

A I D E A   S T R A T E G I C   P L A N  
I N V E S T I N G   I N   A L A S K A N S





A I D E A   S T R A T E G I C   P L A N  
I N V E S T I N G   I N   A L A S K A N S



## Table of Contents

Table of Contents.....	2
Executive Summary.....	4
Background.....	4
Summary of AIDEA’s Mission & Strategic Vision .....	5
Summary of the SWOT Analysis.....	6
Themes from the Environmental Scan.....	8
Highlights from Best Practices Review.....	9
AIDEA Mission & Strategies.....	10
AIDEA’s Mission.....	10
AIDEA’s Strategic Vision.....	11
1 Diversify & Grow AIDEA’s Assets to Support Economic Development.....	12
1.1 1-3 Year Objectives – Diversify & Grow Assets.....	12
1.2 Balance Sheet Analysis & Proposals.....	13
2 Improve AIDEA’s Existing Programs and Add Targeted New Economic Development Financing Tools.....	18
2.1 1-3 Year Objectives – Improve & Add Programs – Commercial Finance.....	18
2.2 1-3 Year Objectives – Improve & Add Programs – Development Finance.....	19
2.3 Analysis & Proposals – Commercial Finance Programs.....	19
2.3.1 Mission & Role of AIDEA’s Commercial Finance Programs.....	19
2.3.2 Current Status of AIDEA Commercial Loan Participation Programs.....	20
2.3.3 Future Profile of AIDEA Commercial Finance Programs.....	22
2.3.4 AIDEA Commercial Loan Program Rates and Terms.....	23
2.3.5 AIDEA Commercial Finance Metrics and Incentive Rates.....	24
2.4 Analysis & Proposals – Development Finance.....	25
2.4.1 Mission and Role of AIDEA’s Development Finance Programs.....	25
2.4.2 Structure & Potential for AIDEA’s Development Finance Programs.....	26
3 Expand the Deployment & Impact of AIDEA’s Economic Development Financing.....	30
3.1 1-3 Year Objectives – Expand AIDEA’s Economic Development Deployment & Impact.....	31
3.2 Target Sectors for AIDEA Investment .....	33
3.3 Integration of AIDEA Programs & Activities with Overall State Economic Development Strategies.....	34

3.4	Analysis & Proposals – AIDEA Outreach.....	35
3.4.1	Outreach Concept / Objectives.....	35
3.4.2	Outreach Resources & Organization.....	35
3.4.3	Outreach Initiatives.....	36
3.4.4	Outreach Targets.....	37
3.5	Analysis & Proposals – AIDEA Structure & Procees.....	38
3.5.1	Intake, Analysis & Approval Processes & Structure.....	38
3.5.2	Metrics and Performance Measures.....	40
3.5.3	Enhanced Asset Management.....	42
	Alaska Economy Analysis.....	44
	Alaska Economy SWOT (Strengths-Weaknesses-Opportunities-Threats).....	44
	AIDEA Environmental Scan, Results and Analysis .....	50
	AIDEA SWOT.....	50
	Environmental Scan Introduction.....	52
	Public Workshop.....	54
	Board of Directors.....	54
	AIDEA Staff.....	55
	Lenders.....	55
	Best Practices Review - Economic Development Programs.....	58
	Summary of Best Practices Review.....	58
	Main Themes from Best Practices Review.....	60
	Approaches to Organizing for Economic Development.....	60
	Common “Tools” of Economic Development.....	61
	Most Potentially Relevant Economic Development Program.....	63
	Various Funding Options for Economic Development.....	65

For Appendices please visit <http://www.aidea.org/PDF%20files/AIDEAstrategicPlan-Appendices.pdf>

## executive summary

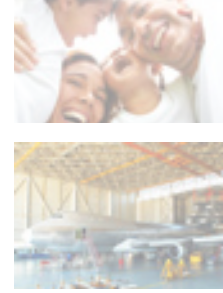
### Background

AIDEA began a process in late 2008 to develop a strategic plan to establish how best to support the purpose of the Authority in assisting with economic development, job growth and job diversification in the state. Western Financial Group, along with Northern Economics and Gordon Davis, were engaged to work with AIDEA's management and staff to assist in the development of this strategic plan for AIDEA as well as to establish tools for an ongoing strategic planning process for the Authority. The process for developing the plan included all AIDEA staff, the Board and many outside stakeholders – both public and private.

In support of the development of the plan, the following activities were completed.

- ▶ An "environmental scan" was conducted to determine AIDEA's current role, perceived needs and roles, etc.
- ▶ A "SWOT" ("Strengths-Weaknesses-Opportunities-Threats") analysis was developed for both AIDEA and the Alaska economy
- ▶ A review of economic development finance "best practices" both nationally and internationally was compiled
- ▶ A series of potential strategies, financing tool menus and analyses were drafted
- ▶ A vision plan and a set of supporting objectives were developed
- ▶ Feedback and input from AIDEA's board, management team, AIDEA staff, and outside stakeholders including banks and other economic development agencies was obtained

It is anticipated that with the Board's consensus, AIDEA and the Western Financial Group will establish a permanent strategic planning function as well as implement certain immediate initiatives during the 2010 calendar year.



## Summary of AIDEA's Mission & Strategic Vision

### AIDEA's Mission

Early findings of the environmental scan provided some useful guidance on AIDEA's mission. While it has been recognized that AIDEA's strengths lie in its ability to bring financing to important projects in Alaska, the Authority is often criticized for being too reactive while many parties believe it should take a more proactive approach to economic development in the state.

