

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

HB 402, CSHB 402 360

HB

402

HOUSE COMMITTEE REPORT

(11)

Date referred: 4/21/88

FURTHER REFERRALS:

DATE: 5-3-88

The Finance Committee has considered HB 402-

"An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

RECOMMENDS:

- replace with CS HB 402 (FIN) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published 4/21/88
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Adams [Signature]

Burchot [Signature]

Rieger [Signature]

Frank [Signature]

Brown [Signature]

SIGNING OTHER RECOMMENDATIONS:

Larson [Signature] No Rec

Boyer [Signature] NO REC.

Wallis [Signature]

Davis [Signature] NO REC

Swack [Signature] NO REC

[Signature]
Chairman's signature

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 402 (L&C)
PUBLISH DATE: 4-19-88

FISCAL NOTE

REQUEST:

AK Industrial Development

Revision Date: _____ Agency Affected: and Export Authority
 Title: An Act relating to the Alaska BRU: Same as above
Industrial Development and Export Authority
 Sponsor: Governor Components: N/A
 Requester: House Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

NO INCREASE IN OPERATING FUNDS

CAPITAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
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REVENUE					
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FUNDING: (Thousands of dollars)

GENERAL FUND					
FEDERAL FUNDS					
OTHER	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
TOTAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M

POSITIONS:

FULL-TIME					
PART-TIME					
TEMPORARY					

NONE

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED PAGE

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651
 Division: AK Industrial Development and Export Authority Date: 4-20-88

Approved by Commissioner: J. Anthony, Commissioner Date: 4-20-88
 Agency: Department of Commerce and Economic Development

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

ANALYSIS:

- Section 1: This bill increases the loan limits of the Authority from \$10.0 million to \$25.0 million. The funding source is bond proceeds derived from the sale of the Authority's general obligation bonds.
- Section 2: Changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.
- Section 3: Changes 44.88.165 to allow the Authority to provide by regulation when a bank will be restricted from submitting credits to the Authority. Currently, it provides that, when over 2% of a bank's loans sold to the Authority are delinquent 90 days or more, they cease being eligible.
- Section 4: This new section authorizes the feasibility study/financial analysis of the Eagle River ski resort proposal. AIDEA corporate receipts are to be used to finance 50% of the cost of the study.

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 402 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act increasing the maximum size of loans entered
7 into by the Alaska Industrial Development and Export
8 Authority from the authority's enterprise development
9 account; amending the manner of determining the
10 interest rate on loans guaranteed by the federal
11 government; permitting the authority to describe the
12 circumstances under which it will discontinue pur-
13 chasing loans from a financial institution because of
14 delinquencies; directing the authority to complete a
15 feasibility study for a development project relating
16 to development of certain state park land; and pro-
17 viding for an effective date."

18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

19 * Section 1. AS 44.88.155(d) is amended to read:

20 (d) A loan purchased in whole or in part by the authority with
21 assets of the enterprise development account or with proceeds of bonds
22 secured by assets of the enterprise development account, other than a
23 loan that [WHICH] is financed with the proceeds of bonds of the au-
24 thority and secured only by a project applicant or a project,

25 (1) may not exceed

26 (A) \$25,000,000 [\$10,000,000]; or

27 (B) \$1,000,000 [\$500,000] if the loan is purchased
28 under AS 44.88.158;

29 (2) may not exceed the cost of the project or 75 percent of

1 the appraised value of the project, whichever is less, unless the
2 amount of the loan in excess of this limit is federally insured or
3 guaranteed or is insured by a qualified mortgage insurance company;

4 (3) may not be for a term longer than three-quarters of the
5 authority's estimate of the life of the project or 25 years from the
6 date the loan is made, whichever is earlier;

7 (4) shall contain complete amortization provisions satis-
8 factory to the authority requiring periodic payments by the borrower;

9 (5) shall be in the form and contain the terms and pro-
10 visions with respect to insurance, repairs, alterations, payment of
11 taxes and assessments, default reserves, delinquency charges, default
12 remedies, acceleration of maturity, secondary liens, and other matters
13 the authority prescribes;

14 (6) shall be secured as to repayment by a mortgage or other
15 security instrument in the manner the authority determines is feasible
16 to assure timely repayment under a loan agreement entered into with
17 the borrower;

18 (7) may not be made unless

19 (A) at least 10 percent of the principal amount of the
20 loan is retained by the originator of the loan; or

21 (B) 100 percent of the principal amount of the loan is
22 guaranteed by the United States or an agency or instrumentality
23 of the United States;

24 (8) must be

25 (A) at least partially guaranteed by the United States
26 or an agency or instrumentality of the United States, subject to
27 the provisions of AS 44.88.158;

28 (B) financed from the proceeds of bonds; or

29 (C) expected by the authority to be financed from the

1 proceeds of bonds.

2 * Sec. 2. AS 44.88.159(c) is amended to read:

3 (c) The interest rate to be received by the authority on a
4 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-
5 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from
6 the proceeds of the sale of a series of bonds

7 (1) may be either floating or fixed;

8 (2) is the lesser of

9 (A) the prevailing prime rate adopted by the United
10 States Small Business Administration; or

11 (B) Moody's Investors Service [IS EQUAL TO THE MOST
12 RECENT INDEX OF] Aa corporate bond yield index [AVERAGES AS
13 PUBLISHED BY MOODY'S INVESTORS SERVICE].

14 * Sec. 3. AS 44.88.165 is repealed and reenacted to read:

15 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
16 regulations to describe the circumstances under which it will discon-
17 tinue purchasing loans from a financial institution because of exces-
18 sive delinquencies among the loans previously purchased from the
19 financial institution. In adopting the regulations, the authority
20 shall take into consideration its delinquency experience with loans it
21 has purchased from all financial institutions. The authority may
22 include in the regulations other remedies it considers appropriate as
23 alternatives to the discontinuance of purchasing loans from the finan-
24 cial institution.

25 * Sec. 4. FEASIBILITY STUDY. (a) The legislature finds that it is in
26 the best interests of the state to promptly determine the feasibility of
27 the development project proposed for the Eagle River Valley portion of
28 Chugach State Park. The legislature further finds that it is contrary to
29 the public interest to incur the delay associated with soliciting

1 competitive sealed bids or competitive sealed proposals.

2 (b) The Alaska Industrial Development and Export Authority shall
3 contract for the preparation of a feasibility study of the development
4 project proposed for the Eagle River Valley portion of Chugach State Park.
5 The feasibility study must

6 (1) satisfy the requirements of AS 44.88.173(a);

7 (2) satisfy contractual requirements imposed on the owner or
8 developer by the Department of Natural Resources, division of parks; and

9 (3) make recommendations concerning amendments to AS 44.88
10 necessary for the authority to provide financing for the project.

11 (c) The authority shall pay 50 percent of the cost of the study
12 required by this section, but may not pay more than \$150,000.

13 (d) The provisions of AS 36.30.310 apply to contracts entered into
14 for the study required by this section.

