

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
TRADE AND TOURISM

February 8, 2011

10:18 a.m.

MEMBERS PRESENT

Representative Bob Herron, Chair
Representative Kurt Olson, Vice Chair
Representative Neal Foster
Representative Cathy Engstrom Munoz
Representative Steve Thompson
Representative Peggy Wilson
Representative Berta Gardner
Representative Chris Tuck

MEMBERS ABSENT

Representative Wes Keller

COMMITTEE CALENDAR

HOUSE BILL NO. 119

"An Act relating to the procurement of supplies, services, professional services, and construction for the Alaska Industrial Development and Export Authority; relating to the definition of 'own' for the economic development account; relating to the definitions of 'development project', 'plant', 'facility', and 'project' for the Alaska Industrial Development and Export Authority; and providing for an effective date."

- MOVED CSHB 119(EDT) OUT OF COMMITTEE

HOUSE BILL NO. 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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 119

SHORT TITLE: AIDEA: PROCUREMENT; PROJECTS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/11 (H) READ THE FIRST TIME - REFERRALS
01/24/11 (H) EDT, FIN
02/03/11 (H) EDT AT 10:15 AM BARNES 124
02/03/11 (H) Heard & Held
02/03/11 (H) MINUTE(EDT)
02/08/11 (H) EDT AT 10:15 AM BARNES 124

BILL: HB 120

SHORT TITLE: AIDEA: NEW MARKETS TAX CREDIT PROGRAM

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/24/11 (H) READ THE FIRST TIME - REFERRALS
01/24/11 (H) EDT, FIN
02/08/11 (H) EDT AT 10:15 AM BARNES 124

WITNESS REGISTER

TED LEONARD, Executive Director
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 119 and HB 120.

MARK DAVIS, Economic Development Officer
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 119 and HB 120.

REPRESENTATIVE LINDSEY HOLMES

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke to the committee on the subject of
"Missed Economic Opportunities."

BRIAN BJORKQUIST, Senior Assistant Attorney General

Labor and State Affairs Section

Department of Law

Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB
119.

HUGH SHORT, President/Chief Executive Officer

Alaska Growth Capital (AGC)

Anchorage, Alaska

POSITION STATEMENT: Testified in favor of HB 120.

ACTION NARRATIVE

[10:18:40 AM](#)

CHAIR BOB HERRON called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 10:18 a.m. Representatives Herron, Olson, Tuck, Foster, and Thompson were present at the call to order. Representatives Peggy Wilson, Gardner, and Munoz arrived as the meeting was in progress.

HB 119-AIDEA: PROCUREMENT; PROJECTS

[10:19:24 AM](#)

CO-CHAIR HERRON announced that the first order of business would be HOUSE BILL NO. 119, "An Act relating to the procurement of supplies, services, professional services, and construction for the Alaska Industrial Development and Export Authority; relating to the definition of 'own' for the economic development account; relating to the definitions of 'development project', 'plant', 'facility', and 'project' for the Alaska Industrial Development and Export Authority; and providing for an effective date."

[10:19:42 AM](#)

TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), informed the committee Mr. Davis would respond to the four questions submitted by Chair Herron on 2/3/11.

[10:20:13 AM](#)

MARK DAVIS, Economic Development Officer, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), said that Chair Herron's first question asked whether AIDEA's purpose for investing in Limited Liability Companies (LLCs), or other legal entities, is to avoid risk. On the contrary, Mr. Davis assured the committee the purpose of investing in an LLC is not so AIDEA can invest in projects with higher risks, but to allow AIDEA to participate in projects that are currently prohibited. In fact, the primary objective is to

