

HB

410

<target><bill>HB 410</bill><subject>HB
410</subject><comm>HFIN26</comm></target>

STATE CAPITOL
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Governor Sean Parnell
STATE OF ALASKA

February 25, 2010

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill relating to loan participations and development finance projects of the Alaska Industrial Development and Export Authority. The bill will also make changes to the loan program financed by the rural development initiative fund.

This bill is designed to modernize lending practices of the Alaska Industrial Development and Export Authority (Authority) so that Authority loan programs can benefit the economy, and the Authority can more easily be a participant in large scale economic development projects with other partners. First, the bill will change how the Authority determines minimum interest rates for certain loan participations. Second, the bill will permit the Authority to pay incentive rate rebates on certain loan participations that satisfy economic development criteria, such as job creation or investment in rural areas. Third, the bill will clarify that the Authority has statutory authority to finance, own, and operate a percentage of a development finance project. Finally, the bill will permit the rural development initiative fund to finance more than one loan to one or more borrowers, and with larger cumulative loan amounts.

Section 1 of this bill will amend the method by which the Authority determines the minimum interest rate that may be charged on loan participations the Authority finances with Authority assets, rather than with bond proceeds. AS 44.88.159(e) currently requires the Authority to establish the minimum interest rate, in part, by the Authority estimating the bond interest rate the Authority would have obtained had the Authority issued bonds to finance the loan participation. The proposed amendments would enable the Authority to establish minimum interest rates based upon the greater of either (1) the rates achieved by a type or category of financial security in a published, nationally recognized market index; or (2) the five year rate of return the Authority achieved on investment funds of the Authority. The Authority believes it appropriate to move to a market-based methodology for determining interest rates. The Authority has not issued bonds to finance loan participations in more than 10 years. Thus, the accuracy of how the Authority estimates bond based rates has not been tested against actual rates from bonds issued to finance loan participations. Further, the current bond based methodology can result in unusually high interest rates when bond

The Honorable Mike Chenault
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markets fail to function efficiently, such as happened during recent national and global economic market distresses.

Section 2 of the bill will permit the Authority to establish in regulations a new program to pay certain loan participation borrowers incentive rate rebates. Under the new program, the Authority will be able to rebate up to one percent of interest charged on a loan participation to a borrower that creates jobs, promotes rural development, or fosters other economic development criteria. An incentive rate rebate may reduce the interest rate to a rate below what would otherwise be the statutory minimum rate. The Authority may not commit to pay incentive rate rebates on a loan participation for more than five years, and the balance of loans subject to rebates would be limited to no more than five percent of the outstanding balance of all loan participations of the Authority. Finally, the Authority may establish a separate account for the incentive rate rebate program. The separate account will enable the Authority to more easily account for, and pay, rebates owed to loan participation borrowers.

Section 3 of the bill will clarify that the Authority may finance, own, and operate a percentage of a development finance project, and may provide for operation of a project by agreement with other owners. Existing statutes of the Authority do not clearly establish that the Authority may finance and own an indivisible percentage of a project. Clarifying this power will enable the Authority to jointly finance development finance projects with partners and other lenders or financiers more easily, and better promote economic development and spread project risks.

Finally, Sections 4 and 5 of the bill will revise the rural development initiative fund owned by the Alaska Industrial Development and Export Authority and administered by the Alaska Division of Investments. The purpose of the revisions is to foster the utilization of the program in the state by increasing the amount that may be borrowed from the fund. The sections will remove the restriction that a borrower may only have one loan but limits a borrower's participation in the loan program to an allowable dollar amount. The sections will reduce the minimum interest rate that may be charged from six percent to four percent.

I urge your prompt and favorable action on this measure.

Sincerely,



Sean Parnell
Governor

Enclosure

House Bill 410

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

Sectional Analysis

Section	Analysis
1	<p>AS 44.88.159(e) is amended to change the method by which AIDEA determines the minimum interest rate to be charged on loan participations that AIDEA finances with AIDEA assets rather than bond proceeds. Current method requires AIDEA to establish a minimum by estimating the true interest cost if AIDEA were to use bond proceeds. The proposed method would allow the minimum to be based on the greater of either the rates achieved by a type or category of financial security in a published nationally recognized market index or the 5-year rate of return on AIDEA's investments.</p>
2	<p>AS 44.88.159 is amended by adding a new subsection that allows AIDEA to establish in regulation a new program to provide incentive rate rebates to certain loan participations that create jobs, promote rural development or foster other economic development criteria.</p> <ul style="list-style-type: none">• Rate rebates are limited to no more than 1% of the interest rate charged to AIDEA's portion of the loan participation.• The balance of loans subject to rebates would be limited to no more than 5% of the outstanding balance of all loan participations.• The authority may not commit to pay an incentive rebate for more than 5 years.• Allows AIDEA to establish a separate account for this program.
3	<p>AS 44.88.172(a) is amended to clarify that AIDEA can own or operate a percentage of a project – not the entire project</p>
4	<p>AS 44.88.610(a) is amended to allow borrowers to have multiple Rural Development Revolving Loan Fund loans and increases the cumulative amount a person may borrow from \$100,000 to \$150,000 and increases the cumulative amount two or more persons may borrow from \$200,000 to \$300,000.</p>
5	<p>AS 44.88.610(b) is amended by reducing the RDIF minimum interest rate from 6% to 4%.</p>