15 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).
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STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

April 29, 1988

The Honorable Kay Brown
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Representative Brown:

Subject: HB 402

You asked for a response regarding two aspects of HB 402:

1. Expand the feasibility language provisions to allow for future studies as directed by DNR: We consciously crafted the current language in HB 402 to provide precedence on the utilization of AIDEA's feasibility powers as currently provided in statute. We are concerned about the development of an abusive pattern of use, as the current powers to perform feasibility studies ~~is~~ ^{is} ~~are~~ broad. Specifically, we are desirous of preserving the use of the power to perform studies for which there is a specific and likely role for AIDEA to play in the development of the project. Further, we wish to preserve the 50/50 split of fees as currently provided in HB 402 to discourage individuals from approaching AIDEA and requesting a free study from AIDEA for any project. Finally, we wish to have control over all studies so that the results are consistent with the parameters as agreed between AIDEA and the performer of the study, rather than having a study presented to AIDEA which was developed by a contractor at the direction of a developer.
2. Why use emergency procurement provisions for the Eagle River development: The current draft specifies that the study in question is to be performed as an emergency procurement per AS 26.30.310. It is justified as such per the language therein that authorizes emergency procurement "when a situation exists that makes a procurement through competitive sealed bidding or competitive sealed proposals impracticable or contrary to the public interest. . . ." Our reason for requesting such authorization is twofold: (1) the only developer who responded to the DNR RFP has stated emphatically that all appropriate speed is requested of the state or his interest may wane. This may or

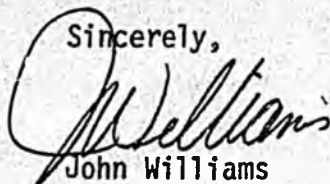
Representative Kay Brown

-2-

April 29, 1988

may not be the case, but it is easy to address because (2) there are only two internationally recognized accounting firms that perform these types of studies. As we would want the best team possible, it is our desire to enter negotiations directly with these two firms to advance the beginning date of the contract.

Sincerely,



John Williams
Deputy Commissioner

JW/v10126L
042988a



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

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1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

M E M O R A N D U M

TO: J. Jack Jessee
AIDEA Board of Directors

FROM: Bertram L. Wagnon *BLW/BJW*
Executive Director

DATE: March 31, 1988

SUBJECT: AIDEA Legislation in House Labor & Commerce

Currently there is legislation related to the Authority waiting to be heard in the House Labor and Commerce (L & C) Committee. They include:

- ° House Bill (HB) 402 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act does three things and they are prioritized as follows: 1) Provides language to allow the Authority to adopt regulations describing at what delinquency rates a financial institution may not access the Authority's programs. 2) Changes the method of calculating interest on loans purchased by the Authority which are guaranteed by an instrumentality of the United States. 3) Increases the Authority's loan limit from \$10,000,000 to \$25,000,000.
- ° Committee Substitute for Senate Bill (CSSB) 392 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act addresses the existing statutes which prohibits the participation of financial institutions in the Authority's programs if loans sold to the Authority by a particular financial institution are over 2% delinquent.

These two bills are priority bills because they can be implemented quickly with positive results.

J. Jack Jessee - Memo
March 31, 1988
Page Two

Because HB 402 and CSSB 392 are priority, House L&C could:

- 1) Pass HB 402 as is;
- 2) Pass CSSB 392 as is; or
- 3) Amend CSSB 392 to include the language in HB 402 regarding interest rates and loan limits and pass it out of committee.

The easiest way to meet the immediate priorities is for House L&C to pass HB 402. This bill is comprehensive and would allow the Authority to immediately implement procedures to allow greater participation of the financial institutions (and business people) in the Authority's programs. The next best method would be to pass CSSB 392 in order to address the delinquency situation of the some of the financial institutions who could otherwise participate in the Authority's programs. ..

Attached you will find the bills and their corresponding bill analyses and fiscal notes.



STATE OF ALASKA
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Commerce & Economic Development	DIVISION AK Industrial Devel & Export Authority	BILL NUMBER	SPONSOR Request of Governor
SHORT TITLE OF BILL An act relating to the Alaska Industrial Development and Export Authority and providing for an effective date.			
DEPARTMENT POSITION The Authority supports this legislation in that it will provide the ability to assist certain sectors of the economy during these difficult times.			
PREPARED BY <i>Bertram L. Wagon</i> Executive Director	DATE 1/29/88	COMMISSIONER'S SIGNATURE	DATE

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL Alaskan business and banking community.
ORGANIZATIONAL SUPPORT FOR BILL Lukewarm to mild support from the banking community.	ORGANIZATIONAL OPPOSITION TO BILL Unknown. Should be very little.

FISCAL IMPACT: NONE FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT
This legislation originated with the Authority's Board of Directors to address certain particular shortcomings in the Authority's existing statutes. During these difficult economic times furthering the Authority's ability to provide an in-state investor for Alaskan projects and increasing the availability of the Small Business program will assist some businesses who otherwise may be unable to obtain capital through any other means.

ANALYSIS OF BILL/PROGRAM EFFECTS
Section one of the bill increases the Authority's loan limit from its current \$10 million maximum to \$25 million for those loans which are not guaranteed by an instrumentality of the U.S. Government. For those loans guaranteed by an agency or instrumentality of the U.S. Government, the loan limit is increased from \$500,000 to \$1 million.

The increase in the bonded program limits to \$25 million will allow the Authority to be a participant in transactions that previously have been too large for Authority participation. The recent downturn in the economy has greatly diminished outside correspondent investor relationships and the larger loan limit will allow the Authority to fill a portion of the void. The increase from \$500,000 to \$1 million for loans guaranteed by the U.S. Government would allow the purchase of these larger guaranteed loans backed primarily by the BIA, National Marine Fisheries Service and the Farmers Home Administration.
SEE ADDITIONAL SHEET ATTACHED

AMENDMENTS PROPOSED
None

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS

State of Alaska - Office of the Governor
BILL ANALYSIS - Alaska Industrial Development and Export Authority
Continuation of Analysis of Bill/Program Effects

When the limit was originally set at \$500,000 it coincided with the SBA limit. Subsequently it has been learned that several other instrumentalities of the U.S. Government guaranty larger loans and this would accommodate these. The purchase of the guaranteed portion of these loans provides a secure investment of the Authority's funds and at the same time assists the Alaskan economy.

Section two of the bill changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. Government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.

The SBA sets limits on the interest rates it allows banks to charge at 2 1/4% over New York prime for a loan under seven years, and 2 3/4% over New York prime for a loan over seven years. Recently these rates have gotten out of sync with the Moody's rate and makes it impossible for the Authority to participate in this program (i.e. the Moody's rate exceeds the SBA limits). It should be noted that at times during the period of high rates in 1980, '81, and '82, the Moody's rate was as much as 7 1/2% below the SBA limits.

This legislation corrects this problem by setting the rate at the lesser of (1) the prevailing prime rate adopted by SBA, or (2) Moody's Aa index or such other index as set by regulation of the Authority. Additionally the Authority is given the ability to utilize either of these indexes as fixed rates or floating rates providing greater latitude to borrowers and banks. This language will provide the flexibility to once again make the program attractive.