strengthen AIDEA's position when investing in a percentage of a project; furthermore, private capital investors have advocated for this change. He stressed that AIDEA is not looking to engage in riskier enterprises, but for a way to leverage funds and to work with the private sector. A facet of AIDEA's strategic plan calls for partnerships with the private sector because, he said, "Working with the private sector is a good way to validate the investment. If private capital is interested in the project, then it probably makes sense for AIDEA to look at it carefully." Chair Herron's second question asked for examples of projects that the proposed legislation would allow. Mr. Davis gave the following examples: Fuel storage at the Ted Stevens Anchorage International Airport is probably authorized under current definitions covering the transportation of natural resources, but the proposed legislation will clarify this authority; Current legislation allows AIDEA to build roads that are directly tied to a particular project, but the proposed legislation will allow AIDEA to build roads otherwise. Again, the purpose of the proposed legislation is "so that we don't get into fine issues of legal interpretation. We felt it better just to seek clarification from the legislature."

[10:22:43 AM](#)

CHAIR HERRON invited Representative Holmes to speak to the committee about an opportunity for economic development.

[10:23:23 AM](#)

REPRESENTATIVE LINDSEY HOLMES, Alaska State Legislature, advised the committee that the state's efforts to diversify its economy should look beyond the big industries of oil, gas, and mining. She said the Anchorage and Fairbanks airport systems serve as air cargo hubs and present Alaska with an economic opportunity. In 2004, Alaska and Hawaii were recognized by federal law as the only states in which an international carrier can offload cargo coming into the U. S. "without being considered to have broken their international journey." This means a carrier can land in Anchorage or Fairbanks and in addition to refueling, can offload cargo onto another carrier, transfer it, or exercise other options. Representative Holmes pointed out this is a huge advantage for carriers - and those serving Asia in particular - that are shipping products to the U.S. Two carriers are presently taking advantage of this opportunity, and their operations on the ground support additional jobs in all facets of aviation and related industries. Representative Holmes

opined this is an economic opportunity that is not fully utilized.

[10:26:06 AM](#)

CHAIR HERRON asked for any suggestions on how to take advantage of this opportunity.

[10:26:16 AM](#)

REPRESENTATIVE HOLMES urged legislators to "spread the word" in any manner possible.

[10:26:39 AM](#)

CHAIR HERRON suggested that the committee write a letter to appropriate entities.

[10:26:55 AM](#)

REPRESENTATIVE TUCK remembered that passenger airlines are taking advantage of this law.

[10:28:15 AM](#)

MR. DAVIS continued with AIDEA's response to Chair Herron's question concerning procurement, and explained that on the issue of procurement AIDEA seeks to be treated like other public corporations such as the Alaska Housing Finance Corporation (AHFC). The changes proposed in HB 119 would provide flexibility so the board of directors, or the executive director, could make more use of business opportunities that arise. Furthermore, the current procurement process is "not commercially reasonable" because AIDEA's projects are generally not related to development projects affiliated with the Department of Transportation & Public Facilities (DOTPF), such as the Alaska Ship & Drydock Inc. project in Ketchikan. He also confirmed that the proposed changes do not have an effect on the Davis-Bacon Act regarding procurement, nor on the business and professional licensing requirements.

[10:30:48 AM](#)

REPRESENTATIVE P. WILSON asked whether AIDEA reports all of its projects to the legislature annually.

[10:31:22 AM](#)

MR. LEONARD said AIDEA presents an annual report to the legislature each January that identifies all of AIDEA's projects and gives financial and other information. In further response to Representative P. Wilson, he said copies are sent to all legislators, and he offered to provide additional copies.

[10:33:11 AM](#)

MR. DAVIS, in response to Representative P. Wilson, said AIDEA would also provide copies of the information regarding the activities of economic development agencies in other states.

[10:33:33 AM](#)

REPRESENTATIVE P. WILSON then asked whether information on any LLCs created by AIDEA would be included in its reports to the legislature.

[10:33:58 AM](#)

MR. LEONARD assured the committee that an LLC would be included by AIDEA in its financials and reports to the legislature.

