



January 10, 2019

The Honorable Senate President-Elect Cathy Giessel
The Honorable Speaker of the House Bryce Edgmon

Subject: Alaska Industrial Development and Export Authority
Annual review of assets required by AS 44.88.205

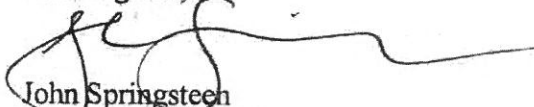
This letter provides the review of assets of the Alaska Industrial Development and Export Authority (the "Authority" or "AIDEA") required by AS 44.88.205. AIDEA is to perform this annual review in order to determine whether it has assets in excess of the amount required to fulfill its statutory purposes. AIDEA must then determine whether any excess amount may be made available without breaching any agreement entered into by the Authority, materially impairing the operations or financial integrity of the Authority, or materially affecting the ability of the Authority to fulfill its purposes.

The Authority determines that the amount of excess unrestricted assets that may be made available for fiscal year 2020 is the \$10,285,000 dividend the AIDEA Board made available to the state under AS 44.88.088. This amount is 31% of the fiscal year 2018 statutory net income. Attachment A describes the rationale for the conclusion.

The remaining asset base is essential to the Authority's ability to continue creating and retaining jobs for Alaskans and its efforts to diversify our oil-dependent Alaska economy through long term business financing and project development. AIDEA's capacity to provide financing opportunities is directly related to the asset base available to support those investments. A larger asset base allows AIDEA to provide financing for larger enterprise economic development investments. Additionally, to continue its vital role in the state economy, AIDEA must retain its financial strength and credit standing. In order to do so, the Authority believes that assets disbursed must be in accordance with the statutory dividend program. That program provides the stability that the financial markets require. In June 2013, Moody's Investors Service affirmed AIDEA's rating of 'Aa3' and in March 2016, Standard & Poor's Rating Services affirmed AIDEA's 'AA+' rating on outstanding bonds. Moody's Investors Service cited as a strength the Authority's "strong oversight of assets and investments."

Please contact me if you need additional information. Your continued support of AIDEA and its mission is appreciated.

Kind regards,



John Springsteen
CEO / Executive Director

Attachment A

**Alaska Industrial Development and Export Authority
Annual review of assets required by AS 44.88.205**

The Alaska Industrial Development and Export Authority (the "Authority" or "AIDEA") is required to annually review its assets in order to determine whether it has assets in excess of the amount required to fulfill its statutory mandate. The Authority must then determine whether any excess assets may be made available without breaching any agreement entered into by the Authority, materially impairing the operations or financial integrity of the Authority, or materially affecting the ability of the Authority to fulfill its purposes.

The Authority finds that the amount of excess unrestricted assets is \$10,285,000, the amount made available by the Authority's Board in November 2018 under AIDEA's statutory dividend program. The dividend is 31% of the fiscal year 2018 statutory net income. This amount is available for fiscal year 2020. To continue the Authority's statutory mission of promoting economic growth and diversification in Alaska, AIDEA must retain its financial strength and credit standing. In order to do so, the Authority believes that assets disbursed must be in accordance with the statutory dividend program, as this program provides the predictability and stability required by the financial markets. Additionally the disbursement of assets must be in an amount which ensures AIDEA's financial capacity will be at a level that is in alignment with the desire for AIDEA to finance larger enterprise economic development investments in the future.

The Authority accomplishes its statutory economic development mission primarily by providing financing two ways:

- (1) financing private projects, generally in conjunction with financial institutions and
- (2) ownership of all or part of development projects, usually associated with developing the State's natural resources.

Over the years, the Authority has been successful in both areas. Additionally, effective October 2014, the Arctic Infrastructure Development Program was created to promote and provide financing for Arctic infrastructure development. The fund has not been capitalized.

Under the Authority's Commercial Finance Programs (also referred to as the Loan Participation or Credit Program), AIDEA accomplishes its mission by acting as a secondary market for financial institutions by purchasing loan participations and by providing guarantees on bank originated loans. Over the years, AIDEA's Commercial Finance Program has provided significant economic impact to Alaska by assisting numerous business projects throughout all regions of the state and many sectors of the economy.