At its March 13, 2009 meeting, AIDEA's Board modified the Authority's mission statement to place a more direct emphasis on economic development:

**The mission of the Alaska Industrial Development and Export Authority is to promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment.**

### AIDEA's Strategic Vision

Even though AIDEA is a semi-independent authority from state government, its most effective role as an instrument for economic development will be realized if it partners with the state assuming the role as the primary financing arm for the state's comprehensive long term strategy for economic growth and stabilization.

To maintain its standing in the financial community, AIDEA will remain semi-independent from state government but through intergovernmental agreements and a central coordinating role, it will seek out and create if necessary, a full range of funding and financing options to implement economic development initiatives.

AIDEA will bring to the development and implementation of statewide economic growth strategies, a rigor of feasibility analysis that will ensure the greatest chance of success.

Consistent with the new mission statement as well as with the feedback from our stakeholders, **AIDEA's strategic vision is to actively partner with Alaskans as a dynamic resource in statewide economic development.** In order to fulfill this vision AIDEA will implement the following initiatives:

- ▶ **Diversify and grow AIDEA's assets to support economic development**
- ▶ **Improve AIDEA's existing programs and add targeted new economic development financing tools**
- ▶ **Expand the deployment and impact of AIDEA's economic development financing**

Further development of these initiatives, along with a series of 2-3 year objectives for each element are detailed in the body of this report.

## executive summary

### Summary of the SWOT Analysis

In order to provide a context for the development of the AIDEA Strategic Plan, a “Strengths–Weaknesses–Opportunities–Threats” (“SWOT”) analysis was conducted both for the Alaska economy and for AIDEA itself. Although the purview of the Plan is limited to AIDEA’s role in economic development finance, an understanding of how Alaska fits in the national and world economy, as well as how outside economic trends will affect Alaska, is necessary background for an understanding of AIDEA’s role going forward.

Highlights of the SWOT for the Alaska economy include:

- ▶ While the Alaska economy continues to out-perform the U.S. overall, the global recession in all sectors does present potential risks for Alaska. The last year has seen 25-35% reductions in wealth, trade, industrial production, as well as very high volatility in commodities prices, including the key Alaska sectors of oil and minerals.
- ▶ It is too early to determine whether these global factors will result in secular (long term) restructuring of certain sectors and markets or will have only short-term effects, and to what degree those effects will influence the Alaskan economy. So far in this recession, credit market conditions and access to capital in Alaska remain considerably more favorable than in the rest of the country.
- ▶ The “1/3 Oil, 1/3 Federal, 1/3 Other (mostly resource-based)” structure of the Alaskan economy provides both positive and negative potential for future growth. Because both oil production and federal programs tend to remain fairly stable, they can be a continuing foundation for the Alaskan economy. Continued relatively high projected levels of construction, for example, indicate that the oil and federal sectors are providing that foundation despite the global recession. Volatility of oil prices, rapidly declining oil production and declining Congressional influence could, however, undermine the future support of that foundation. Commodities price volatility also makes the other resource-based segments of the Alaskan economy less certain.



- ▶ Regional and urban/rural differences are exacerbated in Alaska. Because of the distances, topography and climate, the geography of the Alaska economy is challenging. Layered on top of the geographic challenges is the relatively recent introduction of a functioning cash economy to many of the more remote parts of the state. The multiple major differences among Alaska regions result in an even greater challenge to economic development than the “normal” urban/rural and state regional differences present in most Lower 48 states.

Highlights of the SWOT for AIDEA include:

- ▶ AIDEA’s financial reserves and access to capital provide considerable capacity to support economic development financing for the state.
- ▶ AIDEA’s institutional capacity (finance, project development, commercial lending) also provide potential for an expanded role, particularly in an environment where alternative funding / financing sources are under stress from the global financial markets upheaval.
- ▶ AIDEA’s relatively limited statutory scope prevents (or hampers) participation in certain types of economic development finance activities pursued by similar agencies in other states.
- ▶ The lack of an overall strategic plan for Alaska economic development, and AIDEA’s relatively passive stance in recent years, along with potential overall state budget constraints are barriers to expanded AIDEA participation in major projects.



## executive summary

### Themes from the Environmental Scan

The environmental scan, which gathered information regarding AIDEA from both inside and outside AIDEA and from both public and private sector sources, identified some themes about perceptions of AIDEA, ideas for AIDEA's future role and opinions about AIDEA programs.

In summary:

- ▶ AIDEA is perceived as competent and is a respected participant in the Alaska economy, although there remain significant, particularly private sector, economic actors that are unaware of AIDEA's mission, role and programs.
- ▶ AIDEA is viewed by certain economic development parties as reactive or passive, and by some as subject to potential political interference, or not sufficiently coordinated with other state agencies.
- ▶ Ideas about AIDEA's future role in the state's economic development activities were, for the most part, consistent with AIDEA's current program priorities – project financing and commercial lending support. Some respondents promoted the notion of a more active role for AIDEA in overall state economic development leadership.
- ▶ When asked about AIDEA's programs, there was a consensus from scan participants that AIDEA should take a more active approach to project development – particularly in developing infrastructure supporting minerals, gas, fisheries and other marine activities. There was also interest in expanding AIDEA's role as a lender alongside the banks, and potentially in providing capital for early stage companies.
- ▶ Multiple responders also favored an approach with AIDEA developing new programs for rural economic development.



## Highlights from Best Practices Review

The consulting team’s review of best practices in economic development finance identified consistent patterns in structural approaches to economic development, in strategies, and in financing “tool kits”.