[10:34:18 AM](#)

MR. DAVIS re-stated that the changes to the procurement code add flexibility, but still include all the award-bid requirements of Alaska businesses, the Davis-Bacon Act, and public processes through regulation. Chair Herron's next question asked about the change in the composition of AIDEA's board of directors from three government officials and two members of the public, to the commissioners of the Department of Revenue (DOR) and DCCED, and five members of the public. Mr. Davis said this change was not sought by AIDEA, but it seems to be working well; in fact, the new board will provide a broader range of geographic and business expertise. The final question asked AIDEA to identify the other groups that were studied before the bill was drafted. In response, he said the states of New Jersey, West Virginia, Wyoming, and North Dakota, and related private organizations, were consulted. Mr. Davis pointed out that other states have changed the responsibilities of their economic development agencies in order to respond to changes in their economies. For example, the Port Authorities in Ohio are now able to engage in housing, recreation, education, government operations, culture, or research. Although this is a broad range of projects, the Port Authorities, like AIDEA, are under the constraint of making

a return on investment for each project. Mr. Davis concluded that the survey of other states' agencies revealed a need for the inclusion of research-related and development-related new technologies in the bill. If the bill is enacted, AIDEA can provide financing, or partial financing, through the mechanism of an LLC.

[10:38:26 AM](#)

REPRESENTATIVE TUCK asked for further explanation of the effect of an LLC on AIDEA's liability in a partnership.

[10:39:09 AM](#)

MR. DAVIS explained that LLCs were authorized in Alaska in 1997, although they have been used in other states for some time. An LLC acts as a partnership, but the liability of each partner is limited to the assets put into the LLC. In a traditional partnership, all of the partners are liable for all of the assets of the partnership. An LLC can file a partnership return with the Internal Revenue Service (IRS) if desired. The assets AIDEA puts into its business operations are AIDEA's only liability thus if it fails, that investment is the only loss. Also, an LLC can be managed by a managing partner instead of the cumbersome board meetings, shareholder votes, and governance mechanisms required by a corporation. Speaking from his experience, Mr. Davis opined there has been growth in the number of LLCs created, and AIDEA will join this modern trend.

[10:41:22 AM](#)

REPRESENTATIVE GARDNER asked whether the use of an LLC would encourage AIDEA to enter into risky ventures; in fact, would there still be an incentive for AIDEA to "maintain its prudent and cautious approach to participation and investment."

[10:41:53 AM](#)

MR. LEONARD affirmed that an LLC is an investment mechanism on governance and AIDEA's mission is to provide economic development and investment, but not risky investments. The agency must still show that an investment will pay back any debt at a rate of return that will allow AIDEA to continue to fund projects. Bad or risky investments will limit AIDEA's resources, in addition to garnering public and legislative pressure.

[10:43:39 AM](#)

REPRESENTATIVE GARDNER then asked whether the proposed expanded powers could enable AIDEA to bypass the public process, particularly in unorganized areas.

[10:44:20 AM](#)

MR. LEONARD assured the committee AIDEA would still have to go through its normal procedures. In an unorganized area, or if AIDEA is going to invest in, or issue more than \$6 million in bonds, it is required to use a public hearing process. Furthermore, in an unorganized area, the governor's office must set up a task force or committee to take public testimony and report back to the board. He was unsure if certain contracts also require public hearings.

[10:45:27 AM](#)

REPRESENTATIVE GARDNER said, "So if you hold these public hearings and have the task force and the public objects, does that have the strength to stop the process, or can AIDEA go ahead?"

[10:45:37 AM](#)

MR. LEONARD expressed his understanding that objections are conveyed to the board, but the board could still proceed with a project over the public's objections. He deferred to Mr. Bjorkquist.

[10:46:13 AM](#)

BRIAN BJORKQUIST, Senior Assistant Attorney General, Labor and State Affairs Section, Department of Law (DOL), explained that if bonds in excess of \$6 million are issued, there would have to be consent for a project by the local governing body. However, if there is not bond financing, and the location of the project is in an unorganized borough, a regional resource advisory council would have to be consulted prior to the execution of contracts, but it would not "have approval process."

