



April 10, 2019

The Honorable Bert Stedman  
Co-Chair Senate Finance Committee  
Alaska State Legislature  
State Capitol Room 518  
Juneau, Alaska 99801

The Honorable Natasha von Imhof  
Co-Chair Senate Finance Committee  
Alaska State Legislature  
State Capitol Room 516  
Juneau, Alaska 99801

Dear Senator Stedman and Senator von Imhof,

In response to questions from the March 19 Senate Finance Committee meeting, please see answers below.

1. *Senator Stedman: Amount of Healy Clean Coal Project (HCCP) write-down? Original cost to feds and state? Sale price?*

Total write-downs related to the HCCP were approximately \$216.1 million. (Note that the final write-down was in FY 02.) State appropriations for the project totaled \$25 million and Federal funding totaled approximately \$117.3 million. Contributions from contractors and AIDEA, including bond proceeds, funded the remaining capital costs. AIDEA sold HCCP in December 2013 to Golden Valley Electric Association for approximately \$43.1 million, comprised of a \$42 million sales price plus reimbursement of \$1.1 million of project holding costs.

2. *Senator von Imhof: Have you looked at AIDEA counterparts in other states? Best practices? How can we improve?*

AIDEA has already provided Senator von Imhof with a 2016 report that considered AIDEA against other economic development finance organizations. See "A Benchmarking and Best Practices Analysis" dated August 2016, prepared for AIDEA by IO. Inc.

AIDEA has also taken numerous steps to not only look at other economic development entities and strategies, it has changed its statutes and procedures over time so that performance and capabilities reflect best practices. This process started in 2008 when the Department of Commerce, Community and Economic Development undertook a review of what other jurisdictions were doing to promote economic development and finance that development. The statutes of 44 state and local economic development authorities were examined and compared to that of the Department of Commerce and AIDEA.

From that review, a decision was made to look in depth at several states that had well-regarded economic development programs. These states included Wyoming, Indiana, North Dakota, Kentucky, New Mexico and Oregon. This effort included a review of their statutes, organizational structures, and how they worked with the business community in each state to develop effective programs and projects. There was also a review of what are termed “big stakeholder” organizations that work with state or local economic development authorities. Two examples are the Puget Sound Regional Council, and the Greater Phoenix Economic Council.

AIDEA reached out to two successful programs in Canada: Partnerships BC, and Ontario Infrastructure. AIDEA and DCCED personnel traveled to Canada and interviewed officials at Partnerships BC, and sought suggestions as to how AIDEA could be organized to work more effectively with private capital to effectuate economic development.

This review indicated the need to modernize AIDEA's statutes so that it could participate in public-private partnership financing structures (P3). Under AS 44.88.172, as it was then worded, AIDEA had to own 100 % of a project it financed. This prevented the Authority from being able to work with private capital, and made it impossible to leverage limited state dollars by setting up project finance structures that relied on both public and private funds.

AIDEA then began a series of stakeholder meetings and hired economic development consultants. It developed a strategic plan and began to seek legislative changes that would promote its use of project financings using different tranches of funds. With support from the Legislature, the Authority made three significant changes to its statutes to promote leveraged financing of project and infrastructure development:

1. Statutes were changed to allow AIDEA to own all or a percentage of a corporation or LLC when that legal entity is the sole owner of a development project. This allows use of special purpose vehicles (SPV) so that a number of sources including AIDEA can invest in or own a portion of a project being developed in Alaska.
2. The Legislature, via another statutory change, gave AIDEA the ability to create a subsidiary corporation for the purpose of acquiring, operating or financing a development project while specifying that the subsidiary's obligations are not those of the Authority.
3. Next, AIDEA sought and the Legislature passed an amendment to AIDEA's definitional statutes so that AIDEA could finance a federal facility, and invest in commercial applications of intellectual property. This change, for example, enabled AIDEA to fund construction of the US Coast Guard base at the National Guard Armory at JBER.

