

SB

66

<TARGET><BILL>SB 66</BILL><SUBJECT>SB
66</SUBJECT><COMM>HFIN27</COMM></TARGET>

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: January 23, 2012

FURTHER REFERRALS:

Date of Committee Action: 4/14/12

The FINANCE Committee considered:

CSSB 66(L&C)

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."

SB 66 AIDEA: NEW MARKETS TAX CREDIT PROGRAM

Recommends it be replaced with HCS or CS for CSSB 660 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts:

- ADM
- CEC
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- DHS
- LWF
- LAW
- LEG
- MVA
- DNR
- DPS
- REV
- DOT
- UA

| NEW FISCAL NOTES | | | | |
|--|------------------|--------|--------|------|
| *FN# is assigned by Chief Clerk's Office | | | | |
| *FN# | List by Dept(s): | Fiscal | Indet. | Zero |
| | CED | | | ✓ |
| | EED | | | ✓ |
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| PREVIOUS FISCAL NOTES | | | | |
|-----------------------|------------------|--------|--------|------|
| FN# | List by Dept(s): | Fiscal | Indet. | Zero |
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| <u>Signing with recommendations</u> | Printed Last Name | DP | DNP | NR | AM |
|-------------------------------------|-------------------|----|-----|----|----|
| | J. Wilson | ✓ | | | |
| | J. Edwards | ✓ | | | |
| | Gava | ✓ | | | |
| | Joyke | ✓ | | | |
| | NEUMAN | ✓ | | | |
| | CASTELLO | ✓ | | | |
| | Edgmon | ✓ | | | |
| | DEEGAN | ✓ | | | |
| Vice Chair: | FAIRCLOUGH | ✓ | | | |
| Chair: | | | | | |

FISCAL NOTE

STATE OF ALASKA cost # codes
 2012 LEGISLATIVE SESSION

Bill Version CSSB66
 Fiscal Note Number _____
 Publish Date _____

Identifier (file name) SB66CS-EED-PEF-4-14-12 Dept. Affected Fund Transfers
 Title "An Act creating a new markets tax credit assistance Appropriation Designated Savings
guarantee and loan program within Alaska Industrial... Allocation Savings Public Education Fund
 Sponsor Senate Rules Committee by Request of the Governor
 Requester House Rules Committee OMB Component Number 2929

Expenditures/Revenues (Thousands of Dollars)

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

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|------------------------------------|--|-------------------------|------------|------------|------------|------------|------------|
| | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Services | | | | | | | | |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants, Benefits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

FUND SOURCE (Thousands of Dollars)

| | | | | | | | | |
|------|------------------|------------|------------|------------|------------|------------|------------|------------|
| 1002 | Federal Receipts | | | | | | | |
| 1003 | GF Match | | | | | | | |
| 1004 | GF | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 1005 | GF/Prgm (DGF) | | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | | |
| 1178 | temp code (UGF) | | | | | | | |
| | TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

CHANGE IN REVENUES

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| | | | | | | | |
|--|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial fiscal note.

Prepared by Elizabeth Nudelman, Director
 Division School Finance & Facilities
 Approved by Mike Hanley
Commissioner

Phone 465-8679
 Date/Time 4/14/12 5:45 PM
 Date 4/14/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB66

Analysis

Exempts the Delong Mt Rd property from assessed value contribution under 14.17 the Public Education Formula.

The Public Education Formula is at the Department of Education & Early Development, under the K-12 Support, Foundation Program Allocation, OMB component Number 141.

The funding for the Public Education program comes for the Public Education Fund (PEF) therefore the fiscal effect is recorded on the PEF fiscal note.

The fiscal effect for the Delong Mt Rd \$190,000,000 assessed value exemption from required local effort in the Public Education Funding formula is \$380,000.

Effective beginning 2014.

There is adequate balance in the PEF for this cost, therefore the fiscal note is zero.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSSB 66 (L&C)
Fiscal Note Number _____
() Publish Date _____

Identifier (file name) SB066-DCCED-AIDEA-12-13-11 Dept. Affected DCCED
Title AIDEA: New Markets Tax Credit Program Appropriation Alaska Industrial Development & Export Authority
Allocation Alaska Industrial Development & Export Authority
Sponsor Rules by Request of the Governor
Requester House Finance Committee OMB Component Number 1234

Expenditures/Revenues (Thousands of Dollars)

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

| | FY13 Appropriation Requested | Included in Governor's FY13 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|------------------------------------|--|-------------------------|------------|------------|------------|------------|------------|
| | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Travel | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Services | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commodities | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Outlay | | | | | | | | |
| Grants, Benefits | | | | | | | | |
| Miscellaneous | | | | | | | | |
| TOTAL OPERATING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| FUND SOURCE | | (Thousands of Dollars) | | | | | | |
|--------------|------------------|------------------------|------------|------------|------------|------------|------------|------------|
| 1002 | Federal Receipts | | | | | | | |
| 1003 | GF Match | | | | | | | |
| 1004 | GF | | | | | | | |
| 1005 | GF/Prgm (DGF) | | | | | | | |
| 1037 | GF/MH (UGF) | | | | | | | |
| 1178 | temp code (UGF) | | | | | | | |
| TOTAL | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| POSITIONS | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

| CHANGE IN REVENUES | | | | | | | | |
|--------------------|--|--|--|--|--|--|--|--|
| | | | | | | | | |

Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

This is the same fiscal note to SB 66 that passed out of Senate Finance, updated on new form for the 2012 Legislative Session.

Prepared by Mark Davis, Deputy Director Investments, Finance, and Analysis
Division Alaska Industrial Development & Export Authority
Approved by Susan K. Bell, Commissioner
Commerce, Community, and Economic Development

Phone 907-771-3001
Date/Time 12/13/11 4:00 PM
Date 1/11/2012

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSSB 66 (L&C)

Analysis

This bill establishes a new market tax credit assistance program within AIDEA and enables AIDEA to use money in its enterprise development account to fund guarantees and loans AIDEA would make under this program.