Section three of the bill addresses a problem in that existing statutes prohibits a bank from participating in any of the Authority's programs if over 2% of its loans sold to the Authority are 90 days or more delinquent. The new language provides that the Authority will adopt regulations to describe the circumstances under which it will discontinue purchasing loans which will provide much needed flexibility to allow banks access to the Authority's programs.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Balance Sheets

June 30, 1987 and 1986

<u>Assets</u>	<u>1987</u>	<u>1986</u>
Cash	\$ 11,685	\$ 4,123
Investments, partially restricted (note 3)	278,329,162	204,458,429
Loans (note 4)	329,070,910	372,833,597
Less allowance for possible loan loss	10,173,101	4,247,360
Net loans	<u>318,897,809</u>	<u>368,586,237</u>
Accrued interest receivable	6,404,839	7,258,811
Unamortized bond issue costs	2,716,359	2,864,036
Other real estate owned	8,797,589	2,977,186
Other	<u>473,883</u>	<u>432,239</u>
	<u>\$615,631,326</u>	<u>\$586,581,061</u>
<u>Liabilities and Equity</u>		
Notes and bonds payable (note 6)	\$252,720,225	\$245,256,775
Accrued interest payable	6,283,633	6,135,818
Deposits from others	997,292	1,003,400
Other	<u>204,331</u>	<u>235,966</u>
	<u>260,205,481</u>	<u>252,631,959</u>
Equity:		
Contributed capital (note 1)	197,800,632	189,800,632
Retained earnings	<u>157,625,213</u>	<u>144,148,470</u>
Total equity	<u>355,425,845</u>	<u>333,949,102</u>
	<u>\$615,631,326</u>	<u>\$586,581,061</u>

Commitments (note 12)

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Statements of Earnings and Retained Earnings

Years ended June 30, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Revenues:		
Interest, net of servicing fees	\$ 47,880,777	\$ 53,832,444
Fees (note 7)	142,132	1,086,371
Miscellaneous	336,316	40,995
Total revenues	<u>48,359,225</u>	<u>54,959,810</u>
Expenses:		
Interest	25,712,539	24,208,747
Salaries and employee benefits	733,567	818,570
Professional fees	96,205	119,809
Travel	14,497	19,454
Rent	105,808	93,699
Furniture and equipment	28,576	62,267
Amortized bond issue costs	137,807	135,396
Provision for loan loss	6,450,000	323,515
Write-downs and loss on sale of assets	1,223,369	31,727
Other	380,114	271,425
Total expenses	<u>34,882,482</u>	<u>26,084,609</u>
Net earnings	13,476,743	28,875,201
Retained earnings at beginning of year	<u>144,148,470</u>	<u>115,273,269</u>
Retained earnings at end of year	<u>\$157,625,213</u>	<u>\$144,148,470</u>

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Statements of Changes in Financial Position

Years ended June 30, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Sources of financial resources:		
Net income	\$ 13,476,743	\$ 28,875,201
Appropriations from State of Alaska	8,000,000	-
Loan reductions	61,363,099	52,391,657
Issuance of notes and bonds payable	13,885,000	41,050,000
Increases in:		
Accrued interest payable	147,815	704,529
Deposits from others	-	295,855
Allowance for loan loss	5,925,741	1,680,360
Other liabilities	-	67,081
Decreases in:		
Cash	-	4,885
Unamortized bond issue costs	147,677	165,125
Accrued interest receivable	853,972	824,550
Other assets	-	49,078
	<u>\$103,800,047</u>	<u>\$126,108,321</u>
 Uses of financial resources:		
New loans disbursed	\$ 17,600,412	\$ 38,858,440
Purchase of loans from State	-	11,680,360
Payments on notes and bonds payable	6,421,550	9,275,000
Increases in:		
Cash	7,562	-
Investments	73,870,733	63,837,618
Other real estate owned	5,820,403	2,456,903
Other assets	41,644	-
Decreases in:		
Deposits from other	6,108	-
Other liabilities	31,635	-
	<u>\$103,800,047</u>	<u>\$126,108,321</u>

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

June 30, 1987 and 1986

The activities of the Alaska Industrial Development & Export Authority are accounted for in the Enterprise Development Fund and the Economic Development Fund. Both Funds were established by the legislature of the State of Alaska for separate and distinct purposes to be administered by the Authority and are not related in any way. In addition, the Authority is prohibited by statute from pledging or using assets of the Enterprise Development Fund to assist in financing, developing or operating a project of the Economic Development Fund. Therefore, separate financial statements are prepared for each Fund. The financial statements and related notes presented herein relate only to the financial activities of the Enterprise Development Fund.

(1) Historical

The Alaska Industrial Development & Export Authority (Authority) is a public corporation of the State of Alaska, constituting a political subdivision within the Department of Commerce and Economic Development, but with separate and independent legal existence. The Authority's purpose is to promote, develop and advance the general welfare of the people of Alaska by providing permanent, long-term financing for industrial, manufacturing and other business enterprises.

Prior to July 1, 1980, the Authority's sole means of providing financing for business enterprises was through a tax-exempt stand-alone revenue bond program. Funds were provided to qualified applicants by issuance of the Authority's industrial development revenue bonds, which are secured solely by the revenue earned by the applicant's project and the financial credit of the individual applicant.

Since July 1, 1980, the legislature of the State of Alaska has appropriated the following to the Enterprise Development fund of the Authority:

- (a) \$32,212,300 cash.
- (b) All rights, title and interest in loans, with remaining principal balances totaling approximately \$166,000,000, held by the State Department of Revenue and State Department of Commerce and Economic Development.
- (c) Assets and liabilities of the Alaska State Development Corporation, the Small Business Development Corporation and the Alaska Toll Bridge Authority, with fund balances of \$2,554,055.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

State of Alaska legislation has also enabled the Authority to significantly expand its financing programs as follows:

- (a) A tax-exempt umbrella bond program, under which the Authority's bonds are sold on national markets, was established to provide loans of up to \$10,000,000. The proceeds of the sales are used to purchase portions of loans made by financial institutions to their customers. The bonds may be secured by any or all of the following:
- The full faith and credit of the Authority.
 - Principal and interest payments received on the loans.
 - Collateral held by the Authority on projects financed by the loans.
 - A Capital Reserve Fund to be established from the State appropriation.
 - A negative covenant on other commitment of assets.

The Authority has made a covenant that it will not incur any General Obligation Indebtedness causing estimated Net Income to be less than 150% of the General Obligation Annual Debt Service Requirements in each year and to take no action to cause its Unrestricted Surplus to be less than the lesser of \$200 million or the amount of General Obligation Indebtedness outstanding. Coverage for the year ending June 30, 1987, was 313%, and, at June 30, 1987, the Unrestricted Surplus was \$329.0 million covering a \$200 million requirement.

- (b) The tax-exempt stand-alone revenue bond program was also expanded to enable the Authority to issue bonds to provide funds for business enterprises other than those of a manufacturing or industrial nature. Such bonds are not secured by the full faith and credit of the Authority and are not recorded as obligations of the Authority.
- (c) The Authority has annual authorization to finance projects totaling \$400,000,000 under its bond programs.
- (d) Uncommitted funds held in the Enterprise Development Fund may be used to purchase the guaranteed portion of business loans (usually 90% of the loan amount) guaranteed by the Small Business Administration, the National Marine Fisheries Service or the Farmers Home Administration.
- (e) On June 24, 1982, legislation was signed into law by the Governor of Alaska providing authorization and funding of a multifamily housing loan program. Under this legislation, \$21,000,000 in certificates of deposit were appropriated by the State to the Authority in July 1982 for a multifamily housing loan security fund to provide a loan loss reserve for certain multifamily housing loans. As the legislation excluded the assets of the fund from the general assets of the Authority, the fund and the earnings thereon are not recorded on the financial statements of the Authority.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

Cont. - Subsequent to the initial appropriation, the Alaska legislature expanded the uses of the fund to provide a loan loss reserve for all multifamily housing loans and for capital reserve fund purposes and directed or authorized the following transfers to be made:

\$5,000,000 to other State uses.