Next, AIDEA sought statutory changes that allow it to finance projects in a Military Facility Zone, to work with Recovery Zone Facility Bonds, and removed refunding bonds from the Authority's \$400 million limit in AS 44.88.095(a) and (g). The Authority also set up the Sustainable Energy Transmission and Supply Development Fund (SETS) so that it has the ability to finance defined energy projects, which may present more risk than

traditional project financing, and adopted statutes so that it could provide guarantees under the federal New Markets Tax Credit Assistance Program. Additionally, AIDEA did a review of tax incentive finance (TIF) programs in a number of other states, including Washington, so that it could work with projects financed in part by a TIF.

As these efforts demonstrate, AIDEA has compared and does often compare its efforts to other states and jurisdictions, and moves to adapt as needed to changing methods of project financing and bond issuance. AIDEA is a member of the [International Economic Development Council](#) (IEDC), and a member of the [Council of Development Finance Agencies](#) (CDFA).

The CDFA named AIDEA its Distinguished Development Finance State Agency for 2018. The [Press Release announcing this prestigious national award](#) is included as **Attachment A**.

3. *Senator Wielechowski et al. Projects and financings AIDEA has done at direction of executive branch?*

AIDEA does not keep such records. While the Executive Branch may from time to time provide input on our projects, we have a rigorous internal vetting and due diligence process that we apply to all potential projects. Please see Slide #10 from AIDEA's March 19 Senate Finance Committee presentation.

4. *Senators Stedman and von Imhof: Description of Interior Gas Utility (IGU)? Where we are, and where we are headed (description, not a number)?*

In June 2018, AIDEA announced the sale of Pentex Alaska Natural Gas Company, LLC and its assets, including Fairbanks Natural Gas (FNG) to the Interior Gas Utility (IGU). The sale included the Titan LNG Plant located at Point MacKenzie in the Mat-Su Borough, and the trucking operation used to transport LNG from the Titan facility to Fairbanks.

This sale means that IGU is now the operator of the fully operational FNG heating utility. At the time of the sale, FNG had a loan with AIDEA that had been used to pay for the build-out of gas pipes thought the FNG service area. The IGU, as part of the sale, took over this FNG loan.

IGU also had a separate loan with AIDEA that had been used to finance the build-out of gas pipes for the delivery of gas in IGU's own certificate area, centered primarily in the City of North Pole.

No payments are due to AIDEA on either of these loans for a period of years.

At present, AIDEA has lent IGU additional funds from the SETS Fund to finance the construction of a 5.25 million gallon LNG storage tank in Fairbanks. This large storage facility is currently under construction, and is approximately 80% complete. Additionally, AIDEA had provided IGU with additional funding for the design of a second smaller LNG storage facility that IGU plans to build in North Pole. IGU in February 2019 issued an RFP for the North Pole storage facility. When the storage units are completed, IGU can then move toward expanding service, based on its ability to store LNG trucked from

Cook Inlet. On March 5, 2019 IGU notified AIDEA of its intention to sell up to \$15 million in Bond Anticipation Notes.

5. *Mustang Operations Center 1 LLC (MOC1) update?*

In May 2018, the AIDEA Board authorized AIDEA to sell its membership interests in Mustang Road LLC and Mustang Operations Center 1 LLC to Caracol Petroleum, LLC (Caracol) as part of an overall restructuring of the Mustang Oil Field project. In September 2018, a Purchase and Sale agreement between AIDEA and Caracol was signed. Closing is subject to conditions precedent including but not limited to restructure of the Department of Revenue line of credit and approvals by all parties. Under the terms of the Purchase and Sale agreement, AIDEA will finance the purchase price of \$64 million with a loan to Caracol. Although it has been challenging to accurately forecast when this transaction will close, we anticipate closure by the end of April 2019.