This legislation has no operational fiscal impact to AIDEA.

HOUSE CS FOR CS FOR SENATE BILL NO. 66(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act creating a new markets tax credit assistance guarantee and loan program**
2 **within the Alaska Industrial Development and Export Authority and relating to the**
3 **program; extending a mandatory exemption from municipal property taxes for certain**
4 **assets of the Alaska Industrial Development and Export Authority; relating to an Alaska**
5 **Energy Authority loan; providing for an effective date by amending the effective dates**
6 **of sec. 2, ch. 10, SLA 2010, and sec. 2, ch. 71, SLA 2010; and providing for an effective**
7 **date."**

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 *** Section 1.** AS 44.88.155(c) is amended to read:

10 (c) Money and other assets of the enterprise development account may be used
11 to secure bonds of the authority issued to finance the purchase of loans for projects,
12 [OR MAY BE USED] to purchase participation in the loans for projects, or to fund a
13 new markets tax credit assistance guarantee or loan under AS 44.88.700 -

44.88.799.

* **Sec. 2.** AS 44.88 is amended by adding new sections to read:

Article 8A. New Markets Tax Credit Assistance Guarantee and Loan Program.**Sec. 44.88.700. New markets tax credit assistance guarantees and loans. (a)**

Subject to the requirements of AS 44.88.700 - 44.88.799, the authority may

- (1) guarantee new markets tax credit assistance leveraged loans; and
- (2) make new markets tax credit assistance leveraged loans.

(b) New markets tax credit assistance guarantees and loans are limited to projects in the state for which new markets tax credits are allocated by a qualified community development entity.

(c) The authority shall determine that the project will promote economic development in the state before guaranteeing a leveraged loan or making a leveraged loan under AS 44.88.700 - 44.88.799.

(d) The authority may agree to restrictions and guidelines arising from the federal new markets tax credit program, including, for the seven-year tax credit period of the new markets tax credit project,

- (1) that interest only payments be made on the leveraged loan;
- (2) that substantially all capital remain invested in the project;
- (3) that acceptable collateral may be an interest in a qualified community development entity or an investment entity rather than in the project; and
- (4) substantive restrictions on foreclosure of collateral.

Sec. 44.88.710. Effect of guarantee. (a) A guarantee under AS 44.88.700 - 44.88.799 does not create a debt or liability of the state.

(b) A guarantee under AS 44.88.700(a)(1) may not be terminated, cancelled, or revoked except under its terms. A guarantee held by a participating financial institution is presumed to be valid.

Sec. 44.88.715. Qualifications of applicant for new loan guarantee. (a) A business enterprise that qualifies for new markets tax credits for a project may apply for a loan guarantee under AS 44.88.700(a)(1).

(b) The authority may establish additional applicant qualifications by regulation. Those qualifications may vary depending on the type of business in which

1 the applicant is engaged.

2 **Sec. 44.88.720. Application for loan guarantee.** An applicant for a loan
3 guarantee shall provide information that the authority may require by regulation. The
4 authority may require submission of an economic benefit analysis prepared by a
5 person acceptable to the authority.

6 **Sec. 44.88.730. Conditions of loan guarantee.** (a) The authority may
7 guarantee a loan under AS 44.88.700 - 44.88.799 if the

8 (1) loan

9 (A) is commercially reasonable;

10 (B) contains payment provisions satisfactory to the authority;

11 and

12 (C) is secured by acceptable collateral;

13 (2) project

14 (A) is allocated new markets tax credits by a qualified
15 community development entity;

16 (B) promotes economic development in the state; and

17 (C) is not a housing project;

18 (3) borrower demonstrates the ability to repay the loan from either or
19 both of the following:

20 (A) net cash flow of the borrower;

21 (B) proceeds from the sale of current assets that are collateral
22 for the loan if the sale or receipt of proceeds from the sale is an event that
23 creates a payment obligation; in this subparagraph, "current asset" means
24 property that will be or could be converted into cash within one year in the
25 normal operation of a business;

26 (4) term of the loan does not exceed 10 years;

27 (5) loan is originated with and serviced by a financial institution.

28 (b) The authority may provide a guarantee for up to 100 percent of a loan that
29 qualifies under AS 44.88.700 - 44.88.799.

30 **Sec. 44.88.740. Servicing of guaranteed loans.** (a) The financial institution
31 that holds a loan guaranteed by the authority under AS 44.88.700 - 44.88.799 shall

- 1 (1) service the loan;
- 2 (2) exercise diligence in collecting amounts due under the loan; and
- 3 (3) comply with all requirements of the loan guarantee agreement.

4 (b) Amounts received toward satisfaction of a default on a loan guaranteed
5 under AS 44.88.700 - 44.88.799 shall be allocated between the lender and the
6 revolving fund according to the guaranteed percentage of the loan until the principal
7 balance and accrued interest have been repaid.

8 **Sec. 44.88.750. New markets tax credit assistance leveraged loan.** (a) The
9 authority may make a new markets tax credit assistance leveraged loan under
10 AS 44.88.700(a)(2) only if the authority determines that an applicant for a new
11 markets tax credit assistance guarantee is unable to obtain a leveraged loan from a
12 financial institution under commercially reasonable terms. Before making the
13 determination, the authority shall require the applicant to document that at least two
14 financial institutions have reviewed an application for a leveraged loan for which the
15 authority would issue a new markets tax credit assistance guarantee for the loan, and
16 either rejected the application or approved the application subject to terms the
17 authority determines are commercially unreasonable. The authority may require the
18 applicant to submit applications for a leveraged loan to one or more additional
19 financial institutions.

20 (b) Subject to (a) of this section, the authority may make a new markets tax
21 credit assistance leveraged loan under AS 44.88.700 - 44.88.799 to the applicant to
22 finance a portion of the project using funds from the enterprise development account
23 (AS 44.88.155).

24 **Sec. 44.88.760. Limitations of guarantees and leveraged loans.** The
25 combined outstanding principal balance of loan guarantees and loans under
26 AS 44.88.700 - 44.88.799 may not exceed \$40,000,000.