\$12,000,000 to the Economic Development Fund established within the Authority for the purpose of financing the DeLong Mountain transportation project.

\$554,100 for multifamily capital reserve purposes.

\$8,000,000 to the Loan Insurance Account in the Enterprise Development Fund of the Authority.

The fund balance at June 30, 1987, was \$1,171,174.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Authority uses the accrual basis of accounting, under which revenues are recorded when earned, and expenditures are recorded when liabilities are incurred.

Investments

Investments are recorded at the acquisition cost which approximates market.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. According to the Alaska Statutes, the Authority constitutes a political subdivision of Alaska and is therefore exempt from State and Federal income taxes.

Tax-Exempt Stand-Alone Revenue Bonds

Tax-exempt stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable solely out of the revenues derived from the financing of projects. They do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Alaska, and they do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. The repayments of these bonds by the various entities on whose behalf they have been issued are made directly to the trustee for each bond issued and, therefore, are not recorded as Authority revenues and expenses.

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

Allowance for Loan Loss

Management regularly reviews the loan portfolio and determines provision for loss based upon experience and management's estimate of potential loss.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure on loans or a deed received in lieu of foreclosure. It is carried at the lower of the unpaid loan balance at the time of foreclosure or the estimated fair market value of the property. When the balance of the Authority's investment in the loan is greater than the fair market value of the property, the difference is charged to the allowance for loan losses.

Retirement Plan

All employees of the Authority participated in the State of Alaska Public Employees' Retirement System. The State's policy is to fund pension costs accrued.

Bond Issue Costs

When advanced by the Authority, costs of bond issues, including underwriters' fees and commissions, legal fees, bond insurance and printing, are amortized over the life of the bond issue on the straight-line method and are recovered from the borrowers primarily as a part of the interest rate charged. Current practice is to require borrowers to pay for bond costs at the time of funding.

Furniture and Equipment

Purchases of furniture and equipment are expensed, as such items are the property of the State of Alaska.

(3) Investments

At June 30, 1987, investments were in certificates of deposit, United States Government securities or commercial paper, yielding interest at 4.8% to 13.0% and maturing generally within one year, except \$5,479,261 in United States Treasury Notes maturing in subsequent years through 1992 for restricted purposes and \$6,305,000 in Seward C.O.P.'s maturing serially to 2000.

At June 30, 1986, all investments were in certificates of deposit, United States Government securities or commercial paper, yielding interest at 6.4% to 13.0% and maturing within one year, except United States Treasury Notes of which \$997,930 mature in 1987 and \$5,189,683 mature in subsequent years through 1992.

Certain invested funds are restricted by the terms of the Authority's bond resolutions and are held and invested by the trustees. A summary of these investments follows:

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

Investment Summary

<u>Name</u>	<u>Restriction</u>	June 30	
		<u>1987</u>	<u>1986</u>
Loan participation funds	Committed loans not closed at June 30	\$ -0-	\$ 550,000
Capital reserve funds	Secure debt service payment - bonds	26,468,794	25,562,325
Debt service funds	Loan repayments and funds held for debt service - bonds	<u>28,815,638</u>	<u>21,437,070</u>
		<u>\$55,284,432</u>	<u>\$47,549,395</u>

The Capital Reserve Funds are maintained for the purpose of making principal and interest payments on the bonds payable if monies received by the Authority and available for the payment of bond principal and interest are insufficient to make the required debt service payments. The amounts held in the capital reserve funds are equal to the average of the amounts required to be paid for principal and interest in each future fiscal year until maturity of the outstanding bonds. On the first day of January, April, July and October of each year, the Authority must replenish the capital reserve funds to the required amounts or may withdraw any excess amounts.

(4) Loans

Loans outstanding at June 30, 1987 and 1986 are classified as follows:

<u>Loan Type</u>	<u>1987</u>		<u>1986</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Appropriated & purchased	549	\$ 75,353,222	626	\$ 89,319,047
Federally guaranteed	63	11,278,600	174	34,097,213
Bond sale	<u>396</u>	<u>242,439,088</u>	<u>423</u>	<u>249,417,337</u>
	<u>1,008</u>	<u>\$329,070,910</u>	<u>1,223</u>	<u>\$372,833,597</u>

An aging of loans as of June 30, 1987 and 1986 follows:

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ENTERPRISE DEVELOPMENT FUND

Notes to Financial Statements

<u>Loan Age</u>	<u>1987</u>		<u>1986</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Current	\$244,053,906	74.17%	\$335,858,568	90.08%
Past due:				
30-60 days	19,453,100	5.91	19,675,931	5.28
61-90 days	14,513,126	4.41	3,871,091	1.04
Over 90 days	<u>51,050,778</u>	<u>15.51</u>	<u>13,428,007</u>	<u>3.60</u>
	<u>\$329,070,910</u>	<u>100.00%</u>	<u>\$372,833,597</u>	<u>100.00%</u>

The Authority does not include in interest income the accrued interest on loans more than 90 days past due nor on loans foreclosed. Accrued interest deleted on past due loans through June 30, 1987, and on foreclosed loans to dates of foreclosure amounted to \$4,153,304 for the current fiscal year.

(5) Analysis of Allowance for Loan Losses

	<u>1987</u>	<u>1986</u>
Balance July 1	\$ 4,247,360	\$2,567,000
Plus: Allowance charged to expense	6,450,000	323,515
Allowance for loans purchased	-0-	1,680,360
Less: Loans charged off	<u>(524,259)</u>	<u>(323,515)</u>
Balance June 30	<u>\$10,173,101</u>	<u>\$4,247,360</u>

(6) Notes and Bonds Payable

	<u>June 30 1987</u>	<u>June 30 1986</u>
Economic development bonds:		
7-1/2% to 11-3/8%, issued April 1, 1981, maturing between 1982 and 2007	\$ 13,755,000	\$ 14,425,000
9-3/4% to 13-5/8%, issued October 15, 1981, maturing between 1983 and 2008	44,285,000	46,105,000
12.875%, issued August 15, 1982, maturing between 1984 and 2008	875,000	890,000
10% to 11.25%, issued October 1, 1982, maturing between 1983 and 2008	5,890,000	6,240,000
10% and 11.375%, issued December 1, 1982, maturing between 1984 and 2009	2,770,000	2,825,000
8.5% to 10.5%, issued November 1, 1983, maturing between 1984 and 2009	11,280,000	11,490,000
7.75% to 10.75%, issued December 1, 1983, maturing between 1984 and 2009	15,470,000	15,610,000
7.5% to 11.40%, issued July 1, 1984, maturing between 1985 and 2010	12,615,000	12,860,000
6.00% to 10.00%, issued as EDB May 1, 1985, maturing between 1986 and 2009	11,270,000	11,555,000

(Continued)

