

AIDEA's Response to Representative Herron's Office Inquiries Regarding HB 363

1. Comment on advantages and disadvantages of the proposed board make-up:

The advantage of the board composition set out in HB 363 is that AIDEA would have more private sector and industry input into its decision making processes. Moreover, new public members can bring their expertise and business and industry experience to bear when asked to approve a particular loan, authorize the expenditure of funds, or approve the issuance of a bond to finance development. This input makes for better decision making. AIDEA's own solution to gaining more business and industry input as set forth in its Strategic Plan is to setup two new committees of business and industry experts (Business and Technical) to advise the board and management on policy and project investment decisions. An alternative to the advisory board concept would be to add more public members to the Board and then have the full board to appoint subcommittees to explore new policies and work with management on issues and then report back to the board. Either alternative would create a vehicle for creating better public-private partnerships which is the goal set forth in AIDEA's Strategic Plan.

The disadvantage of the board composition as set forth in HB 363 is that its one commissioner configuration would mean that board would lose needed expertise in state economic and infrastructure development. While AIDEA agrees that it is important to the board to have the expertise and experience of the Commissioner of Revenue on the board for his or her experience in finance and investment, AIDEA's mission is broader than these two areas. AIDEA is an economic development finance authority and needs to have a cabinet level officer with knowledge of state economic development policies and directions such as the Commissioner of Commerce, Community and Economic Development.

2. What are the advantages of private sector membership on a board of this nature:

As noted above, the advantage of having private board members on a public economic development finance authority's board is to bring private sector expertise and experience to AIDEA's decision making process. AIDEA makes loans, serves as a conduit for revenue bonds, and finances large scale development projects. It, therefore, can benefit in making its investment and development decisions by utilizing the expertise of knowledgeable business people and industry experts who have a broad base of experience.

It is also important that state sponsored economic development be, in essence, a public/private partnership. Best practices of economic development agencies throughout the United States are to include both public and private persons into the economic development decision process. Some of the best known models for economic development agencies make use of this public/private partnership concept, such as Kentucky's Economic Development Cabinet and the Indiana Development Corporation.

3. What kinds of private sector member qualifications best serve the board:

The best private sector members on an economic development finance corporation, such as AIDEA, are ones that have a broad range of business experience and who understand the role of state funded economic development. This usually will mean persons who have worked with commercial and business development financing, bank financing, commercial real estate development, and local or state sponsored economic development programs in their business careers. An understanding of the various methods of financing projects, as well as a knowledge of Alaska local government and boroughs is also desirable. Board members who have a wide range of experience in natural resource extraction, logistics, energy, tourism and other targeted sectors listed in AIDEA's strategic plan would provide guidance and sound decision making to support AIDEA's missions and measures.

4. Talk about what kinds of decisions the Board makes:

The board is responsible for the governance of the corporation and must approve of and vote on all major loans in which AIDEA participates, as well as approve of all investments in projects financed directly or by the use of bonds. Equally important is that the board is responsible for deciding when and how to divest of currently owned projects and at what price and terms. The board also makes the decisions on how large a reserve AIDEA should have and has to approve all litigation and court settlements.

In corporate governance terms, the AIDEA board hires the executive director to run the day-to-day operations of the Authority, but any organic decisions (i.e. those that could affect the financial position of the corporation or affect its future performance) must have board approval.

As noted above, the AIDEA board runs the agency. While management may make recommendations on these matters, it is the board which must vote to approve them and who has the right to modify or deny proposals put forward by management. The board also establishes all major policies such as AIDEA's recent Strategic Plan. The Board is responsible for adopting regulations used in the operation of all the major programs of the authority.

5. Right now the fishing and high tech/communications industries are represented through the private sector members of the AIDEA board. How would you like to see the board diversified if there were two more private members:

AIDEA currently has two very knowledgeable well-rounded private sector board members with a broad range of business experience and management skills. If more such members were added, AIDEA would suggest that persons be chosen who have financial management experience, commercial and investment banking experience, commercial development experience, financial analyst experience, legal experience, economic development experience or infrastructure experience.

Additionally, board members should probably have experience with local governments, regional development organizations, chambers of commerce and other local economic development stakeholders. It would be desirable to have board members who have experience in natural resource extraction, logistics, energy, tourism and other targeted sectors listed in the Strategic Plan.

6a. Why is there a joint AIDEA/AEA board:

AEA and AIDEA have a shared board because this is mandated by statute.

6b. Any advantages or disadvantages of this:

There is value in having members shared between the AEA and AIDEA boards. AIDEA has bonding authority, which can be utilized to provide financing for large-scale AEA initiatives. AEA alternatively can analyze for AIDEA whether an energy-related development project is feasible. Another example of fruitful agency coordination is that recently AIDEA and AEA submitted a joint application to the Federal Department of Energy which makes use of each authority's expertise.

The main challenge is in finding board members that have the experience and working knowledge in both economic development and energy related fields. Additionally, the AEA board needs to be conversant with AEA's grant programs, as well as with federal Department of Energy funding programs.