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Governor Sean Parnell
STATE OF ALASKA

February 25, 2010

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

Dear Speaker Chenault,

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

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

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

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

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

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

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

I urge your prompt and favorable action on this measure.

Sincerely,

Sean Parnell
Governor

Enclosure