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ECONOMIC DEVELOPMENT FUND

Balance Sheets

June 30, 1987 and 1986

<u>Assets</u>	<u>1987</u>	<u>1986</u>
Cash	\$ 31,027	\$ 11,200
Investments (note 3)	141,868,054	24,805,618
Loans (note 4)	114,533,742	130,632,094
Less allowance for possible loan loss (note 5)	<u>3,427,949</u>	<u>3,019,447</u>
Net loans	111,105,793	127,612,647
Accrued interest receivable	2,551,084	2,070,545
Unamortized bond issue costs	5,207,034	-0-
DMTS investment base (note 2)	11,336,620	-0-
Other real estate owned	325,419	114,365
Other	<u>5,960</u>	<u>7,614</u>
	<u>\$272,430,991</u>	<u>\$154,621,989</u>
 <u>Liabilities and Equity</u> 		
Bonds payable (note 6)	\$103,250,000	\$ -0-
Accrued interest payable	3,022,781	-0-
Miscellaneous liabilities	<u>1,911,394</u>	<u>578</u>
	<u>108,184,175</u>	<u>578</u>
Equity:		
Contributed capital (note 2)	143,511,300	143,511,300
Retained earnings	<u>20,735,516</u>	<u>11,110,111</u>
Total equity	<u>164,246,816</u>	<u>154,621,411</u>
	<u>\$272,430,991</u>	<u>\$154,621,989</u>

Commitments (note 7)

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ECONOMIC DEVELOPMENT FUND

Statements of Earnings and Retained Earnings

Years ended June 30, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Revenues:		
Interest, net of servicing fees	\$ 10,649,012	\$ 11,110,107
Miscellaneous	50,049	11,433
Total revenues	<u>10,699,061</u>	<u>11,121,540</u>
Expenses:		
Provision for loan loss	925,000	-0-
Miscellaneous	148,656	11,429
Total expenses	<u>1,073,656</u>	<u>11,429</u>
Net earnings	9,625,405	11,110,111
Retained earnings at beginning of year	<u>11,110,111</u>	<u>-0-</u>
Retained earnings at end of year	<u>\$ 20,735,516</u>	<u>\$ 11,110,111</u>

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY
ECONOMIC DEVELOPMENT FUND

Statements of Changes in Financial Position

Years ended June 30, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Sources of financial resources:		
Contributed capital	\$ -0-	\$143,511,300
Net income	9,625,405	11,110,111
Loan reductions	16,098,352	13,702,021
Increase in:		
Allowance for loan loss	408,502	1,825,096
Bonds payable	103,250,000	-0-
Accrued interest payable	3,022,781	-0-
Liabilities	1,910,816	578
Decrease in:		
Miscellaneous assets	1,654	-0-
	<u>\$134,317,510</u>	<u>\$170,149,106</u>
 Uses of financial resources:		
Appropriated loans, net	\$ -0-	\$131,511,300
Loans purchased	-0-	11,628,464
Increases in:		
Cash	19,827	11,200
Investments	117,062,436	24,805,618
Accrued interest receivable	480,539	2,070,545
Unamortized bond issue costs	5,207,034	-0-
DMIS investment base	11,336,620	-0-
Other real estate owned	211,054	-0-
Miscellaneous assets	-0-	121,979
	<u>\$134,317,510</u>	<u>\$170,149,106</u>

See accompanying notes to financial statements.

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

7R 402

January 27, 1988

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Industrial Development and Export Authority's (AIDEA's) handling of financial institution loans.

Current law provides in AS 44.88.155(d)(1)(A) that when the authority purchases a participation under its enterprise development account in a loan made by a financial institution, the loan may not exceed \$10 million. (The enterprise development account is the "general fund" of the authority, and bonds issued in connection with this account are general obligations of the authority.) Section 1 of this bill increases from \$10 million to \$25 million the limit on such loans in which the authority may use assets of that account to purchase a participation. This increase to \$25 million from \$10 million will allow authority involvement in larger transactions that will help diversify the state's economy. Due to the recent downturn in the Alaskan economy, many of the traditional investor relationships with outside organizations no longer exist and the larger loan limit will help by allowing the authority to fill a portion of that void.


Section 1 also increases from \$500,000 to \$1,000,000 the loan limit on federally guaranteed loans that the authority may purchase. The current limit, enacted with the original AIDEA statutes, is too restrictive, especially in light of current federal loan guaranty levels. These guaranteed loans provide not only a good investment for the authority but also are an important source of capital for Alaskan borrowers.

Section 2 of this bill amends AS 44.88.159(c), which sets the interest rate on those loans guaranteed by an instrumentality of the United States government. Current law sets the rate equivalent to the Moody's Aa corporate bond yield. The new language adopts the prevailing methodology used by

the Small Business Administration in setting its rates. Additionally, to provide a degree of protection to borrowers in high interest rate environments, it uses the lesser of the prime rate, Moody's Aa corporate bond yield, or other index selected by the authority.

Current law provides in AS 44.88.165 that if more than two percent of the total outstanding balance of loans purchased from a financial institution (i.e., the authority's participation in such loans) becomes delinquent for 90 days or more, the authority may no longer purchase from that financial institution participations in loans for which it has not already made a commitment, until the delinquencies are reduced to less than two percent. Section 3 of this bill repeals that requirement and substitutes a requirement that the authority adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of delinquencies among the loan participations previously purchased from that institution.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written in a cursive style.

Steve Cowper
Governor

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE LABOR AND
COMMERCE COMMITTEE

2

CS FOR HOUSE BILL NO. 402 (L&C)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to projects of and the handling of
7 institutional loans by the Alaska Industrial Develop-
8 ment and Export Authority; increasing the maximum
9 size of loans entered into from the authority's
10 enterprise development account; amending the manner
11 of determining the interest rate on loans guaranteed
12 by the federal government; permitting the authority
13 to describe the circumstances under which it will
14 discontinue purchasing loans from a financial insti-
15 tution because of delinquencies; directing the au-
16 thority to complete a feasibility study for a devel-
17 opment project relating to development of certain
18 state park land; and providing for an effective
19 date."

20 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

21 * Section 1. AS 44.88.155(d) is amended to read:

22 (d) A loan purchased in whole or in part by the authority with
23 assets of the enterprise development account or with proceeds of bonds
24 secured by assets of the enterprise development account, other than a
25 loan that [WHICH] is financed with the proceeds of bonds of the au-
26 thority and secured only by a project applicant or a project,

27 (1) may not exceed

28 (A) \$25,000,000 [\$10,000,000]; or

29 (B) \$1,000,000 [\$500,000] if the loan is purchased

1 under AS 44.88.158;

2 (2) may not exceed the cost of the project or 75 percent of
3 the appraised value of the project, whichever is less, unless the
4 amount of the loan in excess of this limit is federally insured or
5 guaranteed or is insured by a qualified mortgage insurance company;

6 (3) may not be for a term longer than three-quarters of the
7 authority's estimate of the life of the project or 25 years from the
8 date the loan is made, whichever is earlier;

9 (4) shall contain complete amortization provisions satis-
10 factory to the authority requiring periodic payments by the borrower;

11 (5) shall be in the form and contain the terms and pro-
12 visions with respect to insurance, repairs, alterations, payment of
13 taxes and assessments, default reserves, delinquency charges, default
14 remedies, acceleration of maturity, secondary liens, and other matters
15 the authority prescribes;

16 (6) shall be secured as to repayment by a mortgage or other
17 security instrument in the manner the authority determines is feasible
18 to assure timely repayment under a loan agreement entered into with
19 the borrower;

20 (7) may not be made unless

21 (A) at least 10 percent of the principal amount of the
22 loan is retained by the originator of the loan; or

23 (B) 100 percent of the principal amount of the loan is
24 guaranteed by the United States or an agency or instrumentality
25 of the United States;

26 (8) must be

27 (A) at least partially guaranteed by the United States
28 or an agency or instrumentality of the United States, subject to
29 the provisions of AS 44.88.158;

1 (B) financed from the proceeds of bonds; or
2 (C) expected by the authority to be financed from the
3 proceeds of bonds.