While many different structural approaches, some common elements of successful economic development strategies include:

- ▶ Large stakeholder organizations, engaging key players from both the public and private sector
- ▶ Organized, long-term strategic planning efforts
- ▶ Designated lead agencies with both authority and responsibility for meeting economic development objectives

A number of common strategic approaches also dominate, including:

- ▶ Identification of key “traded-sector” (exporting) industry sectors and formation of “clusters” aimed at fostering growth in each individual sector.
- ▶ Development of, and management to, “theme” based vision, mission, goals & strategies, often through selection of target industries or categories of industries, for example “sustainable” or “creative”. In some cases, these strategies also involve initiatives to “brand” a state or region’s products in order to improve export market share.
- ▶ Finally, some of the most successful strategies have developed sophisticated metrics to measure the effectiveness of strategy elements and to provide goals and targets for the overall economic development effort. These measurement systems often include environmental, social, cultural and other benchmarks as well as the traditional measures of investment, jobs and income.

Similarly, the most successful economic development programs draw from a comprehensive toolbox of economic development financing tools, with particular emphasis on:

**Grants, tax abatements, tax credits / rebates**  
**Loan guarantees / participation**  
**Public/Private partnerships**

**Infrastructure financing**  
**Special condition lending / credit support**  
**Venture capital & seed equity funds**

While it should be emphasized that no state exemplifies all of the best practices in structure, strategy and financing, many states are working toward adopting best practices in all of these areas.

AIDEA’s strategic plan team has evaluated the best practices overall with the intent of adopting only those elements most applicable to AIDEA’s mission and roles and to the Alaska economic development environment.

## AIDEA mission & strategies

### AIDEA's Mission

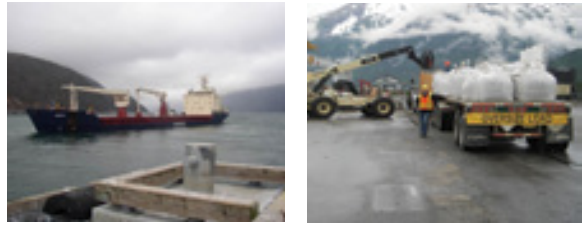
For the last several years, AIDEA's mission statement was:

The mission of the Alaska Industrial Development and Export Authority is to provide various means of financing to promote economic growth and diversification in Alaska.

As a key element of the current AIDEA planning process, an "environmental scan" was conducted to gather information on outside perceptions of AIDEA's role, performance and direction. Early findings of that scan provided some useful guidance on AIDEA's mission.

While it has been recognized that AIDEA's strengths lie in its ability to bring financing to important projects in Alaska, it is often criticized for being too reactive when it is clear from the statutory foundation that it was intended that the Authority would take a more proactive approach to economic development in the state. At its March 13, 2009 meeting, AIDEA's Board modified the Authority's mission statement to place a more direct emphasis on economic development:

**The mission of the Alaska Industrial Development and Export Authority is to promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment.**



While this re-emphasis on the underlying objective – economic development – appropriately steers overall planning, the changed emphasis also involves some risk. The Authority prides itself on the strength of its balance sheet; on the performance of its investments and on its credit rating and standing within the credit markets. By moving beyond its current role, AIDEA risks that some of its efforts to promote economic growth and development in the state might fail, potentially jeopardizing its high standing in the financial communities. Any strategy that takes AIDEA into new ventures must be done in a way that continues to protect its standing in the financial community since that standing is as critical to its overall success as an arm of the state for economic growth, development and stabilization.

## AIDEA's Strategic Vision

Even though AIDEA is a semi-independent authority from state government, its most effective role as an instrument for economic development will be realized if it partners with the state assuming the role as the primary financing arm for the state's comprehensive long term strategy for economic growth and stabilization.

To maintain its standing in the financial community, AIDEA will remain semi-independent from state government but through intergovernmental agreements and a central coordinating role, it will seek out and create if necessary, a full range of funding and financing options to implement economic development initiatives.

AIDEA will bring to the development and implementation of statewide economic growth strategies, a rigor of feasibility analysis that will ensure the greatest chance of success.

Consistent with the new mission statement as well as with the feedback from our stakeholders; **AIDEA's strategic vision is to actively partner with Alaskans as a dynamic resource in statewide economic development.** In order to fulfill this vision AIDEA will implement the following initiatives:

1. Diversify and grow AIDEA's assets to support economic development
2. Improve AIDEA's existing programs and add targeted new economic development financing tools
3. Expand the deployment and impact of AIDEA's economic development financing

Further development of these initiatives, along with a series of 2-3 year objectives for each element are detailed in the following sections of this report.

## diversify & grow AIDEA's assets to support economic development

### 1 Diversify & Grow

In order to maintain AIDEA's capacity to support existing programs and expand economic development financing opportunities, AIDEA will be required to utilize its balance sheet capacity at a higher level. Additionally, AIDEA's "asset allocation" within the balance sheet will need to be modified. AIDEA may also seek to enable "off-balance-sheet" financing tools for large projects or projects outside the criteria for AIDEA's "normal" portfolio. Finally, AIDEA's new strategic vision and balance sheet strategies will need to be communicated to and vetted by key market participants, including rating agencies and potential investors.