[10:47:13 AM](#)

MR. LEONARD assured the committee that AIDEA would probably bond for a road. In further response to Representative Gardner, he clarified that the current statute allows AIDEA to invest in

projects under \$10 million. He acknowledged that the proposed legislation could increase the number of projects AIDEA invests in under \$10 million; however, he urged the committee to think of the proposed changes as a "tool ... and if the mission for us is to expand and diversify the economy we're asking for the tools that we believe that we need." He opined the annual report and the composition of the board of directors provide safeguards for projects under \$10 million, and any project over \$10 million would be bonded and would go through the legislature. Mr. Leonard stressed that AIDEA has the internal capacity to invest in any project under \$10 million.

[10:49:28 AM](#)

CHAIR HERRON closed public testimony.

[10:49:53 AM](#)

REPRESENTATIVE OLSON reminded the committee Amendment 1 permits AIDEA to create subsidiary corporations which complement the proposed provisions in HB 119 that allow the agency to form an LLC as a means of owning and operating a development project. The language in the amendment grants powers equal to those held by AHFC.

[Amendment 1 was previously provided and read:

Page 1, line 5, following "**Authority;**":

Insert "**relating to the Alaska Industrial Development and Export Authority creating subsidiaries regarding projects financed under AS 44.88.172;**"

Page 2, following line 24;

Insert a new bill section to read:

"***Sec. 3.** AA 44.88 is amended by adding a new section to read:

Sec. 44.88.178. Creation of subsidiaries.

The authority may create one or more subsidiary corporations for the purpose of acquiring, construction, owning, or financing a project financed under AS 44.88.172. A subsidiary corporation created under this section may be incorporated under AS 10.20.146 - 10.20.166. The authority may transfer assets of the authority to a subsidiary created under this section. A subsidiary created under this section may borrow money and issue bonds as evidence of that borrowing, and has all the powers of the authority

that the authority grants to it. Unless otherwise provided by the corporation, the debts, liabilities, and obligations of a subsidiary corporation created under this section are not the debts, liabilities, or obligations of the authority."

Renumber the following bill sections accordingly.]

[10:50:50 AM](#)

MR. LEONARD indicated AIDEA's support for the amendment.

[10:51:02 AM](#)

REPRESENTATIVE GARDNER asked whether AIDEA requested the amendment.

[10:51:08 AM](#)

REPRESENTATIVE OLSON said, "To the best of my knowledge."

[10:51:33 AM](#)

REPRESENTATIVE MUNOZ asked whether a subsidiary corporation could help manage federal receipts that are coupled with a state match and other sources of revenue.

[10:52:31 AM](#)

MR. LEONARD said AIDEA does have the powers to invest in interties, and deferred the question to Mr. Bjorkquist.

[10:52:58 AM](#)

MR. BJORKQUIST said yes, a subsidiary corporation could be used for that type of a project.

[10:53:16 AM](#)

REPRESENTATIVE GARDNER asked for the effective difference between the ability to form an LLC under the proposed bill, and the ability to form a subsidiary corporation.

[10:53:37 AM](#)

MR. DAVIS explained that a subsidiary corporation would usually be wholly-owned by AIDEA, unlike an LLC with one or more

partners. Also, a subsidiary corporation can be set up as a mechanism to accept funds from another source, as in the intertie example.

[10:54:41 AM](#)

MR. LEONARD added that a subsidiary has broader powers; in fact, AIDEA could transfer the power to issue bonds and incur debt while shielding itself from the debts, liabilities, and obligations of the subsidiary.

[10:55:23 AM](#)

MR. DAVIS further explained that an LLC is usually an investment mechanism with a partner; however, a subsidiary - as in the intertie example - could take in available federal funds and issue the necessary bonding to provide the financing.

[10:55:50 AM](#)

REPRESENTATIVE GARDNER asked whether a subsidiary funded by federal funds would still be under AIDEA's authority.

[10:56:30 AM](#)

MR. DAVIS relayed that subsidiary corporations are controlled by the parent corporation which appoints the subsidiary corporation's board of directors. In addition, the board of governance process requires that meetings are open to the public.

