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# ALASKA STATE LEGISLATURE

3111 C STREET, SUITE 508  
ANCHORAGE AK 99503  
(907) 561-2039

STATE CAPITOL  
JUNEAU AK 99801-1182  
(907) 465-3875/4894



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COMMUNITY AND  
REGIONAL AFFAIRS

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INTERNATIONAL TRADE  
AND TOURISM

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**REPRESENTATIVE BETTYE DAVIS**  
DISTRICT 14 SEAT B • EAST ANCHORAGE • MULDOON

## S P O N S O R   S T A T E M E N T

I appreciate the committee members hearing CSSSHB 536 (Finance).

CSSSHB 536 (Finance) is an important step in implementing a new approach to promoting economic development by helping to create a more comprehensive and effective private business financing infrastructures. The bill would make possible the creation in Alaska of a new type of licensed and regulated private financial institutions, called Bidcos. The bill is modeled after a program in Michigan which has already resulted in the creation of an industry of 9 Bidcos in that state, with others in the process of being formed.

Bidcos provide financing assistance and management assistance to businesses, especially small and medium-sized businesses. They are organized to address a gap for companies with financing needs that are too risky for bank lending, but do not provide the potential for super high rates of return sought by traditional venture funds.

Banks finance businesses by providing straight loans, normally with interest rates not exceeding several percentage points above prime. Venture capital funds typically make equity investment in companies with explosive growth potential and the ability to go public or be acquired within 5 years. This gives the venture capital fund the opportunity to share, expeditiously and to a high degree, in the upside success of its portfolio companies. By contrast, Bidcos typically invest in companies in the form of subordinated debt, receiving current interest income, and they compensate for the risk they take by sharing, to a modest degree, in the upside success of a company through a revenue participation or warrants.

The Polaris Fund, which has one of its offices in Alaska, is a good example of a traditional venture capital fund. The Polaris Fund's brochure indicates that its purpose is to provide equity capital to young companies, and states that when the fund invests in a company, the fund seeks, as a minimum objective, 10 times its money back within 5 years. The Polaris Fund provides an important potential source of capital for high risk equity

investments in companies with explosive growth potential. Nevertheless, this type of company is a very small part of the market.

Bidcos are designed to address a different part of the market. Bidcos invest in family-owned or closely held companies with good growth potential and the ability to provide a good return to their investor, but which are not likely to grow so rapidly as to go public or be acquired and provide the kinds of returns sought by traditional venture capital funds.

The first part of CSSSHB 536 (Finance) provides a system for the Department of Commerce and Economic Development to license and regulate one or more Bidcos. This is modeled after Michigan's licensing and regulation statute for Bidcos. The licensing and regulation system is designed to encourage capital sources to invest in and lend money to Bidcos because they can take comfort in the fact that they are investing in or lending to a licensed and regulated, private financial institution. The system of licensing, regulation and enforcement is designed to prevent fraud, conflict of interest, and mismanagement, and to promote competent management, accurate record keeping, and appropriate communication with shareholders.

To obtain a license, a Bidco must satisfy various standards relating to the competency and good character of its officers and directors, the adequacy of its business plan, and the sufficiency of its capitalization. Once licensed, a Bidco is subject to annual examinations by the Department, with the Department having a enforcement mechanisms such as cease and desist orders to correct violations or stop unsafe or unsound acts.

The second part of the bill provides for a program whereby the Alaska Science and Technology Foundation would provide financial assistance to help catalyze the formation of one or more Bidcos in Alaska. This program is similar to a program implemented in Michigan by a state agency called the Michigan Strategic Fund.

The financial assistance provided by the Alaska Science and Technology Foundation would help capitalize the Bidco and would assist the Bidco in raising substantial private investment. The Foundation's assistance would be in the form of a loan to the Bidco, and would use a formula whereby the principal and interest owed by the Bidco to the Foundation could be reduced, in accordance with the performance of the Bidco in financing business in Alaska which actually create jobs and increase their sales. The Foundation is instructed by the bill to implement the program in a manner designed to encourage the provision of financing by Bidcos to businesses throughout the state, and to provide special incentives to encourage the inclusion of financings for businesses located in distressed areas, including distressed rural areas, and the financing of minority-owned businesses.

FISCAL NOTE

No. 2

STATE OF ALASKA  
92 LEGISLATIVE SESSION

Bill Version: CS SSB 536 (FIN)  
(H) Publish Date: 5/6/92

Effective Date: May 5, 1992

Department Affected: Revenue

Title: Business and industrial development corp...

BRU: Science & Technology

Component: Science & Technology

Sponsor: Rep. B. Davis

Requestor: Hs Finance Comm

Component Serial No.