27 **Sec. 44.88.770. Powers of the authority.** The authority may

- 28 (1) adopt regulations to implement AS 44.88.700 - 44.88.799;
- 29 (2) establish terms and conditions for loan guarantees and loans,
30 subject to the requirements of AS 44.88.700 - 44.88.799;
- 31 (3) make and execute contracts and other instruments to implement

1 AS 44.88.700 - 44.88.799;

2 (4) charge reasonable fees and interest rates that the authority may
3 establish by regulation for the service it provides under AS 44.88.700 - 44.88.799;

4 (5) acquire real or personal property by purchase, transfer, or
5 foreclosure when the acquisition is necessary to protect the authority's interest in a
6 loan or a loan guarantee;

7 (6) exercise any other power necessary to implement AS 44.88.700 -
8 44.88.799; and

9 (7) to the extent the authority considers it to be in its best interest to do
10 so, use money to pay expenses relating to the liquidation of collateral securing loans
11 guaranteed or made by the authority under AS 44.88.700 - 44.88.799.

12 **Sec. 44.88.799. Definitions.** In AS 44.88.700 - 44.88.799,

13 (1) "federal new markets tax credit program" means the program
14 administered by the Community Development Financial Institutions Fund that arises
15 out of 26 U.S.C. 45D (Internal Revenue Code) and related regulations;

16 (2) "new markets tax credit" means tax credits that arise out of 26
17 U.S.C. 45D (Internal Revenue Code) and related regulations;

18 (3) "new markets tax credit assistance leveraged loan" and "leveraged
19 loan" mean a loan made into an investment entity, the proceeds of which, together
20 with other funds, including tax credit equity, are invested as a qualified equity
21 investment in a qualified community development entity that will use the funds to
22 finance a project for which the entity allocates new markets tax credits;

23 (4) "qualified community development entity" has the meaning given
24 in 26 U.S.C. 45D(c) (Internal Revenue Code) and related regulations;

25 (5) "qualified equity investment" means an equity investment in a
26 qualified community development entity that satisfies the conditions described in 26
27 U.S.C. 45D(b) (Internal Revenue Code) and related regulations.

28 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
29 read:

30 **LEGISLATIVE APPROVAL OF LOAN FROM THE POWER PROJECT FUND.**
31 **Provided the Alaska Energy Authority approves a loan for the Metlakatla Power and Light,**

1 Triangle Lake hydroelectric project, the legislature authorizes the Alaska Energy Authority to
2 loan an amount not to exceed \$26,000,000 from the power project fund (AS 42.45.010) for
3 the Metlakatla Power and Light, Triangle Lake hydroelectric project. This section constitutes
4 legislative approval under AS 42.45.010(j) for a loan from the fund that exceeds \$5,000,000.

5 * **Sec. 4.** Section 8, ch. 10, SLA 2010, is amended to read:

6 Sec. 8. Section 2, ch. 10, SLA 2010, [OF THIS ACT] takes effect
7 November 30, 2017 [2012].

8 * **Sec. 5.** Section 10, ch. 71, SLA 2010, is amended to read:

9 Sec. 10. Section 2, ch. 71, SLA 2010, [OF THIS ACT] takes effect
10 November 30, 2017 [2012].

11 * **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).

*Adopted
4/14/12*

27-GS1747I
Kirsch
4/12/12

HOUSE CS FOR CS FOR SENATE BILL NO. 66(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act creating a new markets tax credit assistance guarantee and loan program
2 within the Alaska Industrial Development and Export Authority and relating to the
3 program; extending a mandatory exemption from municipal property taxes for certain
4 assets of the Alaska Industrial Development and Export Authority; relating to an Alaska
5 Energy Authority loan; providing for an effective date by amending the effective dates
6 of sec. 2, ch. 10, SLA 2010, and sec. 2, ch. 71, SLA 2010; and providing for an effective
7 date."

8 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

9 * **Section 1.** AS 44.88.155(c) is amended to read:

10 (c) Money and other assets of the enterprise development account may be used
11 to secure bonds of the authority issued to finance the purchase of loans for projects,
12 [OR MAY BE USED] to purchase participation in the loans for projects, or to fund a
13 new markets tax credit assistance guarantee or loan under AS 44.88.700 -

1 **44.88.799.**

2 * **Sec. 2.** AS 44.88 is amended by adding new sections to read:

3 **Article 8A. New Markets Tax Credit Assistance Guarantee and Loan Program.**

4 **Sec. 44.88.700. New markets tax credit assistance guarantees and loans. (a)**

5 Subject to the requirements of AS 44.88.700 - 44.88.799, the authority may

6 (1) guarantee new markets tax credit assistance leveraged loans; and

7 (2) make new markets tax credit assistance leveraged loans.

8 (b) New markets tax credit assistance guarantees and loans are limited to
9 projects in the state for which new markets tax credits are allocated by a qualified
10 community development entity.

11 (c) The authority shall determine that the project will promote economic
12 development in the state before guaranteeing a leveraged loan or making a leveraged
13 loan under AS 44.88.700 - 44.88.799.

14 (d) The authority may agree to restrictions and guidelines arising from the
15 federal new markets tax credit program, including, for the seven-year tax credit period
16 of the new markets tax credit project,

17 (1) that interest only payments be made on the leveraged loan;

18 (2) that substantially all capital remain invested in the project;

19 (3) that acceptable collateral may be an interest in a qualified
20 community development entity or an investment entity rather than in the project; and

21 (4) substantive restrictions on foreclosure of collateral.

22 **Sec. 44.88.710. Effect of guarantee. (a)** A guarantee under AS 44.88.700 -
23 44.88.799 does not create a debt or liability of the state.

24 (b) A guarantee under AS 44.88.700(a)(1) may not be terminated, cancelled,
25 or revoked except under its terms. A guarantee held by a participating financial
26 institution is presumed to be valid.