4 * Sec. 2. AS 44.88.159(c) is amended to read:

5 (c) The interest rate to be received by the authority on a
6 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-
7 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from
8 the proceeds of the sale of a series of bonds

9 (1) may be either floating or fixed;

10 (2) is the least of

11 (A) the prevailing prime rate adopted by the United
12 States Small Business Administration;

13 (B) Moody's Investors Service Aa corporate bond yield
14 index; or

15 (C) an index as established by regulation of the
16 authority [IS EQUAL TO THE MOST RECENT INDEX OF Aa CORPORATE BOND
17 YIELD AVERAGES AS PUBLISHED BY MOODY'S INVESTORS SERVICE].

18 * Sec. 3. AS 44.88.165 is repealed and reenacted to read:

19 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
20 regulations to describe the circumstances under which it will discon-
21 tinue purchasing loans from a financial institution because of exces-
22 sive delinquencies among the loans previously purchased from the
23 financial institution. In adopting the regulations, the authority
24 shall take into consideration its delinquency experience with loans it
25 has purchased from all financial institutions. The authority may
26 include in the regulations other remedies it considers appropriate as
27 alternatives to the discontinuance of purchasing loans from the finan-
28 cial institution.

29 * Sec. 4. FEASIBILITY STUDY. (a) The legislature finds that it is in

1 the best interests of the state to promptly determine the feasibility of
2 the development project proposed for the Eagle River Valley portion of
3 Chugach State Park. The legislature further finds that it is contrary to
4 the public interest to incur the delay associated with soliciting competi-
5 tive sealed bids or competitive sealed proposals.

6 (b) The Alaska Industrial Development and Export Authority shall
7 contract for the preparation of a feasibility study of the development
8 project proposed for the Eagle River Valley portion of Chugach State Park.
9 The feasibility study must

10 (1) satisfy the requirements of AS 44.88.173(a);

11 (2) satisfy contractual requirements imposed on the owner or
12 developer by the Department of Natural Resources, division of parks; and

13 (3) make recommendations concerning amendments to AS 44.88
14 necessary for the authority to provide financing for the project.

15 (c) The authority shall finance 50 percent of the cost of the study
16 required by this section.

17 (d) The provisions of AS 36.30.310 apply to contracts entered into
18 for the study required by this section.

19 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 402

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the Alaska Industrial Development
and Export Authority; and providing for an effective
date."

7

8

9

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

10

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

11

(d) A loan purchased in whole or in part by the authority with
assets of the enterprise development account or with proceeds of bonds
secured by assets of the enterprise development account, other than a
loan that [WHICH] is financed with the proceeds of bonds of the au-
thority and secured only by a project applicant or a project,

12

13

14

15

16

(1) may not exceed

17

(A) \$25,000,000 [\$10,000,000]; or

18

(B) \$1,000,000 [\$500,000] if the loan is purchased

19

under AS 44.88.158;

20

(2) may not exceed the cost of the project or 75 percent of

21

the appraised value of the project, whichever is less, unless the
amount of the loan in excess of this limit is federally insured or
guaranteed or is insured by a qualified mortgage insurance company;

22

23

24

(3) may not be for a term longer than three-quarters of the

25

authority's estimate of the life of the project or 25 years from the
date the loan is made, whichever is earlier;

26

27

(4) shall contain complete amortization provisions satis-

28

factory to the authority requiring periodic payments by the borrower;

29

(5) shall be in the form and contain the terms and

1 provisions with respect to insurance, repairs, alterations, payment of
2 taxes and assessments, default reserves, delinquency charges, default
3 remedies, acceleration of maturity, secondary liens, and other matters
4 the authority prescribes;

5 (6) shall be secured as to repayment by a mortgage or other
6 security instrument in the manner the authority determines is feasible
7 to assure timely repayment under a loan agreement entered into with
8 the borrower;

9 (7) may not be made unless

10 (A) at least 10 percent of the principal amount of the
11 loan is retained by the originator of the loan; or

12 (B) 100 percent of the principal amount of the loan is
13 guaranteed by the United States or an agency or instrumentality
14 of the United States;

15 (8) must be

16 (A) at least partially guaranteed by the United States
17 or an agency or instrumentality of the United States, subject to
18 the provisions of AS 44.88.158;

19 (B) financed from the proceeds of bonds; or

20 (C) expected by the authority to be financed from the
21 proceeds of bonds.

22 * Sec. 2. AS 44.88.159(c) is amended to read:

23 (c) The interest rate to be received by the authority on a
24 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-
25 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from
26 the proceeds of the sale of a series of bonds is the lesser of (1) the
27 prevailing prime rate adopted by the United States Small Business
28 Administration; (2) Moody's Investors Service Aa corporate bond yield
29 index; or (3) such other index as established by regulation of the

1 authority. The interest rate to be received by the authority on a
2 federally guaranteed loan purchased by the authority may be either
3 floating or fixed [EQUAL TO THE MOST RECENT INDEX OF Aa CORPORATE BOND
4 YIELD AVERAGES AS PUBLISHED BY MOODY'S INVESTORS SERVICE].

5 * Sec. 3. AS 44.88.165 is repealed and reenacted to read:

6 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
7 regulations to describe the circumstances under which it will discon-
8 tinue purchasing loans from a financial institution because of exces-
9 sive delinquencies among the loans previously purchased from the
10 financial institution. In adopting the regulations, the authority
11 shall take into consideration its delinquency experience with loans it
12 has purchased from all financial institutions. The authority may
13 include in the regulations other remedies it considers appropriate as
14 alternatives to the discontinuance of purchasing loans from the finan-
15 cial institution.

16 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

CSHB

4402

SENATE COMMITTEE REPORT

FURTHER

5/5/88

DATE TURNED INTO OFFICE 5/9/88

Mr. President:

Finance Committee considered CSHB 402 (FIN)

See bill (AIDA)

and recommended

replace with 5 CS CSHB 402 (FIN) same title
 or adopt _____ CS _____ new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new updated or previous

SFC zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Handwritten signatures: Carl...]

[Handwritten signature: Rick Halford do pass]

Chairman signature and recommendation

Committee Backup attached

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Act relating to the Alaska
Ind. Dev. and Export Authority
Sponsor: Governor
Requestor: Senate Finance Committee

Agency Affected: Ak. Industrial Dev.
BRU: & Export Authority
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: *Rick Halford* Phone: 465-3753
Division: Senator Rick Halford, Co-chairman Date: May 9, 1988
Senate Finance Committee

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 SENATE CS FOR CS FOR HOUSE BILL NO. 402 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act increasing the maximum size of loans entered
7 into by the Alaska Industrial Development and Export
8 Authority from the authority's enterprise development
9 account; amending the manner of determining the
10 interest rate on loans guaranteed by the federal
11 government; permitting the authority to describe the
12 circumstances under which it will discontinue pur-
13 chasing loans from a financial institution because of
14 delinquencies; directing the authority to complete a
15 feasibility study for a development project relating
16 to development of certain state park land; and pro-
17 viding for an effective date."