6. *Senators Stedman and Wilson: SB 20 changes to Alaska Marine Highway System (AMHS). Impacts on Alaska Ship & Drydock? Elimination of AMHS and implications for money invested by AIDEA? Amount on the books? Amount to complete Alaska Ship & Drydock? What AIDEA intends to do (in light of AMHS going away)? Will Alaska Ship & Drydock be part of collateral damage?*

Book Value and Total Investment

The shipyard in Ketchikan, Alaska Ship & Drydock, is reported on AIDEA's FY18 financial statements at a book value of \$71,108,000. This represents a total investment of \$94,823,000 in land, buildings and related infrastructure by the State of Alaska, US Federal Agency grants, and AIDEA funding from its Revolving Fund, less accumulated depreciation and amortization. The original development of the shipyard by DOT&PF represented an investment of approximately \$30 million and is not included in AIDEA's financial statement value. Further investment has funded expansion and improvement projects in line with the development plans prepared for the shipyard, most recently the Shipyard Master Implementation Plan prepared for DOT&PF and AIDEA in July 2012. Based on this latest development plan, all shipyard upgrades have been completed except for the utilities upgrade (initial phase currently in process), deferred maintenance and the Conversion Hall construction and outfitting. Total additional investment required to satisfactorily complete the approved development plan for the shipyard is estimated to be \$41.5 million.

AMHS Impact on the Shipyard

AMHS-related work represents a significant share of the total workflow taking place at the shipyard. As many recognize, the shipyard was originally developed by DOT&PF as the primary ship repair facility to maintain the AMHS fleet of ferries and repatriate AMHS expenditures in Puget Sound and Columbia River shipyards. Revenue at the shipyard for AMHS repair and maintenance contracts does fluctuate year-to-year depending on the vessels and maintenance cycle. However, the level of revenue directly attributable to AMHS repair and maintenance contracts has averaged 62.8% between 2013 and 2017,

fluctuating from a low of 30% to a high of 76%. Please note this is exclusive of the revenue attributable to the recent Alaska Class Ferry ship builds.

It is currently unclear how AMHS intends to specifically implement the proposed 68.4% budget reduction and its direct impact on the shipyard. However, the shipyard operator, Vigor Industrial, and AIDEA note that the proposed reductions could add to the existing near-term challenges for the shipyard given the very high percentage of Vigor Alaska's annual revenue and associated work that is made up by maintenance and repair for AMHS. Vigor Industrial has been and continues to pursue both traditional and non-traditional projects for the shipyard – including its recent winning competitive bid for repair and maintenance of the Inter-Island Ferry Authority (IFA) Ferries, *MV Stikine* and *MV Prince of Wales*.

#### What AIDEA Intends To Do

The shipbuilding industry sector as a whole is in a down cycle with significant increased competition amongst US and Canadian shipyards for all types of work including repair and maintenance. Following the completion of the Alaska Class Ferry *MV Tazlina*, AIDEA has been actively working with Vigor to identify “non-shipyard” areas of business within Alaska and within Vigor’s general operations for work to be undertaken at the shipyard. One new area identified is module fabrication. Specifically, Vigor Alaska is now a qualified bidder with the Alaska Energy Authority under its Rural Power System Upgrade (RPSU) and Bulk Fuel programs, as well as direct discussions with established oil and gas module suppliers for fabrication support and consortium bidding. Separately, Vigor Industrial has engaged Linda Leary Consulting LLC to identify and quantify all potential new business areas within Alaska which can be competitively undertaken at the shipyard with its existing and planned facilities.

Additionally, it has been identified to AIDEA that several regional shipyards based in the Puget Sound area and Canada have been offering financing terms for repair work to Alaska based fleet operators. AIDEA has been working with Vigor and private sector Alaska based fleet operators to develop the Alaska Ship Home-porting for Improvements Program (“AKSHIP”) framework to provide competitive short term financing to vessel owners for repair and maintenance work contracted with the shipyard. This program is still under review internally; however, in practice it would target the retention and addition of a scheduled, repeatable client base at the shipyard in addition to AMHS.