27 **Sec. 44.88.715. Qualifications of applicant for new loan guarantee. (a)** A
28 business enterprise that qualifies for new markets tax credits for a project may apply
29 for a loan guarantee under AS 44.88.700(a)(1).

30 (b) The authority may establish additional applicant qualifications by
31 regulation. Those qualifications may vary depending on the type of business in which

1 the applicant is engaged.

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3 guarantee shall provide information that the authority may require by regulation. The
4 authority may require submission of an economic benefit analysis prepared by a
5 person acceptable to the authority.

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7 guarantee a loan under AS 44.88.700 - 44.88.799 if the

8 (1) loan

9 (A) is commercially reasonable;

10 (B) contains payment provisions satisfactory to the authority;

11 and

12 (C) is secured by acceptable collateral;

13 (2) project

14 (A) is allocated new markets tax credits by a qualified
15 community development entity;

16 (B) promotes economic development in the state; and

17 (C) is not a housing project;

18 (3) borrower demonstrates the ability to repay the loan from either or
19 both of the following:

20 (A) net cash flow of the borrower;

21 (B) proceeds from the sale of current assets that are collateral
22 for the loan if the sale or receipt of proceeds from the sale is an event that
23 creates a payment obligation; in this subparagraph, "current asset" means
24 property that will be or could be converted into cash within one year in the
25 normal operation of a business;

26 (4) term of the loan does not exceed 10 years;

27 (5) loan is originated with and serviced by a financial institution.

28 (b) The authority may provide a guarantee for up to 100 percent of a loan that
29 qualifies under AS 44.88.700 - 44.88.799.

30 **Sec. 44.88.740. Servicing of guaranteed loans.** (a) The financial institution
31 that holds a loan guaranteed by the authority under AS 44.88.700 - 44.88.799 shall

- 1 (1) service the loan;
- 2 (2) exercise diligence in collecting amounts due under the loan; and
- 3 (3) comply with all requirements of the loan guarantee agreement.

4 (b) Amounts received toward satisfaction of a default on a loan guaranteed
5 under AS 44.88.700 - 44.88.799 shall be allocated between the lender and the
6 revolving fund according to the guaranteed percentage of the loan until the principal
7 balance and accrued interest have been repaid.

8 **Sec. 44.88.750. New markets tax credit assistance leveraged loan.** (a) The
9 authority may make a new markets tax credit assistance leveraged loan under
10 AS 44.88.700(a)(2) only if the authority determines that an applicant for a new
11 markets tax credit assistance guarantee is unable to obtain a leveraged loan from a
12 financial institution under commercially reasonable terms. Before making the
13 determination, the authority shall require the applicant to document that at least two
14 financial institutions have reviewed an application for a leveraged loan for which the
15 authority would issue a new markets tax credit assistance guarantee for the loan, and
16 either rejected the application or approved the application subject to terms the
17 authority determines are commercially unreasonable. The authority may require the
18 applicant to submit applications for a leveraged loan to one or more additional
19 financial institutions.

20 (b) Subject to (a) of this section, the authority may make a new markets tax
21 credit assistance leveraged loan under AS 44.88.700 - 44.88.799 to the applicant to
22 finance a portion of the project using funds from the enterprise development account
23 (AS 44.88.155).

24 **Sec. 44.88.760. Limitations of guarantees and leveraged loans.** The
25 combined outstanding principal balance of loan guarantees and loans under
26 AS 44.88.700 - 44.88.799 may not exceed \$40,000,000.

27 **Sec. 44.88.770. Powers of the authority.** The authority may

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- 29 (2) establish terms and conditions for loan guarantees and loans,
30 subject to the requirements of AS 44.88.700 - 44.88.799;
- 31 (3) make and execute contracts and other instruments to implement

1 AS 44.88.700 - 44.88.799;

2 (4) charge reasonable fees and interest rates that the authority may
3 establish by regulation for the service it provides under AS 44.88.700 - 44.88.799;

4 (5) acquire real or personal property by purchase, transfer, or
5 foreclosure when the acquisition is necessary to protect the authority's interest in a
6 loan or a loan guarantee;

7 (6) exercise any other power necessary to implement AS 44.88.700 -
8 44.88.799; and

9 (7) to the extent the authority considers it to be in its best interest to do
10 so, use money to pay expenses relating to the liquidation of collateral securing loans
11 guaranteed or made by the authority under AS 44.88.700 - 44.88.799.

12 **Sec. 44.88.799. Definitions.** In AS 44.88.700 - 44.88.799,

13 (1) "federal new markets tax credit program" means the program
14 administered by the Community Development Financial Institutions Fund that arises
15 out of 26 U.S.C. 45D (Internal Revenue Code) and related regulations;

16 (2) "new markets tax credit" means tax credits that arise out of 26
17 U.S.C. 45D (Internal Revenue Code) and related regulations;

18 (3) "new markets tax credit assistance leveraged loan" and "leveraged
19 loan" mean a loan made into an investment entity, the proceeds of which, together
20 with other funds, including tax credit equity, are invested as a qualified equity
21 investment in a qualified community development entity that will use the funds to
22 finance a project for which the entity allocates new markets tax credits;

23 (4) "qualified community development entity" has the meaning given
24 in 26 U.S.C. 45D(c) (Internal Revenue Code) and related regulations;

25 (5) "qualified equity investment" means an equity investment in a
26 qualified community development entity that satisfies the conditions described in 26
27 U.S.C. 45D(b) (Internal Revenue Code) and related regulations.

28 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to
29 read:

30 LEGISLATIVE APPROVAL OF LOAN FROM THE POWER PROJECT FUND.

31 Provided the Alaska Energy Authority approves a loan for the Metlakatla Power and Light,

1 Triangle Lake hydroelectric project, the legislature authorizes the Alaska Energy Authority to
2 loan an amount not to exceed \$26,000,000 from the power project fund (AS 42.45.010) for
3 the Metlakatla Power and Light, Triangle Lake hydroelectric project. This section constitutes
4 legislative approval under AS 42.45.010(j) for a loan from the fund that exceeds \$5,000,000.