In fiscal year 2018, the Authority's Revolving Fund purchased \$71.7 million of loan participations and has a target of purchasing over \$50 million of loan participations during fiscal year 2019. Loan participation commitments of \$31.2 million were outstanding at June 30, 2018. The Authority's loan portfolio is both industrially and geographically diverse, with projects located

across the state. AIDEA's active involvement in providing financing has created or helped retain thousands of jobs across the state in the retail, tourism, fisheries, timber, transportation, healthcare, recreation, restaurant, manufacturing and other sectors. In addition, AIDEA's role as a secondary financier has helped sustain commercial real estate values throughout the state, which positively impacts real property tax revenues collected by local governments, and provides a source of funding for purchases of commercial real estate.

Since the Development Finance Program began in the mid-1980s, AIDEA has issued more than \$415 million of bonds (excluding refunding bonds) to finance economic development projects owned by the Authority throughout the state. The projects have represented hundreds of jobs for Alaskans in Anchorage, Fairbanks, Healy, Juneau, Ketchikan, Northwest Alaska (including the Northwest Arctic Borough), Seward, Skagway and Unalaska. Recent projects financed by AIDEA include:

- **Blue Crest Drill Rig:** AIDEA financed the procurement of a new high-horsepower, extended reach, onshore drilling rig being used for the installation and development of numerous wells to produce oil from the Cosmopolitan lease blocks in the lower Cook Inlet and for the construction of man camp facilities for workers on the project. The financing is in the form of a letter of credit (LOC) which converted to a term loan in FY17. The outstanding balance at June 30, 2018 was \$28.2 million.
- **Blood Bank of Alaska, Inc.:** AIDEA financed the acquisition, delivery and installation of furniture, fixtures and equipment for a laboratory and collection facility building. This financing is in the form of an LOC which converted to a term loan in FY17. The outstanding balance at June 30, 2018 was \$4.0 million.
- **Mustang Operations Center 1 LLC (MOC1):** In April 2014, the AIDEA board approved a development project for the construction of an oil production facility on the Mustang Oil Field (which AIDEA also invested in). The facility was to be built through a limited liability company (LLC) in which AIDEA is the sole preferred member, contributing \$52.5 million in return for shares in the LLC. AIDEA intends to sell its membership interest in MOC1 under the terms of a Purchase and Sale Agreement executed in September 2018 between AIDEA and Caracol Petroleum, LLC. AIDEA will finance the membership interest sale that is part of a larger ownership restructure of the Mustang field on the North Slope.
- **Pentex Alaska Natural Gas Company, LLC (Pentex):** In FY15 AIDEA entered into an agreement to purchase Pentex for \$52.5 million plus the amount of Net Working Capital the acquired companies have on the closing date up to a maximum of \$1.5 million. AIDEA completed the purchase in FY16 for a total purchase price of \$54 million. AIDEA made the investment in Pentex to promote an integrated gas distribution system in Fairbanks in furtherance of the Interior Energy Project (IEP) with a goal to complete a sale within two years at a rate of return commensurate with other AIDEA financings. AIDEA entered into a Purchase and Sale Agreement for the sale of Pentex to the Interior Gas Utility (IGU) and closed on the sale in June 2018.

The 2012 state legislature passed SB25 establishing the Sustainable Energy Transmission and Supply Development (SETS) program, within the SETS Fund. This program was created so AIDEA could promote and finance qualified energy development in the state. Subject to statute, the SETS Fund may be used to help construct, improve, rehabilitate, and expand qualified energy developments. The SETS program may also finance qualified energy developments through loan or bond guarantees and direct loans.

During 2013, the Authority, on behalf of the State, became the project sponsor for two potential infrastructure projects, the IEP and the Ambler Mining District Industrial Access Project (AMDIAP).

AIDEA was given authorization to provide financing up to a principal amount of \$275 million for the IEP, including \$150 million in bonding authorization through the SETS Fund. AIDEA entered into and closed on a Financing Agreement in FY18 with the IGU for the IEP that includes financing tools utilizing the \$275 million authorized for the project. The Financing Agreement includes a SETS loan commitment not to exceed \$125 million. The outstanding loan balance to IGU at June 30, 2018 was \$76.8 million with a commitment to fund the remaining \$48.2 million.

As project sponsor of the AMDIAP, AIDEA is working with federal agencies to complete the Environmental Impact Study (EIS) for the project. If constructed, the project will include an industrial access road to the Ambler Mining District financed by AIDEA and project partners.