#### 1.1 1-3 Year Objectives – Diversify & Grow Assets

**Update policies for balance sheet capacities and limitations**

- ▶ Asset/liability management
- ▶ Cash reserves
- ▶ Dividends
- ▶ Bond financing

**Utilize \$150-200 million in overall additional portfolio capacity over the next three years**

**Allocate portions of the balance sheet by economic development potential and risk profile**

**Expand balance sheet capacity through some combination of:**

- ▶ Increased borrowing capacity (with moral obligation, or revised indenture, or acceptance of lower rating)
- ▶ Improved analyst perception of portfolio capacity
- ▶ Establish capacity to leverage AIDEA's balance sheet (or finance off-balance sheet) for very large projects

## 1.2 Balance Sheet Analysis & Proposals

In order to determine AIDEA's intermediate to long-term capacity to finance economic development, WFG and AIDEA's finance team analyzed the components of the balance sheet and made a series of projections to determine impact of alternative financing scenarios.

A series of four alternative future scenarios for AIDEA's balance sheet were run:

### Scenario A

Base case - \$50 million new loans, no new projects

### Scenario B

Base case - \$70 million new loans, no new projects

### Scenario C

Base case - \$50mm new loans

\$20 million additional new projects financed from cash

Payback on development projects = 7% over 20 years

### Scenario D

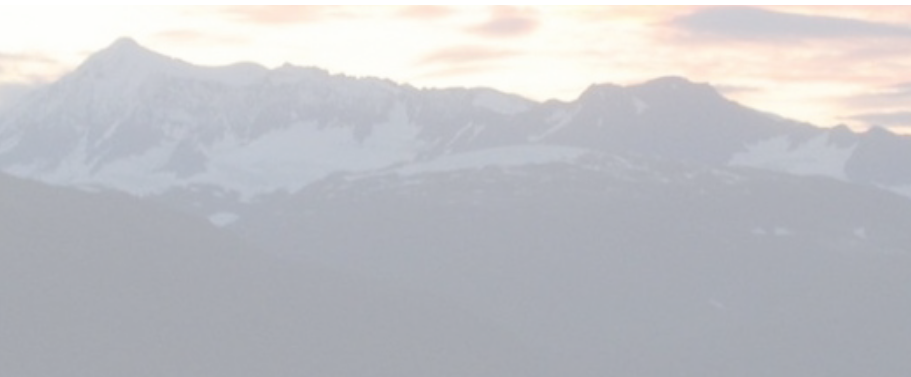
Base case - \$50 million new loans

\$20 million additional new projects financed from cash

Payback on development projects = 7% over 20 years

\$100 million project – tax-exempt bonds in 5 years

Adjust cash to maintain .75 cash/debt, cash at 2x



diversify & grow AIDEA's  
assets to support  
economic development

The graphs on following pages provide visual depictions of the scenarios. To summarize the highlights of this element of the analysis:

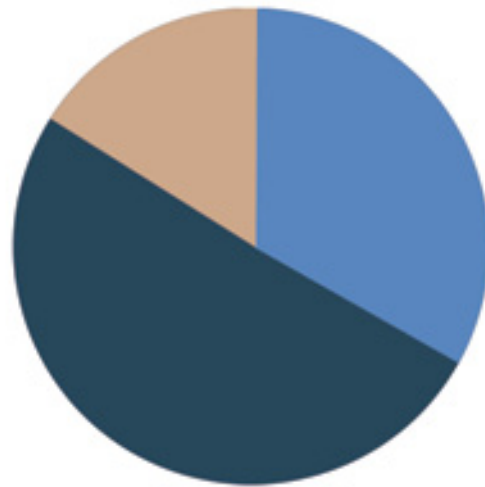
- ▶ AIDEA's balance sheet provides significant portfolio flexibility while retaining financing capacity.
- ▶ Under the updated assumptions incorporated in this analysis for loan portfolio behavior, AIDEA has considerable extra capacity (estimated at \$150-200 million) to fund either expanded loan programs or additional projects.
- ▶ The impact of investing in loan participations or development projects is neutral to the Authority's balance sheet, depending on interest rate and default assumptions.
- ▶ Reducing investment balances to purchase loan participations and invest in development projects reduce funds available for debt payments.
- ▶ Reducing the dollar amount of loan participation purchases and not participating in economic development asset ownership, in the near term, increases bond capacity.
- ▶ Increase in AIDEA's net assets is slowed, but not stopped, if no more loans are made. However, the composition of the balance sheet changes, with investment balances increasing tremendously.





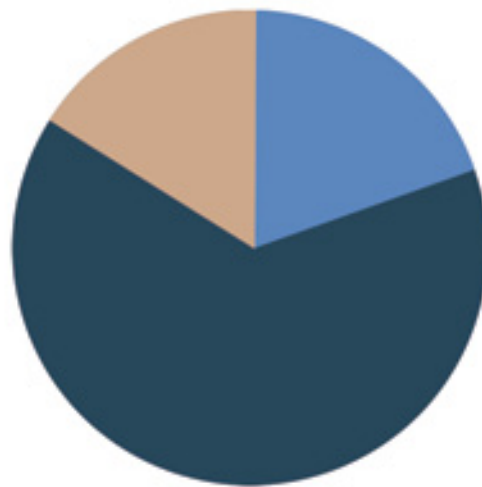
While additional modeling of the AIDEA balance sheet during FY09-10 is intended to further refine the assumptions and scenarios, some policy and strategy issues emerge from this first level of analysis, and are caveats to the increased capacity indicated above:

- ▶ The strategy proposed involves both growing and diversifying the AIDEA balance sheet and making internal dedications within the balance sheet to reflect the varying risk/return profiles of different types of projects. Under this approach, which includes some investments with higher risk profiles, the revolving fund should continue to grow and provide a dividend; however there may be times when part of the dividend is retained to fund portions of the programs with higher risk profiles.
- ▶ Although AIDEA does not have a covenant specifying a cash-to-debt ratio, staff and financial advisors believe AIDEA's relatively high cash balances compared to outstanding debt sustain current debt ratings. Investing in longer-term assets reduces access to liquid assets, possibly impacting future debt ratings.
- ▶ A major change to managing AIDEA's balance sheet risks impacting the fund's credit rating, conceivably resulting in higher interest rates on future AIDEA bond financing. Although maintaining the highest rating possible has been one of AIDEA's primary financial indicators, it is possible a trade-off would be worthwhile if, for example, a one-half notch rating reduction caused a 0.50% higher interest cost, but AIDEA gained \$100 million additional capacity for economic development financing.
- ▶ More detailed modeling during 2010 should focus on some additional assumptions and considerations:
- ▶ Higher default rates for loans and development projects should be modeled to provide some cushion against impacts of global economic changes and the potential to undertake more risky projects.
- ▶ The historical rate-setting process for development projects has been tilted more toward economic development return to the state (such as jobs) than financial return to AIDEA (such as return on investment). Modeling should be done on the impact of alternative approaches to project funding pricing. The potential impact of the final resolution of business dealings related to the Healy Clean Coal project will need to be incorporated.



- Investments
- Loans
- Development

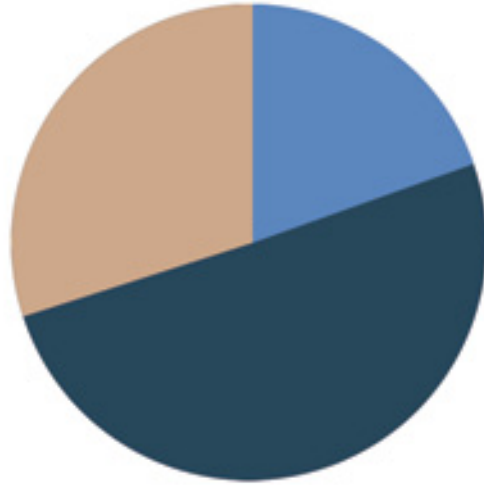
Balance Sheet Scenario A



- Investments
- Loans
- Development

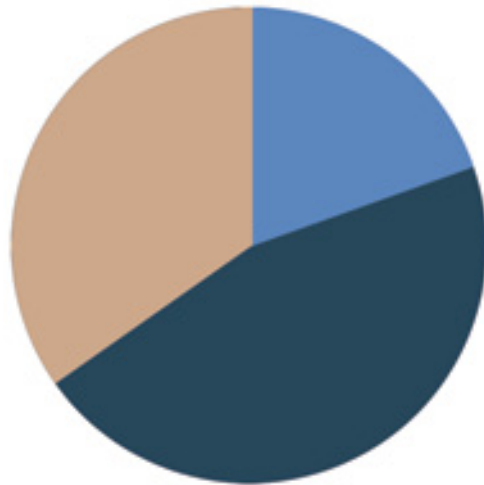
Balance Sheet Scenario B





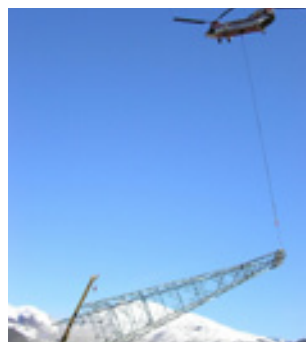
- Investments
- Loans
- Development

Balance Sheet Scenario C



- Investments
- Loans
- Development

Balance Sheet Scenario D



## 2 Improve AIDEA’s Existing Programs and Add Targeted New Economic Development Financing Tools

improve AIDEA’s existing programs and add targeted new economic development financing tools

AIDEA’s “marquee” Development Finance and Commercial Loan Participation programs have suffered reductions in demand from their peaks. While Development Finance has always been somewhat “event-driven”, the recent reduction in Loan Participation Program demand resulted, at least to some extent, from structural impediments that could be changed. The strategic vision for AIDEA anticipates actions to make these programs more viable. The global economic environment and specific local economic conditions in Alaska also provide potential opportunity for implementation by AIDEA of new financing tools

### 2.1 1-3 Year Objectives – Improve & Add Programs – Commercial Finance

**Expand both the perception and the reality of the commercial lending program from “credit” to “Commercial Finance”**

**Regain recent historic levels of the loan participation program for real estate and equipment**

**Investigate the potential for a sector-targeted operating line loan participation program representing up to a \$25 million addition to AIDEA’s portfolio**

**Match rates to economic development objectives**

- ▶ “Market” rates where appropriate
- ▶ Consider risk-adjusted, incentive rates

**Support business growth by providing terms that would not otherwise be available in the commercial financing market**

- ▶ Support market values / liquidity
- ▶ Support small banks / regions

**Link Commercial Finance programs to financial and economic development metrics.**

## 2.2 1-3 Year Objectives – Improve & Add Programs – Development Finance

Ramp up development project sponsorship to 1-3 projects per year and a total of \$150-200 million addition to AIDEA portfolio over three years

Develop capacity for “equity” ownership in entities / assets beyond “projects” and consistent with the mission with a target of up to \$50 million addition to the AIDEA portfolio over three years

Set aside “risk capital” to fund R&D and other “seed” activities that could drive larger economic development opportunities

Develop structures for “pooled” development project and/or business financing segments of the portfolio in order to expand financing availability while maintaining portfolio creditworthiness