5 * **Sec. 4.** Section 8, ch. 10, SLA 2010, is amended to read:

6 Sec. 8. Section 2, ch. 10, SLA 2010, [OF THIS ACT] takes effect
7 November 30, 2017 [2012].

8 * **Sec. 5.** Section 10, ch. 71, SLA 2010, is amended to read:

9 Sec. 10. Section 2, ch. 71, SLA 2010, [OF THIS ACT] takes effect
10 November 30, 2017 [2012].

11 * **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).



January 25, 2012

The Honorable Bill Stoltze
The Honorable Bill Thomas
Co-Chairs, House Finance Committee
Alaska State Legislature
State Capitol Room 519
Juneau, Alaska 99801

RE: CS SB66(L&C), "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."

Dear Representatives Stoltze and Thomas:

On April 16, 2011, CS SB66(L&C) was passed by the Senate. This legislation is intended to allow the Alaska Industrial Development and Export Authority (AIDEA) to foster greater economic development in low income areas that are underserved and underdeveloped.

CS SB66(L&C) will enable AIDEA to issue guarantees and make loans to help finance projects through the federal New Markets Tax Credit (NMTC) program. This program offers a process by which federal tax credits are allocated to support nationwide financing of projects located in communities with poverty rates above 20 percent; median income less than 80 percent of the state median and with unemployment rates 1.5 times greater than the national average.

The NMTC investments are made up of an equity portion for which federal tax credits worth 39 percent are paid out over seven years and a leveraged debt portion on which interest only is collected for the seven years of the NMTC project. Since 2008 there has been a scarcity of capital to fund the debt portion of the investment. This legislation would enable AIDEA to issue guarantees and make loans to facilitate funding of the debt portion of the NMTC investments.

The Senate Labor and Commerce Committee considered and adopted an amendment to SB66. This amendment (page 4, line 21) changed the cumulative limit of loans and guarantees from \$50 million to \$40 million and another change was made to line 1 on page 4 and added the word revolving before the word fund.

The Honorable Bill Stoltze
The Honorable Bill Thomas
January 25, 2012
Page 2

We respectfully request you to schedule CS SB66(L&C) for a hearing in your committee and we urge favorable action on this bill. A copy of CS SB66(L&C), the fiscal note, sectional analysis and a hearing information sheet are attached. The attachments also include a short whitepaper on the NMTC program and a letter of support from Alaska Growth Capital. We will be happy to meet with you and other members of the committee to provide any other information you may require. Thank you for considering our request.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Leonard", with a long horizontal flourish extending to the right.

Ted Leonard, CMA, SPHR
Executive Director

Attachments (6)

CSSB 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 providing for an effective date.

Sectional Analysis

| Section | Analysis |
|---------|--|
| 1 | Amends AS 44.88.155(c) to allow assets of the enterprise development account to be used to fund a new markets tax credit assistance guarantee or loan |
| 2 | <p>Amends AS 44.88 by adding a new article – New Markets Tax Credit Assistance Program.</p> <p>44.88.700 allows AIDEA to issue guarantees and make loans to help finance projects funded through a federal new markets tax credit program. The assistance is limited to projects within Alaska for which tax credits are allocated by a qualified community development entity; the authority shall determine that the project will promote economic development; the authority may agree to certain restrictions and guidelines arising from the federal program.</p> <p>44.88.710 provides that a guarantee does not create a debt or liability of the state; a guarantee may not be canceled except under its terms</p> <p>44.88.715 establishes applicant qualifications</p> <p>44.88.720 requires an applicant to provide certain information required by AIDEA in regulation including the potential submission of an economic benefit analysis prepared by a person acceptable to the authority.</p> <p>44.88.730 establishes condition of a loan guarantee</p> <p>44.88.740 requires financial institution holding a guarantee shall service the loan</p> <p>44.88.750 allows AIDEA to make leverage loans if AIDEA determines an applicant is not able to obtain a leveraged loan from a financial institution</p> <p>44.88.760 sets a cumulative \$40 million limit under this program</p> <p>44.88.770 provide AIDEA the authority to adopt regulations, establish terms and conditions, execute contracts, charge fees and interest rates, acquire property through purchase, transfer or foreclosure</p> <p>44.88.799 defines terms used in the new article</p> |
| 3 | Immediate effective date |



Bill Hearing Information Sheet
Prepared by AIDEA
Senate Bill 66

“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.”

This legislation will enable AIDEA to foster more economic development in Alaska, especially in areas with great need for new investment. This program requires both equity and debt financing and there is a scarcity of debt capital available. This legislation provides the mechanism for AIDEA to issue guarantees and make loans to assist in financing projects in these underserved and underdeveloped areas.

The federal New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Essentially, the program provides substantial tax credits to equity investors to projects, which also borrow funds from what is termed a leveraged lender. By combining tax credits on the equity side with favorable loan conditions on the debt side, the cost of financing a qualifying project can be reduced by between 20-30%.

The program offers these benefits to support investment in economically disadvantaged areas. Substantially all of the qualified equity investment must be used by the CDE to provide investments in low-income communities. The credit provided to the equity investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

The program was reauthorized by Congress in December 2010 for an additional two years and has tax credits allocations worth \$3.5 billion for each year. To date, the Fund has made 495 awards totaling \$26 billion in allocation authority.

The program uses census tracts as the geographic unit and only projects in Qualified Census Tracts (QCT) are eligible for the NMTC tax credits. QCTs are those that meet at least one of the following requirements:

- Poverty rate greater than 20%, and/or
- Median income less than 80% of the state/metropolitan median.

There are two portions to financing through the NMTC program.

- The equity portion as described above; and
- The second is a loan usually from a bank that is called a leveraged lender under the program. It is this debt portion of the program that has suffered from the economic downturn because banks have been unwilling to lend and as a result there is a shortage of debt to complete many NMTC deals. While the NMTC program has been a success its current usage is limited by a lack of credit. The leveraged lender is limited to interest only payments for the seven years of the tax credit period. At the end of the seven years the loan is retired through a balloon payment or refinanced.