The Authority retains bonding authorization for several potential projects including;

- Up to \$145 million to finance the infrastructure and construction costs of the Bokan-Dotson Ridge rare earth element project.
- Up to \$125 million to finance the infrastructure and construction costs of the Niblack project.
- Up to \$65 million to finance the expansion, modification, improvement and upgrading of the Skagway Ore Terminal.

AIDEA's conduit revenue bond financing program has also been successfully used since the late 1970's. Under this program, AIDEA acts as a conduit for the issuance of bonds, and neither the assets nor the credit of AIDEA or the state are at risk. Although the Authority has the ability to issue taxable and tax-exempt bonds under this program, it has been used primarily for projects that qualify for tax-exempt financing. Through June 30, 2018, the Authority had issued 319 revenue bonds totaling over \$1.5 billion (excluding refunding bonds). Bonds issued under this program include financings for renovations to the Yukon-Kuskokwim Delta Regional Hospital, Providence Alaska Cottages, a 96-bed nursing home, capital improvements at Providence Alaska Medical Center, facilities expansion and renovation of the Greater Fairbanks Community Hospital Foundation and construction of the Rental Car Facility at the Ted Stevens Anchorage International Airport.

In addition to the economic return to the state, from job creation for Alaskans and helping to stabilize the Alaska economy, AIDEA also provides a financial return to the state through the dividend program established in 1996.

Under the statutory dividend program's provisions, AIDEA makes available a yearly dividend to the state that ranges from 25 percent to 50 percent of audited "net income" (as defined in statute) for the fiscal year two years prior to the year the dividend is to be paid. In no event is the dividend to exceed unrestricted "net income." On November 28, 2018, the Authority's Board voted to make a \$10,285,000 dividend available in fiscal year 2020 comprised of \$10,000,000 from the Revolving Fund and \$285,000 from the SETS Fund. The 2020 dividend is approximately 31% of the Authority's 2018 net income for dividend computation purposes of approximately \$33.5 million. Since the dividend program's inception, the Authority's Board has made available over \$407 million to the State General Fund, including the dividend declared in November.

The legislature expressed its intent in enacting the statutory dividend program that "the financial integrity of the [authority] remain secure so that the authority can continue to fulfill its vital economic development mission for the state" (see sec. 1, ch. 11 SLA 1996). The dividend program is significant to the state and to the Authority in several ways, as it:

- allows AIDEA to provide money to the State to help fund other important programs;
- is an indicator that the Authority is receiving an adequate return on its investments in loan participations and development projects, which are the main vehicles used by the Authority to meet its mission of helping to create jobs for Alaskans and stabilize the economy; and
- provides assurance to bond rating agencies, capital markets and the financial community that AIDEA is a long-term, stable State investment.

Under the dividend program, the Board determines the amount of the annual dividend giving consideration to financing requirements and maintaining capacity for unanticipated needs. Using these factors to determine the annual dividend ensures that the Authority pays a reasonable return to the state while simultaneously maintaining AIDEA's financial integrity.

Credit reviews of the Authority were performed by Moody's Investors Service and Standard & Poor's Rating Services in June 2013 and March 2016, respectively. In a June 28, 2013 credit rating letter affirming AIDEA's credit rating of 'Aa3' on outstanding bonds, Moody's indicated the rating could be changed down by efforts by the state to increase the Authority's annual dividend payments.

In March 2016, Standard & Poor's affirmed its rating of 'AA+' on AIDEA's outstanding Revolving Fund bonds. Although the report did not go beyond including reference to the annual dividend payments and stating the amount of the fiscal year 2015 dividend, the report stated "The stable outlook reflects Standard & Poor's expectation of continued very strong debt service coverage and active program management." It further stated the rating could be lowered "if significant revenue available for debt service was to decline significantly..." The statutory dividend program has successfully provided the needed financial stability for the bond markets.

The statutory dividend program provides for predictable and stable dividends, which are crucial to financial markets and enables AIDEA to continue to have access to reasonably priced capital. The statutory dividend program has provided the means to calculate a dividend that allows AIDEA to provide funds to the state while insuring that AIDEA maintains its financial integrity and

continues to fulfill its statutory economic development mission. The Authority therefore believes that the distribution of assets should be done in accordance with the statutory dividend program, and that there are no excess assets beyond the declared dividends.