18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

19 * Section 1. AS 44.88.155(d) is amended to read:

20 (d) A loan purchased in whole or in part by the authority with
21 assets of the enterprise development account or with proceeds of bonds
22 secured by assets of the enterprise development account, other than a
23 loan that [WHICH] is financed with the proceeds of bonds of the au-
24 thority and secured only by a project applicant or a project,

25 (1) may not exceed

26 (A) \$12,000,000 [\$10,000,000]; or

27 (B) \$1,000,000 [\$500,000] if the loan is purchased

28 under AS 44.88.158;

29 (2) may not exceed the cost of the project or 75 percent of

1 the appraised value of the project, whichever is less, unless the
2 amount of the loan in excess of this limit is federally insured or
3 guaranteed or is insured by a qualified mortgage insurance company;

4 (3) may not be for a term longer than three-quarters of the
5 authority's estimate of the life of the project or 25 years from the
6 date the loan is made, whichever is earlier;

7 (4) shall contain complete amortization provisions satis-
8 factory to the authority requiring periodic payments by the borrower;

9 (5) shall be in the form and contain the terms and pro-
10 visions with respect to insurance, repairs, alterations, payment of
11 taxes and assessments, default reserves, delinquency charges, default
12 remedies, acceleration of maturity, secondary liens, and other matters
13 the authority prescribes;

14 (6) shall be secured as to repayment by a mortgage or other
15 security instrument in the manner the authority determines is feasible
16 to assure timely repayment under a loan agreement entered into with
17 the borrower;

18 (7) may not be made unless

19 (A) at least 10 percent of the principal amount of the
20 loan is retained by the originator of the loan; or

21 (B) 100 percent of the principal amount of the loan is
22 guaranteed by the United States or an agency or instrumentality
23 of the United States;

24 (8) must be

25 (A) at least partially guaranteed by the United States
26 or an agency or instrumentality of the United States, subject to
27 the provisions of AS 44.88.158;

28 (B) financed from the proceeds of bonds; or

29 (C) expected by the authority to be financed from the

1 proceeds of bonds.

2 * Sec. 2. AS 44.88.159(c) is amended to read:

3 (c) The interest rate to be received by the authority on a
4 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-
5 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from
6 the proceeds of the sale of a series of bonds

7 (1) may be either floating or fixed;

8 (2) is the lesser of

9 (A) the prevailing prime rate adopted by the United
10 States Small Business Administration; or

11 (B) Moody's Investors Service [IS EQUAL TO THE MOST
12 RECENT INDEX OF] Aa corporate bond yield index [AVERAGES AS
13 PUBLISHED BY MOODY'S INVESTORS SERVICE].

14 * Sec. 3. AS 44.88.165 is repealed and reenacted to read:

15 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
16 regulations to describe the circumstances under which it will discon-
17 tinue purchasing loans from a financial institution because of exces-
18 sive delinquencies among the loans previously purchased from the
19 financial institution. In adopting the regulations, the authority
20 shall take into consideration its delinquency experience with loans it
21 has purchased from all financial institutions. The authority may
22 include in the regulations other remedies it considers appropriate as
23 alternatives to the discontinuance of purchasing loans from the finan-
24 cial institution.

25 * Sec. 4. FEASIBILITY STUDY. (a) The legislature finds that it is in
26 the best interests of the state to promptly determine the feasibility of
27 the development project proposed for the Eagle River Valley portion of
28 Chugach State Park. The legislature further finds that it is contrary to
29 the public interest to incur the delay associated with soliciting

1 competitive sealed bids or competitive sealed proposals.

2 (b) The Alaska Industrial Development and Export Authority shall
3 contract for the preparation of a feasibility study of the development
4 project proposed for the Eagle River Valley portion of Chugach State Park.
5 The feasibility study must

6 (1) satisfy the requirements of AS 44.85.173(a);

7 (2) satisfy contractual requirements imposed on the owner or
8 developer by the Department of Natural Resources, division of parks; and

9 (3) make recommendations concerning amendments to AS 44.88
10 necessary for the authority to provide financing for the project.

11 (c) The authority shall pay 50 percent of the cost of the study
12 required by this section, but may not pay more than \$150,000.

13 (d) The provisions of AS 36.30.310 apply to contracts entered into
14 for the study required by this section.

15 * Sec. 5. This Act takes effect ^{July 1, 1988} ~~immediately under AS 01.10.070(c).~~

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 402 (L&C)
PUBLISH DATE: HOUSE 4/21/88

FISCAL NOTE

REQUEST: AK Industrial Development and Export Authority
 Revision Date: _____ Agency Affected: _____
 Title: An Act relating to the Alaska Industrial Development and Export Authority
 Sponsor: Governor Components: N/A
 Requester: House Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

~~NO INCREASE IN OPERATING FUNDS~~

CAPITAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
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REVENUE					
---------	--	--	--	--	--

FUNDING: (Thousands of dollars)

GENERAL FUND					
FEDERAL FUNDS					
OTHER	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
TOTAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M

POSITIONS:

FULLTIME	
PARTTIME	NONE
TEMPORARY	

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED PAGE

Prepared by: Bertram L. Wagner, Executive Director Phone: 274-1651
 Division: AK Industrial Development and Export Authority Date: 4-20-88

Approved by Commissioner: J. Anthony... Date: 4-20-88
 Agency: Department of Commerce and Economic Development

- Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2

CS FOR HOUSE BILL NO. 402 (Finance)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act increasing the maximum size of loans entered
7 into by the Alaska Industrial Development and Export
8 Authority from the authority's enterprise development
9 account; amending the manner of determining the
10 interest rate on loans guaranteed by the federal
11 government; permitting the authority to describe the
12 circumstances under which it will discontinue pur-
13 chasing loans from a financial institution because of
14 delinquencies; directing the authority to complete a
15 feasibility study for a development project relating
16 to development of certain state park land; and pro-
17 viding for an effective date."

18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

19 * Section 1. AS 44.88.155(d) is amended to read:

20 (d) A loan purchased in whole or in part by the authority with
21 assets of the enterprise development account or with proceeds of bonds
22 secured by assets of the enterprise development account, other than a
23 loan that [WHICH] is financed with the proceeds of bonds of the au-
24 thority and secured only by a project applicant or a project,

25 (1) may not exceed

26 (A) \$25,000,000 [\$10,000,000]; or

27 (B) \$1,000,000 [\$500,000] if the loan is purchased
28 under AS 44.88.158;

29 (2) may not exceed the cost of the project or 75 percent of

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 402 (L&C)
PUBLISH DATE: HOUSE 4/21/88

FISCAL NOTE

REQUEST: AK Industrial Development

Revision Date: _____ Agency Affected: and Export Authority

Title: An Act relating to the Alaska Industrial Development and Export Authority
EAU: Same as above

Sponsor: Governor Components: N/A

Requester: House Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

NO INCREASE IN OPERATING FUNDS

CAPITAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
---------	------------	----------	----------	----------	----------

REVENUE					
---------	--	--	--	--	--

FUNDING: (Thousands of dollars)

GENERAL FUND					
FEDERAL FUNDS					
OTHER	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
TOTAL	\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M

POSITIONS:

FULLTIME	
PARTTIME	NONE
TEMPORARY	

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED PAGE

Prepared by: *Bertram L. Wagnon* Executive Director Phone: 274-1651
Division: AK Industrial Development and Export Authority Date: 4-20-88

Approved by Commissioner: *Anthony J. Peltola* Commissioner Date: 4-20-88
Agency: Department of Commerce and Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

CSHB 402(L&C)
HOUSE 4/21/88State of Alaska
1988 Legislative Session
FISCAL NOTE
Page 2 of 2ANALYSIS:

- Section 1: This bill increases the loan limits of the Authority from \$10.0 million to \$25.0 million. The funding source is bond proceeds derived from the sale of the Authority's general obligation bonds.
- Section 2: Changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.
- Section 3: Changes 44.88.165 to allow the Authority to provide by regulation when a bank will be restricted from submitting credits to the Authority. Currently, it provides that, when over 2% of a bank's loans sold to the Authority are delinquent 90 days or more, they cease being eligible.
- Section 4: This new section authorizes the feasibility study/financial analysis of the Eagle River ski resort proposal. AIDEA corporate receipts are to be used to finance 50% of the cost of the study.