Prepared by AIDEA 3/2/10

Alaska Bankers Association

P.O. Box 100720 • Anchorage, Alaska 99510-0720 • 907-777-3011 • Fax 907-777-3029

March 8, 2010

**Representative Kurt Olson, Chairman
House Labor & Commerce Committee
State Capitol, Room 24
Juneau, Alaska 99801—1182**

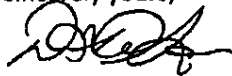
Re: House Bill 410

Representative Olson:

On behalf of the Alaska Bankers Association, I wish to express our support for enactment of House Bill 410.

Enactment of House Bill 410 will facilitate AIDEA lending transactions and thereby work to the benefit of all of our members who participate in loan transactions with AIDEA.

Sincerely yours,



**David A. Lawer
President**

Cc: Chris Anderson

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 410
(H) Publish Date: 2/26/10

Identifier (file name): 0811-CED-AIDEA-1-6-10
Title: AIDEA programs
Sponsor: _____
Requester: _____
Dept. Affected: DCCED
RDU: AIDEA (125)
Component: AIDEA operations
Component Number: 1234

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
1102 AIDEA Rcpt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

This bill proposes to 1) amend the method by which AIDEA determines minimum interest rates for certain loan participations; 2) provide AIDEA the ability to provide incentive rate rebates for loan participations that meet certain economic development criteria; 3) clarify AIDEA to ability finance, own and operate a percentage of a development finance project. The amount of potential AIDEA payments for the proposed incentive rate rebates is indeterminate until the program criteria are established and demand for the program is evaluated.

(continued on Page 2)

Prepared by: Sara Fisher-Goad, Deputy Director
Division: AIDEA
Approved by: Emil Notti, Commissioner
Department of Commerce, Community and Economic Development

Phone 771-3012
Date/Time 1/6/10 12:00 AM
Date 1/6/2010

FISCAL NOTE #1

Bill Number: HB 410

The bill limits the total amount of loans subject to incentive rate rebates to 5% of the total of the amount of the proposed loan participation which would be subject to rebate plus the combined outstanding balance of all loan participations of the Authority. As of 6/30/09, AIDEA's outstanding balance of loan participations was \$340,346,000; 5% = \$17,017,300.

The bill also makes changes to the Rural Development Initiative Fund (RDIF). The RDIF provides long term financing to small businesses located in communities of 5,000 population or less if not connected by road or rail to Anchorage or Fairbanks or communities of 2,000 population or less if connected by road or rail to Anchorage or Fairbanks. This legislation would increase the amount that could be borrowed from the fund and it would remove the restriction that a borrower may only have one loan. It would also reduce the interest rate that may be charged.

To date there is \$4,137,900 outstanding with \$1,411,400 available to lend in the RDIF. There will be no change in operating budget expenditures to facilitate the proposed changes.

The adoption of regulations will not require additional operating funds.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB 410
(H) Publish Date: 2/26/10

Identifier (file name): 0811-REV-CO-1-6-10 Dept. Affected: Revenue
Title: AIDEA Loan Participation and Finance Projects RDU: Admin and Support
Sponsor: Rules Component: Commissioner's Office
Requester: Request of Governor Component Number: 123

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

	FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

The Department of Revenue anticipates no additional expenses or revenues associated with this legislation.

Prepared by: Ginger Blaisdell, Director
Division: Administrative Services Division
Approved by: Ginger Blaisdell, Director
Administrative Services Division

Phone 465-2312
Date/Time 12/18/09; 1:40pm
Date 1/6/10; 11:13am

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: HB 410
 (H) Publish Date: 2/26/10

Identifier (file name): 0811-DOT-CO-11-18-09 Dept. Affected: DOT&P
 Title Loan participation & development of finance project AIDEA RDU DOT&PF
 Sponsor _____ Component Admin Support
 Requester _____ Commissioner's Office
 Component Number 530

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

This bill has no fiscal impact to the Department of Transportation and Public Facilities

Prepared by: Mary Siroky, Legislative Liaison Phone 465-4772
 Division DOT&PF, Commissioner's Office Date/Time 11/18/09 2:00pm
 Approved by: Frank Richards Date 11/18/2009
Deputy Commissioner, DOT&PF