

HOUSE FINANCE COMMITTEE
February 14, 2012
1:34 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Reggie Joule

ALSO PRESENT

Mark Davis, Deputy Director, Alaska Industrial Development and Export Authority, (AIDEA)

SUMMARY

CSSB 66(L&C)

AIDEA: NEW MARKETS TAX CREDIT PROGRAM

CSSB 66(L&C) was HEARD and HELD in committee for further consideration.

#sb66

CS FOR SENATE BILL NO 66(L&C)

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

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MARK DAVIS, DEPUTY DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, (AIDEA) clarified that SB 66 is essentially the same bill as HB 120 with the only difference being a cap on how much can be guaranteed on the loans. House Bill 120 had a cap of \$50 million; the Senate reduced it to \$40 million. The Alaska Industrial Development and Export Authority had no objection to the reduction. Senate Bill 66 allows AIDEA to work with an effective federal tax credit program; the program was implemented in 2000 and although the program is still active in 2012, it is now up for reallocation. Mr. Davis explained that there are allocations from the U.S. Department of the Treasury for these types of credits. The credits are available to people who put equity/cash in projects in census areas that have 20 percent of the population below the poverty level or a median income less than 80 percent of the metropolitan median for a state which in Alaska would be Anchorage.

Co-Chair Stoltze requested a definition of the metropolitan mean area.

Mr. Davis replied that each state picks a central population area such as New York City for New York or San Francisco or Los Angeles in California, and then the average income in those large areas would be calculated. The program largely works in rural areas or targeted populations, such as Native Americans. In Alaska the credits have already been used for the Platinum fish plant and the Galena and Kotzebue long term care facilities. The loan is usually from a bank, called a leveraged lender, and a task credit investor. The task credit investor receives 39 percent of whatever they put into the project that is then used as a tax write-off over a seven year period. The tax write-off translates into a substantial amount. Equity investors usually leave their equity in a project, and then the rest of the money is raised through a regular bank or credit union. The bank can only collect interest-only for the first seven years.

Mr. Davis explained that this non-recourse loan prevents the investor from foreclosing on the project and limited security. Since 2008, with the economic downturn and changes in banking procedures, there is a shortage of these types of loans available. The Alaska Industrial Development and Export Authority hired several consultants to determine how to get projects moving in rural Alaska; the consensus was that AIDEA could offer guarantees for these bank loans for the first seven years of the project. Once the projects are cash flowing, over 99 percent would then refinance with a conventional loan.

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Mr. Davis elaborated that a large company could afford to build a project that may not have a revenue stream for three to five years, but it was difficult for an independent. The program uses new market cash credits to attract equity investors with this interest-only loan. At the end of seven years the program moves to a conventional loan using the original equity to refinance. The consensus among investors and banks is if AIDEA guarantees these seven year bank loans it would free up the market to continue.

Mr. Davis cited that there is interest in Alaska to use these credits if it is possible to get the lending in place again. The Alaska Industrial Development and Export Authority would charge a fee for offering the guarantee and since the default rate would be very low, a small profit would be generated for the department. He reiterated that there is no cost to the program and very little risk to the department's portfolio. One reason is that the Internal Revenue Service (IRS) has strict requirements. If the project does not succeed in paying its interest-only loan for seven years, then the investors who received that tax credit would have to pay back all their tax write-offs. Investors may also be subject to penalties or additional interest, therefore when these deals are put together, the tax credit investors determine that the project will be successful. In addition, there is the due diligence review of the lender along with the qualified development entity to ensure the loan is sound. He revealed that certain projects with potential investors were already in place in Alaska. He added that the aforementioned successful projects were in very rural sections of Alaska.

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Representative Edgmon indicated that rural Alaska and poverty guidelines could potentially benefit the entire state. He noted that the equity partner or investment partner could possibly emerge from Anchorage or Fairbanks where there are areas of 20 percent poverty guidelines. He believed this could benefit areas in Alaska in need of more economic development.

Mr. Davis responded that the average savings on a project financed in this manner was 20 to 30 percent depending on the negotiations between the bank and the qualified investors.

Representative Doogan requested the costs of the previous three loans.

Mr. Davis responded that the amount of the loan in the Platinum seafood plant was \$10 million while the other projects were in the \$2 to \$3 million range. These loans can be used for low amounts of money and also for gap financing. He offered the example of the Galena project where the loan was used to provide an additional \$2 million for wood pellet heating and solar panels. These interest-only payments allowed for the use of alternate fuels in this project.

Representative Doogan inquired how the plan works if there is a \$40 million loan limit for seven years.

Mr. Davis responded that the project range tends to be up to \$5 million per project, translating into eight projects over seven years. As each new project takes considerable time to assemble before a decision is made to move forward, this would be the usual number of projects to be found during a seven year period. The cap was picked so as not to affect AIDEA's financial ratings.

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Representative Gara noted that the loan investment had to be in a community development entity and requested some examples.

Mr. Davis responded that Alaska Growth Capital (AGC) could function as a community development entity or a non-profit could be set up to be a qualified development entity with a project beneath it.

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Co-Chair Stoltze pointed out that absent House Finance Committee Representatives were interested in the bill. He encouraged those with suggestions or concerns to notify the committee.

CSSB 66(L&C) was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 1:52 PM.