In order to work, NMTC funding, therefore, must have equity investors seeking tax credits and a willing leveraged lender. SB66 seeks to facilitate adequate participation by debt lenders to support the equity portions of this program.

SB66 will vitalize the NMTC program in Alaska by allowing AIDEA to provide loan guarantees to the leveraged lender in an NMTC deal. This AIDEA guarantee would incentivize participation by financial institutions. Before issuing a NMTC guarantee or a loan, the Authority will determine that the project will promote economic development in the state. In cases where the applicant can show that they have been unable to obtain a leveraged loan, under commercially reasonable terms, from two financial institutions then AIDEA may make a direct leveraged loan to the project.

The combined outstanding principal balance of AIDEA's loan guarantees and loans may not exceed \$40 million.

STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
fax: 907-465-3532



550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7450
fax 907-269-7463
www.Gov.Alaska.Gov
Governor@Alaska.Gov

Governor Sean Parnell
STATE OF ALASKA

January 21, 2011

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill creating a new markets tax credit assistance guarantee and loan program within the Alaska Industrial Development and Export Authority (AIDEA).

This legislation will enable AIDEA to foster more economic development in Alaska, especially in areas with great need for new investment. Under this legislation, AIDEA could issue guarantees and make loans to help finance projects funded through a federal new markets tax credit program. This federal program offers a competitive process by which federal new markets tax credits are allocated to support the nationwide financing of projects located in low income areas or otherwise serving low income populations. The federal program arises under Section 45D of the Internal Revenue Code, and provides for the allocation of new markets tax credits equal to 39 percent of total qualifying investments, payable over seven years. The tax credits provide a present value investment return of approximately 30 percent of the amount of the qualifying investment, and can substantially reduce the financing costs for a project.

Investments made under the federal new markets tax credit program generally would fund only a portion of total project costs. The balance of the funding must come from other loans or financing. There is a scarcity of capital available and this legislation would enable AIDEA to issue guarantees and make loans to assist in funding amounts not covered by investments made under the federal program.

The proposed legislation requires AIDEA to evaluate the commercial reasonableness of the underlying loan AIDEA would guarantee to determine that the project will promote economic development and requires the financial institution to service the guaranteed loan.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Sean Parnell".

Sean Parnell
Governor

Enclosure

SENATE BILL NO. 66



To: Ted Leonard; Michael Catsi; Mark Davis
From: Vincent Ravaschiere *VR*
Date: October 11, 2010
Re: Enhancing the Value of the Federal New Markets Tax Credit Program in Alaska

Introduction

Some weeks ago, you asked me for my thoughts, initially in draft form, on how the Alaska Industrial Development and Export Authority (“AIDEA” or the “Agency”) could help stimulate and facilitate New Markets Tax Credit (“NMTC”) transactions in the State of Alaska. In this regard, we had preliminary discussions regarding the possibility that AIDEA might act as the leveraged lender in NMTC transactions. You asked me to help determine how such a program might work, consider how AIDEA might protect itself from exposure in acting as a leveraged lender, and suggest other ways in which AIDEA might assist in making the NMTC program work in Alaska. Finally, you asked me to address several specific questions that relate to AIDEA acting as a NMTC leveraged lender.

In response, I submitted a draft memo to AIDEA on October 4, 2010 and attended a meeting to discuss these topics with you at AIDEA’s offices on October 6, 2010. As part of that meeting, we met with representatives of Alaska Growth Capital, the only Alaska based NMTC allocatee, to hear and understand their views on how AIDEA could be helpful in promoting NMTC transactions in Alaska. Following that meeting, you asked me to revise my draft memo in light of our discussions and submit this final version to you.

Background

In December 2000, Congress enacted the New Markets Tax Credit Program as part of the Community Renewal Tax Relief Act of that same year. Intended to address the lack of investment capital available for business and other economic development activities in low income communities, the Program operates by providing a federal subsidy to many different project types developed in eligible areas. The Program is codified at Sec. 45D of the Internal Revenue Code and is administered by the Community Development Financial Institutions (“CDFI”) Fund in the Department of the Treasury.

Once a year, through a highly competitive process, the credits are awarded to financial institutions that are certified by the CDFI Fund as Community Development Entities (“CDEs”). The CDEs then offer the credits to investors in exchange for equity capital, which is then used to subsidize below market financing for eligible projects. Except for rental housing, NMTCs can be used to subsidize almost any type of business or real estate project, including community facilities and other nonprofit uses such as schools, health clinics and cultural institutions. In addition, and under certain circumstances, even residential rental units can qualify for the subsidy if they are part of a mixed-use development.

Under the NMTC Program, it is possible for a project to obtain a loan at a below market rate of interest, or to obtain the equivalent of an equity subsidy of approximately 15% of total project cost. However, there is no guarantee as to either the type or level of subsidy available to a particular project. Both will depend upon the outcome of negotiations among and between the project developer, the CDE and the tax credit investor.

AIDEA Acting as a NMTC Leveraged Lender

The NMTC subsidy is delivered to specific projects via discrete transactions that generally require the participation of a lender to provide debt as a portion of the financing. (See attached Structure Chart.) Every dollar of debt provided to a NMTC transaction attracts approximately \$.35 in federal equity subsidy, though the actual amount will vary from transaction to transaction. Recently, due to the financial crisis and the resulting lack of available credit, it has become increasingly difficult to find commercial lenders to participate in these transactions, thereby diminishing the use of the federal subsidy in Alaska and elsewhere.

The lack of leveraged lenders currently participating in the Program creates a need for AIDEA or some other source to fulfill that role. By creating a loan fund, or otherwise directing loans to NMTC transactions, AIDEA could stimulate the delivery of federal dollars to projects within Alaska, and do so in such a way as to exert its influence over which types of projects receive the subsidy. It is anticipated that this initiative would be at little or no cost to the State because the NMTC Program permits the leveraged lender to be paid a market rate of interest on the loan and then allows the repayment of the principal in full at the end of the seven year NMTC compliance period.