[10:56:44 AM](#)

REPRESENTATIVE THOMPSON surmised that a subsidiary corporation is still subject to the rules, regulations, and restrictions of its parent company.

[10:57:03 AM](#)

MR. DAVIS said correct.

[10:57:07 AM](#)

REPRESENTATIVE TUCK asked what AIDEA is unable to accomplish now that it will be able to accomplish after the formation of subsidiary corporations.

[10:57:48 AM](#)

MR. DAVIS affirmed that AIDEA has the general powers to accept federal funds and grants, but it cannot place the funds in a subsidiary, or transfer bonding authority to a subsidiary. A separate subsidiary can set up an entity just to accomplish a particular project. The agency will use subsidiary corporations as investment tools to invest and finance in a "more standard commercial manner."

[10:58:38 AM](#)

CHAIR HERRON removed his objection. There being no further objection, Amendment 1 was adopted.

[10:59:03 AM](#)

REPRESENTATIVE OLSON moved to report HB 119, as amended, out of committee with individual recommendations and the accompanying fiscal note. There being no objection, CSHB 119(EDT) was reported from the House Special Committee on Economic Development, International Trade and Tourism.

HB 120-AIDEA: NEW MARKETS TAX CREDIT PROGRAM

[10:59:30 AM](#)

CHAIR HERRON announced that the final order of business would be HOUSE BILL NO. 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."

[10:59:59 AM](#)

TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), informed the committee that in the last two years AIDEA has been searching for tools to use in the efforts to promote more economic development in the state, to diversify Alaska's economy, and to increase investment in rural areas. He relayed that during discussions with other economic development agencies it was noticed that AIDEA does not participate in an U.S. Department of the Treasury, Internal Revenue Service (IRS) program called the New Markets Tax Credit (NMTC) program. This program is available in Alaska through a company called Alaska

Growth Capital (AGC), and he indicated that more information on AGC would be provided during later testimony. Mr. Leonard stated that HB 120 is another tool AIDEA can use to increase investments in areas with low incomes and smaller populations. In addition, the bill solves a problem that arose last year. Mr. Leonard recalled that last year AIDEA was authorized to issue American Recovery and Reinvestment Act (ARRA) Recovery Zone Facility Bonds (RZFBs), which are a type of bond that could be utilized by businesses to get tax-exempt financing. However, often projects in rural areas such as Bethel did not have the initial cash flow to qualify for the bonds. Mr. Leonard expressed AIDEA's belief that the program would help give tax credits, lower the cost of debt, and give "patient capital" to projects for a period of seven years, after which the project would qualify for conventional financing.

[11:03:42 AM](#)

MARK DAVIS, Economic Development Officer, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), responded to questions that were previously submitted to AIDEA. The first question asked when AIDEA would require an economic benefit analysis prepared by a person acceptable to the authority. Mr. Davis said that as part of the analysis of a NMTC project, AIDEA would want to ensure that the project could pay for itself, and probably would require an economic benefit analysis. In response to the second question, he explained that AIDEA has already determined which Alaska communities meet the criteria and are eligible to use the tax credit program. However, Mr. Davis cautioned that eligibility can be complicated by a 2004 amendment to the original IRS legislation regarding "targeted populations [that] can include for example, an Indian Tribe or Native Americans, additionally census areas with less than 2,000 people in the census."

[11:06:00 AM](#)

REPRESENTATIVE TUCK referred to the IRS amendment and asked whether targeted populations are "and/or" census areas with less than 2,000 people.