1	0	0	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES		\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0
TRAVEL						
CONTRACTUAL	\$ 20.0	65.0	65.0	65.0	65.0	65.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>\$ 20.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>

CAPITAL						
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REVENUE FUND SOURCE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE - ASTF Unappropriated earnings	\$ 20.0	\$ 113.0	\$ 113.0	\$ 113.0	\$ 113.0	\$ 113.0
<b>TOTAL</b>	<b>\$ 20.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>	<b>\$ 113.0</b>

POSITIONS:

FULL-TIME						
PART-TIME		1	1	1	1	1
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: The fiscal note assumes design costs in the first year and operating costs in future years. Capitalization of the BIDCO will require a \$5 million appropriation. ASTF estimates the sum will be available from ASTF unappropriated earnings for FY 93 but not future years.

Prepared by: John Stoert

Phone: 212-4333

Division: ASTF

Date: MAY 5, 1992

Approved by Commissioner: [Signature]

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

**STATE OF ALASKA  
1992 LEGISLATIVE SESSION**

**FISCAL NOTE:**

No. 1  
Bill Version: CSHB 536 (L&C)  
(H) Publish Date: 4-21-92

Revision Date: \_\_\_\_\_  
Title: An Act relating to the business and  
industrial development corporations  
Sponsor: Rep. B. Davis  
Requestor: House Labor & Commerce

Department Affected: Commerce & Econ. Dev.  
BRU: AIDEA  
Component: \_\_\_\_\_

COMPONENT SERIAL NO. 

1	2	3	4
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**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING:	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE FUND RESOURCE:</b>	0	0	0	0	0	0

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE:						
<b>TOTAL</b>	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current year impact: \_\_\_\_\_

**ANALYSIS (Attach a separate page if necessary.)**

This bill will require no appropriation from the Legislature. Any increase in loan volume and increase in travel cost and staff time will be funded by revolving loan funds within the Authority and by assets of the Authority.

Prepared By: Katelyn Carrigan, Development Specialist Phone: (907) 561-8050  
Division: AIDEA Date: 3/13/92  
Approved by Commissioner: Glenn A. Olds  
Agency: Department of Commerce & Economic Development Date: 3.17.92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., and Impacted Agency(ies).

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ALASKA STATE LEGISLATURE  
HOUSE BILL NO. 536

HISTORY IN THE HOUSE

HISTORY IN THE SENATE

1992  
Read first time and referred to:  
L&C, FIN.

2/18

3/18 Sponsor substitute introduced  
L&C RPT CS(L&C)  New Title

4/21  
1 DP  DNP 3 NR  AM  
FN 1 OFN Previous FN

5/6  
FIN RPT CS(FIN)  New Title  
2 DP  DNP 7 NR  AM  
1 FN 1 OFN Previous FN

RPT CS( ) New Title  
DP DNP NR AM  
FN OFN Previous FN

5/8 Read second time  
5/8 CS(FIN) Adopted

Amended

5/8 Advanced

5/18 Read third time

Return to second for specific amendment

5/18 PASSED EFD Same \_\_\_ or  
Yeas 35 Yeas  
Nays 3 Nays  
Excused 2 Excused  
Absent Absent

Intent adopted

Reconsideration  
Reconsideration not taken up

PASSED ON RECON. EFD Same \_\_\_ or  
Yeas Yeas  
Nays Nays  
Excused Excused  
Absent Absent

Intent adopted

5/18 Reported correctly engrossed  
Signed by Speaker, to the Senate

*Kristin Gray Lamb*  
Chief Clerk of the House

1992  
5/9 Read first time and referred to:  
L&C, FIN

RPT( ) CS DP NR DNP AM  
New Title Same Title Previous FN  
FN OFN To

RPT( ) CS DP NR DNP AM  
New Title Same Title Previous FN  
FN OFN To

RPT( ) CS DP NR DNP AM  
New Title Same Title Previous FN  
FN OFN To

Rules Calendar( ) CS AM Other  
New Title Same Title Previous FN  
FN OFN

Read second time

CS Adopted ( ) New Title  
Amended Advanced

Read third time

Letter of Intent adopted  
Return to second for specific amendment

PASSED EFD Same \_\_\_ or  
Yeas Yeas  
Nays Nays  
Excused Excused  
Absent Absent

Reconsideration  
Reconsideration not taken up

PASSED EFD Same \_\_\_ or  
Yeas Yeas  
Nays Nays  
Excused Excused  
Absent Absent

Reported correctly engrossed  
Signed by President, to the House

Secretary of the Senate