurchase fund.

.028(e) The department may either use the tax credit fund money, or money disbursed from the bond program, to purchase tax credits. Written to maximize flexibility and retain the existing program and procedures.

Section 7:

.028(g) Clarifies that the current $70 million per company per year cap, with the associated "haircut", does not apply to repurchases via the bond program.

Section 8:

.028(i) Adds definitions for "money disbursed to the commissioner," and "total interest cost."

Section 9:

.028(j) Clarifies that if a company has an outstanding liability to the state, this can be offset against a payment via the bond program as well as via traditional repurchase.

Section 10:

.028(k) New section authorizing the department to negotiate a repurchase of all credits held by a company, and describing how the holder of credits indicates their desire to participate in the program. This section contemplates that if a holder of credits existing at the time of a bond issuance declines to participate in the program, such holder is precluded from submitting such existing credits for purchase in connection with future bond issuances. This provision does not preclude such holder from submitting credits claimed after a bond issuance for purchase in connection with a future bond issuance.

.028(l) New section describes the mechanism by which the department estimates the expected cash flow to a company via the current repurchase process and expected schedule. From this estimate, a purchase offer can be calculated based on the discount rate determined in (m).

.028(m) New section establishing a base discount rate of 10%, with four methods to reduce this to a number equal to total interest cost + 1.5%.

1. For a seismic credit, the company has waived the 10-year confidentiality period for the data and allowed it to become public;
2. The company has agreed to an overriding royalty interest (ORRI) accepted by the Department of Natural Resources;
3. The company has committed reinvest the entire amount received within an Alaska oil and gas project within 24 months; or
4. The credit is against the corporate income tax, primarily impacting refinery infrastructure credits.

.028(n) New section clarifying that the amount of a credit in excess of the discounted amount purchased retains no value and cannot be used against taxes or sold.

Section 11:

Authorizes the Department of Natural Resources to negotiate Overriding Royalty Interests (ORRI). These are then valued, and a determination is made whether the incremental value received by the state warrants the approval of the lower discount rate for purposes of credit repurchase.

Section 12:

Authorizes DNR and DOR to adopt regulations to implement this act

Section 13:

Authorizes retroactive application of regulations.

Section 14:

Immediate effective date.