[11:06:26 AM](#)

MR. DAVIS indicated "and/or." He stated the next question asked for further information on NMTC loans made by the New Jersey Economic Development Authority (NJEDA). First, Mr. Davis

confirmed that NJEDA is the only known state agency offering NMTC loans. Second, he noted that as AIDEA surveyed other states, it found that other states are operating as the "middleman," or the community development entity (CDE) arm, which accepts the funds from equity investors and bank loans. In Alaska, AGC is available to fill this role and he opined AIDEA does not need to act as a CDE. He referred to advice from Vincent Ravaschiere, New Markets Capital Company, New York, New York, who concluded that although there are equity investors available, it is difficult for NMTC projects to obtain leveraged loans from private financial institutions, and the problem with the program is a general lack of available credit. Mr. Davis reported that Mr. Ravaschiere further advised that guaranteeing or providing leveraged loans should help alleviate the "bottleneck." Thus, AIDEA is proposing to start the program by providing a guarantee to the bank that will increase the bank's interest in a proposed project. He pointed out that banks are restricted to interest-only loans for the first seven years and cannot have a secured interest in the project. By guaranteeing the loan, AIDEA will make this type of loan more attractive to a bank. Essentially, AIDEA's involvement will help the program work by providing leveraged lending and thereby reducing the cost of a project by about 20-25 percent; allowing the project to pay only interest for seven years; allowing re-financing at the end of seven years of only a portion of the project, because the equity provision is exhausted with the tax credit. Mr. Davis stated possible projects for NMTCs may be wind farms in rural Alaska, or renovations of old buildings. Furthermore, other federal credits such as tax credits for renewable energy projects, or historical buildings, can be used in conjunction with the NMTC program. He concluded that the program is 10 years old, has a good track record, and will not require funds from the general fund.

[11:10:54 AM](#)

MR. LEONARD added that this program would be a new tool for AIDEA with the following cap: The total amount at any point in time that AIDEA could have outstanding in its portfolio would be \$50 million in leveraged loans and leveraged guarantees.

[11:11:45 AM](#)

HUGH SHORT, President/Chief Executive Officer, Alaska Growth Capital (AGC), informed the committee his company is the only state-chartered Business and Industrial Development Corporation (BIDCO) in Alaska. In addition, his company can participate in

NMTC projects because it is an U.S. Department of the Treasury (DOTRES), Community Development Financial Institutions (CDFI) Fund certified organization, and thereby is allowed to compete for NMTCs. In fact, during the past 10 years, Alaska Growth Capital BIDCO Inc. has received \$90 million in NMTCs. The company is also the only CDE in Alaska, and coordinates with CDEs across the country on projects in Alaska. The company is owned by Arctic Slope Regional Corporation (ASRC) and has used public, private, and federal sources to create over 2,000 jobs since its inception.

[11:13:47 AM](#)

MR. SHORT, in response to Representative Gardner, relayed that the Business and Industry Development Corporation Act was enacted in the late '90s to allow the state to regulate and create lending companies that are not banks, but are capitalized by private capital. Alaska Growth Capital was capitalized by ASRC and by initial loans and grants from the state for \$3 million. The BIDCO designation is important to AGC and it provides annual reports to the state on the number of jobs that are created. In addition, AGC is examined by DCCED, Division of Banking and Securities. The Department of the Treasury created the CDFI Fund under the Clinton Administration to encourage investment into low-income communities, whether rural or urban, and it is a designation that allows a company access to federal programs including NMTCs, grants, and other programs.

[11:15:57 AM](#)

MR. SHORT continued to explain that AGC is actively involved with NMTCs and believes HB 120 would be a "very large incentive" for equity investors across the country to invest in Alaska. The biggest hurdle to projects is the requirement to forebear seven years after default and, due to the uncertainty in today's regulatory atmosphere, many banks are cautious and conservative. Other issues such as interest-only payments for seven years, and the indirect lien, may be overcome. Mr. Short opined the proposed legislation would allow AIDEA to make prudent investment decisions and could result in Alaska becoming one of the most successful NMTC states. Furthermore, enactment of HB 120 will encourage many projects in distressed areas of rural Alaska, Anchorage, Fairbanks, off the road system, or in Southeast because it will add 15-20 percent of capital to the project to offset the cost of doing business, and allow the entrepreneur or the nonprofit to build infrastructure. He described two examples: the fish processing plant in Platinum,

and the purchase of \$18 million in tax credits for an elder care facility in Kotzebue. Mr. Short concluded that HB 120 is a key to creating jobs in rural and urban Alaska.