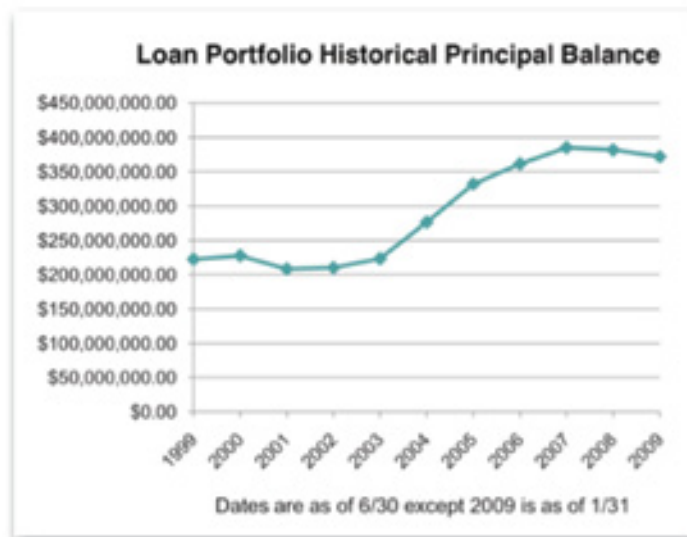
## 2.3 Analysis & Proposals – Commercial Finance Programs

### 2.3.1 Mission & Role of AIDEA’s Commercial Finance Programs

AIDEA’s commercial loan programs serve the Authority’s mission of providing economic development financing by playing a number of roles in the Alaska economy

- ▶ Supporting growth of business in Alaska by providing terms that would not otherwise be available in the commercial financing market.
- ▶ Supporting market values and liquidity in Alaska’s economy.
- ▶ Supporting small banks and more remote regions of the state.

Additionally, the Commercial Finance programs play an important role in AIDEA’s financial operations – providing a reliable and consistent source of revenue to AIDEA’s balance sheet.



### 2.3.2 Current Status of AIDEA Commercial Loan Participation Programs

improve AIDEA's existing programs and add targeted new economic development financing tool

Most AIDEA program borrowers have customarily been issued long-term, fixed-rate loans, with an average maturity of just over 20 years. Actual experience for the AIDEA portfolio is that loans are paid off substantially before when they are due – averaging between 6 and 7 years.

The Commercial Loan Participation program has grown to represent a significant portion of AIDEA's assets. As of June 30, 2009, AIDEA's outstanding commercial loan participation portfolio consisted of 253 outstanding loans with a principal balance of \$368,209,000. The tables below (all derived from the Credit Division's report as of June 30, 2009) provide a snapshot of the composition of the AIDEA loan portfolio.

SUMMARY COMPOSITION OF AIDEA LOAN PORTFOLIO		
LOAN PROGRAM TYPE	#	\$ AMOUNT (000'S)
APPROPRIATED	7	\$95
DIRECT LOAN(AEL&P)	1	\$3,277
LOAN PARTICIPATION:		
BONDS OUTSTANDING	0	\$0
BONDS RETIRED	1	\$859
INTERNALLY FUNDED	238	\$339,487
OREO SALE FINANCING	6	\$24,491
OTHER	0	\$0
<b>TOTAL</b>	<b>253</b>	<b>\$368,209</b>

GEOGRAPHIC DIVERSIFICATION OF AIDEA LOAN PORTFOLIO	
REGION	% OF TOTAL OUTSTANDING PRINCIPAL BALANCE
ANCHORAGE	56.48%
INTERIOR	7.42%
NORTHERN	1.65%
MAT-SU	5.82%
GULF COAST	7.23%
SOUTHEAST	20.39%
SOUTHWEST	1.01%
<b>TOTAL</b>	<b>100%</b>

## FINANCIAL INSTITUTIONS UTILIZING AIDEA'S LOAN PARTICIPATION PROGRAM

FINANCIAL INSTITUTION	NUMBER OF LOANS	PRINCIPAL BALANCE	% OF TOTAL \$
ALASKA PACIFIC BANK	15	\$27,413,680	7.45%
KEYBANK N.A.	13	\$17,660,011	4.80%
FIRST BANK	9	\$14,069,384	3.82%
FIRST NATIONAL BANK ALASKA	114	\$140,154,979	38.06%
WELLS FARGO BANK ALASKA N.A.	37	\$60,240,043	16.36%
DENALI STATE BANK	2	\$2,842,762	.77%
NORTHRIM BANK	41	\$62,432,410	16.96%
STERLING SAVINGS BANK	3	\$12,346,028	3.35%
AIDEA	15	\$28,721,669	20.7%
ALASKA USA FEDERAL CREDIT UNION	2	\$1,300,435	.35%
MATANUSKA VALLEY FEDERAL CREDIT UNION	2	\$1,027,343	.28%
<b>TOTAL</b>	<b>253</b>	<b>\$368,208,744</b>	<b>100%</b>

## AIDEA PORTFOLIO DIVERSIFICATION BY INDUSTRY IN ALASKA

INDUSTRY	% OF TOTAL OUTSTANDING PRINCIPAL BALANCE
HEALTHCARE	5.79%
RECREATION	3.75%
MANUFACTURING	.94%
AIRCRAFT HANGAR/TERMINAL	1.94%
OFFICE/BUSINESS CONDO	13.43%
RETAIL	21.74%
OFFICE WAREHOUSE	14.98%
WAREHOUSE/SHOP	4.07%
TOURISM/HOTEL/LODGE	26.14%
OTHER	7.22%
<b>TOTAL</b>	<b>100%</b>

## TOTAL DELINQUENCIES OVER 90 DAYS AT JUNE 30, 2009 ARE 0.08%

LOAN TYPE	%	\$ AMOUNT (000'S)
CURRENT	99.04%	\$364,657
PAST DUE:		
31-60 DAYS	0%	\$0
61-90 DAYS	.88%	\$3,243
OVER 90 DAYS	.08%	\$309
<b>TOTAL</b>	<b>100.0%</b>	<b>\$368,209</b>

### 2.3.3 Future Profile of AIDEA Commercial Finance Programs

improve AIDEA's existing programs and add targeted new economic development financing tool

While AIDEA has statutory authority for programs for rural financing and a loan guarantee program, the vast majority of direct activity is in the loan participation program, with the smaller financing programs run for AIDEA by Commerce and the guarantee program effectively inactive.