Specific Questions Regarding AIDEA's Possible Role as a NMTC Leveraged Lender

You have asked me to address the following specific questions regarding AIDEA's possible role as a NMTC leveraged lender:

1. What, if any, are the federal requirements for being a leveraged lender?

There are no federal requirements of which I am aware for acting as a leveraged lender.

2. Are there any exemptions from federal requirements for public entities?

N/A. See No. 1 above.

3. What are the benefits for AIDEA in being the leveraged lender?

The benefits of AIDEA in being a NMTC leveraged lender are that AIDEA could stimulate the delivery of federal dollars to projects in Alaska while exercising its

influence on the types of projects that receive the federal subsidy. AIDEA could also earn a reasonable rate of return by making leveraged loans.

4. What are the disadvantages?

The disadvantages are that such loans would entail credit risk, and that that risk would be compounded by the fact that the loans are nonrecourse over the seven year NMTC compliance period. In addition, as a leveraged lender, AIDEA would have only an indirect security interest in the underlying project asset. Also to be considered are the opportunity costs of utilizing AIDEA funds in NMTC projects rather than for other programs and purposes.

5. How can a leveraged lender minimize its risk when it has no recourse to the assets of the QALICB for seven years?

Leveraged lenders can attempt to minimize their risk in a number of ways, including: (1) implementing appropriate underwriting standards and procedures; (2) acting as the servicing agent for the CDE loans; (3) obtaining a letter of credit to mitigate construction risk; (4) obtaining a priority interest in cash flow distributions and other proceeds that may be received; (5) obtaining additional collateral and guarantees, so long as they are not derived from the underlying project; (6) establishing the right to assume management control of the investment fund in the event problems arise. It is important to note, however, that most of these rights would have to be negotiated with the other parties to the transaction, including the equity investor and the CDE, who might not agree to them.

6. Are there other state development finance authorities that play the role of leveraged lender? If so, please provide a list.

I have not done a 50 state review of the practices of state development finance authorities with regard to making leveraged loans. However, I understand that in connection with its own NMTC allocation, the New Jersey Economic Development Authority provides a subordinated leveraged loan product to facilitate its NMTC transactions.

Other Ways in Which AIDEA Might Help Facilitate the NMTC Program in Alaska

The following are several other ideas about how AIDEA might help facilitate NMTC transactions within the State. First, AIDEA could examine its existing grant and loan programs to determine whether these programs can be modified in some way so as to facilitate their use in conjunction with the NMTC structure. Second, AIDEA could consider being the guarantor of all or a portion of independent leveraged loans, similar to the SBA loan guaranty program. Third, AIDEA might consider being a guarantor on the compliance indemnity, particularly with regard to targeted population transactions. Fourth, AIDEA might consider acting as the tax credit investor and then syndicating the tax credits to corporate taxpayers. Finally, it would be helpful if there were a procedure for the

expeditious designation of State economic incentive zones so as to help certain projects qualify for the Program.

The October 6, 2010 Meeting at AIDEA

We met at AIDEA's offices on October 6, 2010 to review the draft memo and further discuss how AIDEA could help stimulate and facilitate NMTC transactions in the State of Alaska. As part of that meeting, we met with representatives of Alaska Growth Capital to share our ideas with them and to hear their views on how AIDEA could help in promoting NMTC transactions. The meeting concluded with the understanding that AIDEA should stimulate and facilitate NMTC transactions by participating as both a guarantor of NMTC leveraged loans and as a lender of last resort to NMTC transactions if and when the existence of the AIDEA guarantee proves insufficient to cause a private financial institution to make the particular leveraged loan.

This conclusion was reached for two basic reasons. First, due in part to the lack of available credit in general, it is exceedingly difficult at the present time for NMTC projects to obtain leveraged loans from private financial institutions. Guaranteeing or providing leveraged loans should help alleviate a serious bottleneck that has developed and is preventing many eligible NMTC transactions from moving forward.

Second, of the various roles considered for AIDEA, acting as a guarantor or provider of leveraged loans was deemed to be the one most consistent with AIDEA's historic role in promoting economic development. One of AIDEA's three major program initiatives has been its loan participation program, in which the Agency works closely with the private sector to provide loans to economic development projects. Acting as a leveraged loan guarantor or provider, therefore, is closely related to AIDEA's experience in debt financing, and is consistent with the principle that AIDEA's approach should be to assist private financial institutions in providing that financing, stepping in directly only when the private sector does not respond.

In concluding, there was also discussion at the meeting of other ways in which AIDEA might help facilitate NMTC use in Alaska, specifically in the rural hubs. For example, there was some consideration given to AIDEA serving as a guarantor on the tax credit compliance indemnity, particularly with regard to targeted population transactions, where projects not located in NMTC qualified areas are nonetheless eligible for the credits because of the characteristics of the project's customers, employees or owners. Because obtaining the tax credit equity investment in these transactions has been problematic, this is an area in which in the future AIDEA may wish to consider playing a role.

Disclaimer

Please note that this memorandum is not intended to constitute legal, accounting or tax advice.