01486D-4
042088a

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE FINANCE COMMITTEE
2 CS FOR HOUSE BILL NO. 402 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION
5 A BILL

6 For an Act entitled: "An Act increasing the maximum size of loans entered
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23 loan that [WHICH] is financed with the proceeds of bonds of the au-
24 thority and secured only by a project applicant or a project,

25 (1) may not exceed

26 (A) \$25,000,000 [\$10,000,000]; or

27 (B) \$1,000,000 [\$500,000] if the loan is purchased
28 under AS 44.88.158;

29 (2) may not exceed the cost of the project or 75 percent of

1 the appraised value of the project, whichever is less, unless the
2 amount of the loan in excess of this limit is federally insured or
3 guaranteed or is insured by a qualified mortgage insurance company;

4 (3) may not be for a term longer than three-quarters of the
5 authority's estimate of the life of the project or 25 years from the
6 date the loan is made, whichever is earlier;

7 (4) shall contain complete amortization provisions satis-
8 factory to the authority requiring periodic payments by the borrower;

9 (5) shall be in the form and contain the terms and pro-
10 visions with respect to insurance, repairs, alterations, payment of
11 taxes and assessments, default reserves, delinquency charges, default
12 remedies, acceleration of maturity, secondary liens, and other matters
13 the authority prescribes;

14 (6) shall be secured as to repayment by a mortgage or other
15 security instrument in the manner the authority determines is feasible
16 to assure timely repayment under a loan agreement entered into with
17 the borrower;

18 (7) may not be made unless

19 (A) at least 10 percent of the principal amount of the
20 loan is retained by the originator of the loan; or

21 (B) 100 percent of the principal amount of the loan is
22 guaranteed by the United States or an agency or instrumentality
23 of the United States;

24 (8) must be

25 (A) at least partially guaranteed by the United States
26 or an agency or instrumentality of the United States, subject to
27 the provisions of AS 44.88.158;

28 (B) financed from the proceeds of bonds; or

29 (C) expected by the authority to be financed from the

1 proceeds of bonds.

2 * Sec. 2. AS 44.88.159(c) is amended to read:

3 (c) The interest rate to be received by the authority on a
4 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-
5 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from
6 the proceeds of the sale of a series of bonds

7 (1) may be either floating or fixed;

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10 States Small Business Administration; or

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12 RECENT INDEX OF] Aa corporate bond yield index [AVERAGES AS
13 PUBLISHED BY MOODY'S INVESTORS SERVICE].

14 * Sec. 3. AS 44.88.165 is repealed and reenacted to read:

15 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt
16 regulations to describe the circumstances under which it will discon-
17 tinue purchasing loans from a financial institution because of exces-
18 sive delinquencies among the loans previously purchased from the
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20 shall take into consideration its delinquency experience with loans it
21 has purchased from all financial institutions. The authority may
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23 alternatives to the discontinuance of purchasing loans from the finan-
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25 * Sec. 4. FEASIBILITY STUDY. (a) The legislature finds that it is in
26 the best interests of the state to promptly determine the feasibility of
27 the development project proposed for the Eagle River Valley portion of
28 Chugach State Park. The legislature further finds that it is contrary to
29 the public interest to incur the delay associated with soliciting

1 competitive sealed bids or competitive sealed proposals.

2 (b) The Alaska Industrial Development and Export Authority shall
3 contract for the preparation of a feasibility study of the development
4 project proposed for the Eagle River Valley portion of Chugach State Park.

5 The feasibility study must

6 (1) satisfy the requirements of AS 44.88.173(a);

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8 developer by the Department of Natural Resources, division of parks; and

9 (3) make recommendations concerning amendments to AS 44.88
10 necessary for the authority to provide financing for the project.

11 (c) The authority shall pay 50 percent of the cost of the study
12 required by this section, but may not pay more than \$150,000.

13 (d) The provisions of AS 36.30.310 apply to contracts entered into
14 for the study required by this section.

15 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1988

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Industrial Development and Export Authority's (AIDEA's) handling of financial institution loans.

Current law provides in AS 44.88.155(d)(1)(A) that when the authority purchases a participation under its enterprise development account in a loan made by a financial institution, the loan may not exceed \$10 million. (The enterprise development account is the "general fund" of the authority, and bonds issued in connection with this account are general obligations of the authority.) Section 1 of this bill increases from \$10 million to \$25 million the limit on such loans in which the authority may use assets of that account to purchase a participation. This increase to \$25 million from \$10 million will allow authority involvement in larger transactions that will help diversify the state's economy. Due to the recent downturn in the Alaskan economy, many of the traditional investor relationships with outside organizations no longer exist and the larger loan limit will help by allowing the authority to fill a portion of that void.

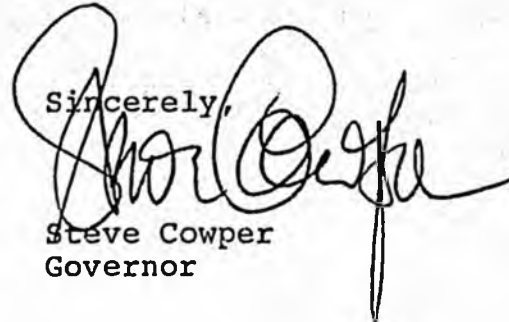
Section 1 also increases from \$500,000 to \$1,000,000 the loan limit on federally guaranteed loans that the authority may purchase. The current limit, enacted with the original AIDEA statutes, is too restrictive, especially in light of current federal loan guaranty levels. These guaranteed loans provide not only a good investment for the authority but also are an important source of capital for Alaskan borrowers.

Section 2 of this bill amends AS 44.88.159(c), which sets the interest rate on those loans guaranteed by an instrumentality of the United States government. Current law sets the rate equivalent to the Moody's Aa corporate bond yield. The new language adopts the prevailing methodology used by

the Small Business Administration in setting its rates. Additionally, to provide a degree of protection to borrowers in high interest rate environments, it uses the lesser of the prime rate, Moody's Aa corporate bond yield, or other index selected by the authority.

Current law provides in AS 44.88.165 that if more than two percent of the total outstanding balance of loans purchased from a financial institution (i.e., the authority's participation in such loans) becomes delinquent for 90 days or more, the authority may no longer purchase from that financial institution participations in loans for which it has not already made a commitment, until the delinquencies are reduced to less than two percent. Section 3 of this bill repeals that requirement and substitutes a requirement that the authority adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of delinquencies among the loan participations previously purchased from that institution.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written in a cursive style.

Steve Cowper
Governor