#### How Will the Shipyard Be Affected?

AIDEA recognizes that the Southeast region of Alaska will remain reliant on the maritime sector for transportation, commerce and economic development from both public and private fleet operators. We note that the implemented development plan for the shipyard strategically positions it to accommodate up to 95% of the potential vessel repair market in Alaska. While there is a budgeted reduction in public sector directed work, the shipyard’s capacity and facilities as fully developed retains its market position within the region. This will require an active transition by the operator in the near-term from the

current AMHS- focused work, to attracting and competing for more regional or Alaska-based private sector fleet repair and maintenance work, as well as non-shipyard activities like fabrication.

7. *Senator von Imhof: Does AIDEA have financial information on operators of each project?*

AIDEA's regulations (3 AAC 99.595(c)) for projects financed under statute 44.88.172 (Economic Development Account) state that the Authority may require the project applicant to provide periodic financial, operational, or other information as determined by the Authority. It is AIDEA's policy to review financial information and assess the credit worthiness of applicants prior to establishing a financing plan. Requirements for ongoing periodic financial reporting, are determined and documented within the financing and operating agreements at the time the project agreements are finalized.

All of AIDEA's operating and loan agreements require ongoing financial reporting from our counterparties. AIDEA's use and lease agreements, such as those with FedEx, Teck Resources Ltd. and the Alaska Department of Military and Veterans Affairs do not require ongoing financial reporting as is common in these structured agreements. We do note that financial reporting is publicly available for FedEx and Teck Resources Ltd.

8. *Senator Stedman: AIDEA dividends to state: in 2010 \$29 million, in 2019 \$10 million. Why the trend? Why decline in statutory net income? Looks like dividend is trending toward zero? Senator von Imhof provided a table and requested its completion.*

**Attachment B** provides a historical view, from 2007 to 2018, of the Authority's Statutory Net Income and dividends. Statutory Net Income has been variable over the period reported, with a high of approximately \$58.9 million in 2010 and a low of approximately \$9.6 million in 2017. Unrealized investment gains and losses account for most of the variability from year to year. For example, 2010 statutory Net Income included approximately \$18 million of unrealized net investment gains while the 2017 statutory Net Income included approximately \$10 million of unrealized net investment losses, creating a \$28 million fluctuation between the two years. AIDEA is required to report unrealized gains and losses in its financial statements under Generally Accepted Accounting Principles.

The Legislature passed HB119 in 2018. A provision of the legislation changes the statutory dividend computation to allow the removal of unrealized investment gains and losses from statutory Net Income with the intent to provide more stability to the statutory Net Income amount. This change is noted in **Attachment B** for the year ended June 30, 2018.

As noted in the table, the Board declared less than the statutory maximum dividend in three of the years reported in this response.

In response to Senator von Imhof's request for completion of a table, please see **Attachment C**.

9. *Senator Wielechowski: Return on assets: how to calculate it? What do you divide by?*

The Return on Assets for a company is generally calculated as Net Income divided by Total Assets.

10. *Senator Stedman: Historic travel costs?*

Travel expenses charged to AIDEA's operating budget were as follows for the past four years (rounded to nearest \$1,000):

- 2015-\$185,000
- 2016-\$96,000
- 2017-\$51,000
- 2018-\$77,000

11. *Senators Wielechowski and Stedman: How much of AIDEA's assets are not loaned or invested for AIDEA's statutory purposes?*

As required by AS 44.88.205, AIDEA performs an annual review of its assets in order to determine whether it has assets in excess of the amount required to fulfill its statutory purposes. The most recent review was provided to the Legislature on January 10, 2019, and is attached as **Attachment D**. The Authority determined that the amount of excess unrestricted assets that were available was the FY20 dividend of \$10,285,000. The analysis provides the rationale for this conclusion.