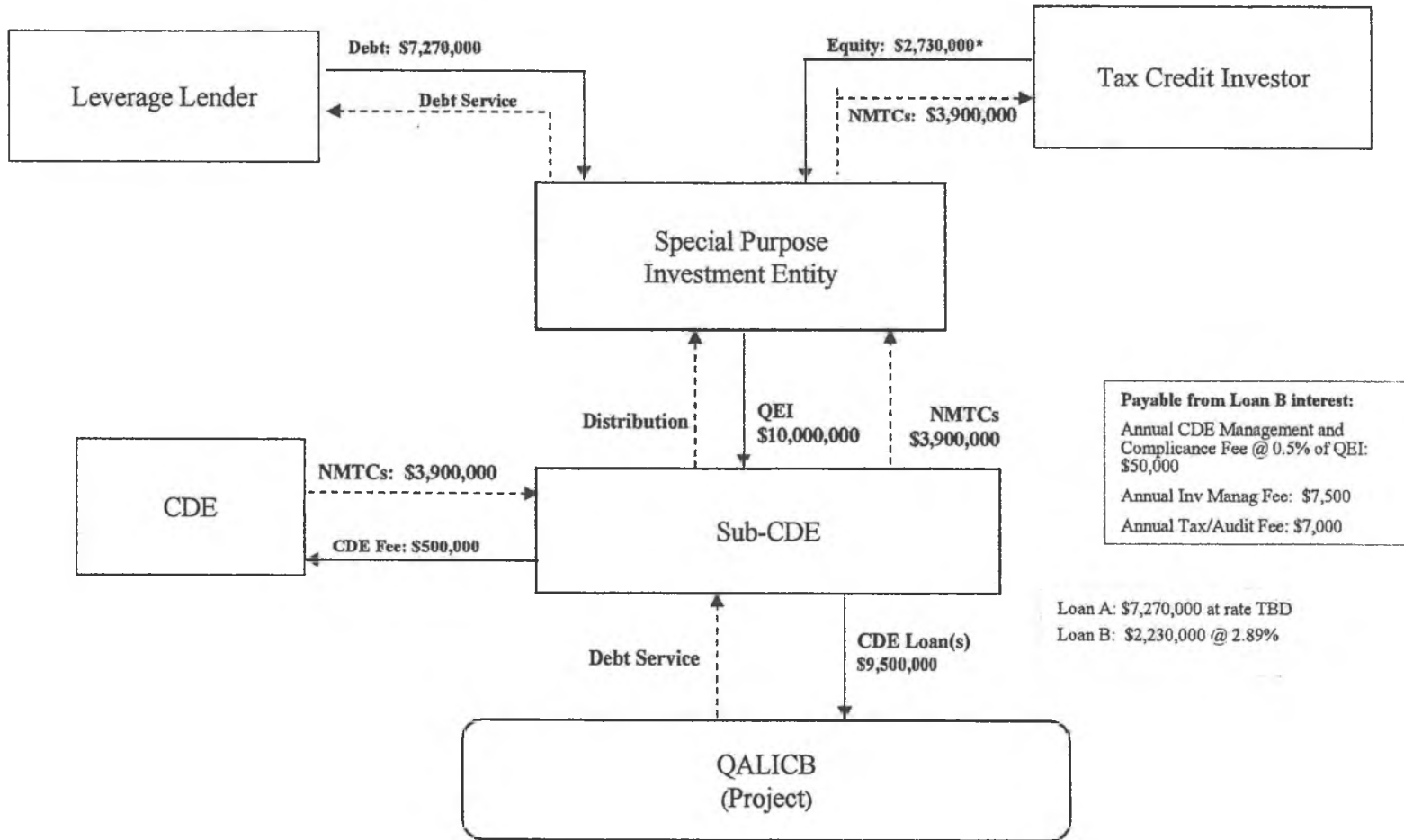
New Markets
Capital Company

Specialists in the New Markets Tax Credit Program

Sample NMTC Structure Chart

\$10,000,000 QEI

10/11/10



- Transaction costs not reflected.
- Numbers are approximate.

*Credits priced at \$.70 for illustrative purposes only.



ALASKA GROWTH CAPITAL

An ASRC Company

February 03, 2011

The Honorable Bob Herron
Chair, Special Committee on Economic Development, Trade and Tourism
Alaska State Legislature
State Capitol Room 411
Juneau, Alaska 99801

Re: HB120, "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."

Dear Representative Herron:

I am writing on behalf of Alaska Growth Capital (AGC) to express support for HB120. This bill allows Alaska Industrial Development and Export Authority (AIDEA) to guarantee loans for use with US Treasury's New Markets Tax Credits (NMTC) program. We at Alaska Growth Capital are sure this bill will result in more economic development in Alaska.

Alaska Growth Capital has participated in the New Markets Tax Credit program since 2004. Since then, AGC has been awarded \$90 million in NMTC allocation. Our most recent work in the NMTC program has been to leverage equity investments for projects that experience gaps in their financing. One of our major accomplishments has been the financing of Maniilaq Association's Elder Care Facility. This transaction utilized equity from New York Community Bank that allows the Elder Care Facility to offset expected losses during the first years after opening.

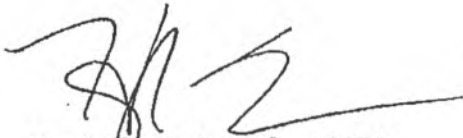
Lenders must accept limitations on loans made to NMTC projects, which drives away their desire to participate. To maximize community benefit, loans to an NMTC project must be interest-only for seven (7) years. During that time the lender must also sign a forbearance agreement preventing it from foreclosing on the loan. Finally, during that seven (7) year period, the lender's lien on property is indirect. These provisions benefit the community in which NMTC investments are occur but they are often too arduous for banks to accept without guarantees or additional forms of security.

Competition for allocation of New Markets Tax Credits, the equity from investors and loans to make this program possible is intense, particularly for Alaskans. Projects in New York or Chicago have the benefit of being close to the major financial institutions. If a potential investor has questions, they can often "go down the street" to inspect the project and speak with staff. That is often impractical if the project is in rural Alaska and the investor is in New York.

Compounding this problem, NMTC program has seen fewer and fewer banks provide loans to projects. These loans are essential to realizing the economic benefits of New Markets Tax Credits; without them projects must self-leverage with existing cash. As a result, lending is scarce and thus expensive in this program. AIDEA's guarantee will lower the borrowing costs for projects, which can be the difference between projects that get built and projects that stay on the drawing board. Further, loans often provide faster and larger capital sources than fundraising campaigns. Passing HB120 will help to alleviate these problems and make Alaska more competitive for this important program.

I respectfully request you to schedule hearings on this piece of legislation and for your support. I am happy to answer any questions; should you or your committee have any please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'H Short', with a long horizontal flourish extending to the right.

Hugh Short, President/CEO
Alaska Growth Capital