Within the loan participation program all recent activity has been in the form of real estate loans, with no activity in operating lines or other business lending. With the turmoil in the global financial markets starting late in 2007, and the nature of the AIDEA loan rate-setting procedure, there has been limited activity even in real estate loans. Recent trends have re-aligned AIDEA's rates with market levels, but the recession has reduced overall loan demand, so activity remains at low ebb.

Looking to the future, however, the analysis leads to several proposals for improvements / additions to AIDEA's commercial financing programs:

- ▶ Establish metrics for economic development objectives related to commercial finance tools and structure, track and adjust loans relative to those metrics.
- ▶ More directly guide the small loan programs managed by Commerce to make sure they optimize AIDEA's overall program targeting and to ensure they have adequate capital to meet the identified need.
- ▶ Ensure that AIDEA's commercial loan rates are consistent with market trends and balance the need for financial prudence with the programs' objective to serve as an economic development financing tool for Alaska.
- ▶ Establish structure and authority to go beyond direct loan participation (to activate guarantee programs, for example) and beyond real estate lending, should a need for these types of commercial financing arise in the future.



### 2.3.4 AIDEA Commercial Loan Program Rates and Terms

There has been considerable attention in the last year to the process for setting loan interest rates for AIDEA's commercial loan participation program. Current statutes require rates to be based on cost of funds; the Authority has implemented a rate-setting process by which a third-party provides a proxy for AIDEA's cost of capital based on hypothetical bond rates, augmented with a spread to reflect AIDEA's cost and return. While this process has advantages (semi-independence, insulation from influence), it also has problems (lack of transparency). The principal issue that has arisen, however, is that the current system resulted in AIDEA's loan rates being "above market" for a considerable period.

As the financing programs were examined, and a new approach to managing AIDEA's balance sheet proposed, a different approach to setting rates for AIDEA loan programs was considered:

**Rather than using a closed process to develop a "synthetic" cost of capital based on issuing bonds (which AIDEA has NOT done to fund loans for many years), tie AIDEA's loan rates to:**

- ▶ **Comparable market rates based on published indices, and**
- ▶ **Economic development potential of the business or facility to be financed**

By using published indices, the independence (and freedom from influence) of the current system can be maintained with the added element of transparency.

AIDEA's commercial finance team evaluated potential market proxies for the proposed structure and identified two candidate published indices (from the Federal Home Loan Bank and the Federal Farm Credit Bank) for consideration. During 2010, a more thorough evaluation of the potential drivers for the proposed rate-setting structure will be completed and a final proposal for an approach that meets all of the AIDEA policy and program objectives will be recommended.



### 2.3.5 AIDEA Commercial Finance Metrics and Incentive Rates

improve AIDEA's existing programs and add targeted new economic development financing tool

In addition to the external rate-setting mechanism, the potential for enabling "incentive" pricing for AIDEA loan participations and other commercial lending programs were evaluated. In the most basic terms, this would involve providing reduced borrowing costs for business and facility financings that achieve high levels of job creation, and allow AIDEA's funds to be leveraged more effectively.

As an example of how this system might be structured (details to be developed during 2010), a draft a set of Incentive Rate Program Elements is included below:

#### Basic Rate (no incentives)

- ▶ Typical investor-held real estate purchase
- ▶ Real estate re-finance
- ▶ Construction with no long-term job creation

#### Eligible for Incentive Rate

- ▶ Funds used by companies to purchase property and/or equipment for business expansion
- ▶ Start-up companies that employ a threshold number of people
- ▶ Refinancing of existing debt that frees up working capital used for business expansion and increased employment
- ▶ Business financing in rural/remote areas of the state
- ▶ Business financing in targeted sectors of the economy

#### Nature of Incentives

- ▶ Interest rate rebates (as opposed to up-front rate reductions)
- ▶ Annual reporting by borrower on economic development metrics (in arrears)
- ▶ Interest rate rebate direct to borrower – may be used to pay down AIDEA debt without prepayment penalty
- ▶ Tiered rebates
  - x% reduction for 3 years for companies that employ y number of individuals
  - x+0.5% reduction for 5 years for start-up companies that employ y number of individuals
  - x+1.0% reduction for 5 years for start-up companies that employ y individuals AND build new facilities.



As previously noted, the above structure is intended just as an example of the potential incentive rate system and will be refined for presentation to and approval by the Board (and for any statutory, regulation changes required). It is likely that, in order to protect AIDEA's creditworthiness, a limit would be established for either the total dollar amount of loans with incentive rates or for a percentage of the total loan portfolio.

Alongside the implementation of a new approach to commercial lending, AIDEA's Strategic Plan proposes that overall economic development metrics be applied for the first time to these programs. Some concepts for those metrics are included in Section 3.5.2 of this report. Similarly, it is expected that the commercial loan programs will be directed by a common set of targets by sector and region as detailed in the "Outreach" portion of this report below.