12. *Senator Stedman: Is Slide 13 the vast majority of AIDEA revenue stream? Breakdown?*

Slide 13 does not represent AIDEA's revenue stream, it provides key financial highlights for FY19. For the fiscal year ended June 30, 2018, the last fiscal year audited, AIDEA's operating revenues can be summarized into four categories:

- \$16,839,000 - Loans
- \$40,050,000 - Development Projects
- (\$116,000) - Investments (includes unrealized gains (losses))
- \$7,560,000 - Other

The Authority also reported:

- \$39,223,000 of operating expenses
- \$1,180,000 of net non-operating revenues
- \$12,883,000 dividend paid to the State of Alaska

13. *Senator Wilson: South Denali Road?*

AIDEA has been aware of this potential project for several years. The State of Alaska has been interested in developing facilities at Denali State Park, which is to the south of Denali National Park. The State Park has a short access road that starts at the Parks Highway.

Over several years, AIDEA has discussed developing facilities at the Denali State Park with the Department of Natural Resources and with representatives of the cruise ship industry. AIDEA's discussion have focused on its traditional methods of funding projects such as project financing, loan participations with local banks and credit unions, and the issuance of bonds to pay for desired park improvements. The goal would be that these improvements would create jobs at the facilities to be built, and attract more visitors to the State Park, the federal Denali National Park, and to Interior Alaska. These improvements could involve a visitor's center as well as the financing of hotels within the State Park, assuming that such development was acceptable to DNR.

*14. Senator Olson: Graphite deposit near Teller?*

AIDEA has been in direct regular contact with Graphite One since 2014. AIDEA has engaged with them on several issues:

- 2014 - AIDEA made recommendations on finding a suitable community outreach consultant to help them work directly with the communities in the region. They accepted our recommendation and hired Joy Huntington to lead their community outreach efforts.
- 2017 - AIDEA conducted a high-level site location study, on behalf of Graphite One, to identify potential communities in Alaska that met the required criteria that were critical in the placement of an advanced materials graphite refinery.
- 2018 - AIDEA accompanied Graphite One Executive Board Chairman Doug Smith and Community Outreach Specialist Joy Huntington, in attending community meetings in Teller and Brevig Mission regarding the project's financing. Meetings were also held in Nome with representatives from Bering Straits Native Corporation and Kawerak.
- 2019 - Graphite One is once again working with AIDEA on a more detailed evaluation of potential sites for their advanced materials graphite refinery.

*15. Senator Hoffman: Collateral on BlueCrest?*

AIDEA's collateral base is composed of the BlueCrest Rig #1, a 50-person drilling man camp, and associated pipe, equipment and tools. The collateral is evaluated annually by SolstenXP to determine a distressed sale value. The following table outlines the trends in valuation.

Collateral	Cost New - 2016	April 2018	February 2019
BlueCrest Rig #1	\$ 40,000,000	\$ 26,000,000	\$ 23,160,000
50-man camp	3,500,000	2,600,000	2,650,000
Drill Pipe – 4.5"	2,000,000	1,354,000	915,000
Ancillary Equipment/Tools	478,000	250,000	165,000
<b>Total</b>	<b>\$ 45,978,000</b>	<b>\$30,200,000</b>	<b>\$26,890,000</b>



In addition to the collateral listed above, AIDEA's agreement with BlueCrest currently has a \$6.06 million cash reserve held in a trust account.

*16. Senator Stedman: Loan status and viability on BlueCrest?*

BlueCrest Energy's payment performance on the loan has been satisfactory, diligently paying down AIDEA's term loan on a timely basis. The loan is expected to be fully paid by July 2022.

	<b>December 2016</b>	<b>June 2018</b>	<b>April 2019</b>
Loan Balance	\$31.9 million	\$28.2 million	\$23.9 million
Reserve Amount	\$6.06 million	\$6.06 million	\$6.06 million
Distress Sale Valuation	\$27.9 million	\$30.2 million	\$26.9 million
Loan To Value (LTV)	93.9%	78.8%	72.5%

Please do not hesitate to contact me at 771-3906 if you have any questions.

Sincerely,

ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY



For Tom Boutin  
CEO/Executive Director