[11:21:06 AM](#)

REPRESENTATIVE FOSTER expressed his support of federal tax credits programs but asked whether there is risk to the state. He encouraged partnering with the Coastal Village Region Fund, and agreed with taking advantage of programs targeting rural, economically devastated areas.

[11:22:32 AM](#)

REPRESENTATIVE TUCK also supported programs for rural areas. He asked for elaboration on how the proposed legislation will offset 15-20 percent of capital costs.

[11:22:52 AM](#)

MR. SHORT explained that a tax credit allows for equity investment by a tax credit investor. For example, a \$10 million project has \$3.9 million available for a tax credit. An investor could be U. S. Bank, Wells Fargo Bank, or New York Community Bank. The investors buy at a discount and receive a 10-15 percent annual return over the seven-year compliance period. In the example, the \$3.9 million available might be purchased for \$2.7 million and after subtracting costs, the remaining equity is funds available to the investment, interest-only for seven years, and often at a below-market interest rate. After seven years, the project can purchase the debt without paying back the principal. Therefore, for a \$10 million project, the project receives about \$1.5-2 million upfront - which can be purchased after seven years for a nominal fee - and the debt is forgiven. Mr. Short concluded there is a mutual benefit to all parties as the tax credit investor receives a return with little risk, and the project receives about a 15-20 percent return of capital.

[11:26:03 AM](#)

REPRESENTATIVE TUCK understood why projects would be given a seven-year timeframe before assets are collected, but noted that debt can also become a hurdle. He asked Mr. Leonard or Mr. Davis to explain how the proposed legislation "bridges that gap, how that we're able to overcome that seven-year hurdle."

[11:27:10 AM](#)

MR. DAVIS acknowledged that the problem with the program is that two parts are needed for a project: the qualified, equity investors who are going to get the tax credit; a lender to supply the rest of the capital, and then refinance to a conventional loan. However, the lender is asked to wait seven years and not foreclose in the case of default. House Bill 120 allows AIDEA to provide a guarantee to the lender during the seven-year period that in the event of a default, AIDEA will take the lender's place and wait to foreclose until the end of the compliance period. He said, "This is just an idea to free it up because right now, there are no, as I understand it, there are very few leverage lenders willing to operate in Alaska."

[11:28:58 AM](#)

MR. LEONARD assured the committee that AIDEA has a large net-asset balance of approximately \$1 billion and can invest in long-term projects. For example, AIDEA can extend loans for 25 years because of the mixture of its asset base and its strong portfolio.

[11:30:00 AM](#)

MR. DAVIS added that IRS regulations provide that if a project does not continue for the full seven-year period, a tax-recapture applies to the investors. He opined this is another reason why NMTC projects have succeeded.

[11:30:47 AM](#)

REPRESENTATIVE THOMPSON noted the proposed bill indicates the loans in this program can be for a term not to exceed 10 years.

[11:31:14 AM](#)

MR. DAVIS stated that the proposed language on page 3, paragraph (4), line 21, of the bill conforms to commercial practices.

[11:32:39 AM](#)

REPRESENTATIVE FOSTER asked how Alaskans will be made aware of the program.

[11:32:56 AM](#)

MR. DAVIS envisioned that AGC is a very effective economic development company. In addition, AIDEA will work with AGC, consultants, and other NMTC funds that have expressed interest in using the allocations available for Alaska.

[11:34:03 AM](#)

MR. LEONARD opined that if the proposed legislation is enacted, AIDEA would partner with AGC, and would also utilize other state agencies to distribute information throughout the state.

[11:34:42 AM](#)

CHAIR HERRON requested that the AIDEA board of directors consider working with the House Special Committee on Economic Development, International Trade and Tourism to identify and tour projects during interim.

[HB 120 was heard and held.]

[11:35:17 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 11:35 a.m.