## 2.4 Analysis & Proposals – Development Finance

### 2.4.1 Mission and Role of AIDEA's Development Finance Programs

AIDEA's development finance program is directed at financing large projects with potential for significant private investment and job growth. Due to the unique nature of AIDEA's authorities, the most common structure for these projects is AIDEA financing and owning a facility that serves as infrastructure for a large private development (Delong Mountain Transportation System, FedEx Maintenance Facility), or for a specific regional industry (Ketchikan Shipyard). These projects fit the accepted definition of "public-private partnerships" and tend to involve complex financial relationships, long-term commitments from both parties, and relatively high levels of risk.

Not surprisingly, given the risk profile of development projects of this nature, AIDEA has had notable failures to go along with the successes. While losses should be expected for a major economic development finance program, the larger challenge to programs of this nature is what the private sector refers to as "deal flow". Because investment-worthy large public-private projects of size are difficult to develop, they are also infrequent – particularly in a relatively small (economically) state like Alaska.

This relative paucity of potential "deals" has combined with a passive policy approach to AIDEA's development finance programs to result in a very low level of activity of this program for the past few years. However, based on the analysis of the Alaska economy, the environmental scan, and the best practices review, the analysis indicates a need for an enhanced and expanded program in the future. AIDEA's strong balance sheet provides the platform for the development finance program to support AIDEA's mission by returning to the role of "project finance" investment bank for the state's major economic development opportunities.

## 2.4.2 Structure & Potential for AIDEA's Development Finance Programs

improve AIDEA's existing programs and add targeted new economic development financing tool

Having identified a continued need for project development finance, an in-depth analysis of the current structure of the program was conducted and the current program compared with potential approaches and tools identified in the best practices review..

During the review process, the following opportunities to improve or expand AIDEA's development finance programs were suggested.

- ▶ **Project Finance (investment banking)**
- ▶ **Equity (beyond "projects")**
- ▶ **Feasibility funding**
- ▶ **R&D**
- ▶ **RFPs for target projects**

Each of these topics was evaluated for applicability to AIDEA's future program needs and a summary produced as follows:

Direct Project Financing – Investment banking

- ▶ **AIDEA's statutes define its authority to own and operate a project.**
- ▶ **The interpretation of this language is that AIDEA must "own" all or a portion of financed facilities, rather than being simply a lender.**
- ▶ **AIDEA should explore structures (or statutory changes) that facilitate a "project financing" role for AIDEA in order to open up opportunities where it is not necessary or advantageous for AIDEA to take an ownership interest.**



Further exploring this topic, AIDEA’s potential project financing role was analyzed in the context of the following statement:

*Project finance involves the creation of a legally independent project company financed with nonrecourse debt (and equity from one or more corporations known as sponsoring firms) for the purpose of financing investment in a single-purpose capital asset, usually with a limited life. (Harvard Business School, An Overview of Project Finance and Infrastructure Finance – 2006 Update. October 2007).*

Additionally Project Financing (Investment Banking) was compared and contrasted with Corporate or conventional financing (AIDEA Loan Participation). See the table below:

<u>FACTOR</u>	<u>PROJECT FINANCE</u>	<u>LOAN PARTICIPATION</u>
BANK TYPE	INVESTMENT BANK	COMMERCIAL BANK
ROLE	SPONSOR, ACTIVE	PASSIVE
INTEREST	PROJECT MANAGER	OBSERVER
ACTIVITY	ADVOCATE, SPONSOR	DISPASSIONATE
OWNED	+/- OWNED	NOT OWNED
SENSITIVE	COULD BE POLITICAL	LESS POLITICAL
SIZE	GENERALLY LARGER	SMALLER
ENTITY	PUBLIC OR PRIVATE	PRIVATE

improve AIDEA's existing programs and add targeted new economic development financing tool

#### Development Finance Project Ownership

- ▶ AIDEA's development finance program allows AIDEA to own "development projects" as a method of financing, but not to obtain stock in a company or to finance intangible assets.
- ▶ Review of other economic development agencies and authorities nationwide would indicate that there is a need for additional tools in Alaska for the Development Finance program that would allow for different aspects of ownership including venture capital, ownership of stock in companies, financing early development projects (for example through funding initial design/permitting, etc.) and investing in intangible assets such as intellectual property or engineering designs.

Further analyzing this issue, "projects" vs. other potential financing structures were explored starting with the relevant portions of the current AIDEA statute. The conclusions based on review of the statutes (and interpretations of same) are consistent with the above summaries:

- ▶ AIDEA has the authority to do project financing but only if it takes an ownership interest.
- ▶ AIDEA can finance plant (facility) projects only but not plants, facilities or commercial activities by a business enterprise.
- ▶ AIDEA can finance a project with both debt and "cash".



- ▶ At this time AIDEA, as a Development Finance Project, cannot invest in a company even if it meets the definition of project.
- ▶ Additional work needs to be done to investigate the difference between tangible projects (infrastructure, ports) and intangible projects (corporations, intellectual property) to determine how best to use the development finance program.

If changes in statute and regulation were made, regarding these aspects of project development finance and ownership, then:

- ▶ AIDEA can spur economic development (and increase deal flow) by making a modest investment in:
  - Funding in development definition
  - Front end engineering design
  - Development of a project concept through to business plan
  - Through early financing AIDEA could assure that Alaska universities are conducting research with the potential to leverage near-term technology in Alaska.
  - A seed-fund for targeted support of technology-transfer oriented R&D at Alaska's higher-education institutions and then invest in businesses flowing out of that research.

Further implementation strategies related to the above opportunities will be explored during 2010 as part of the Implementation Plan along with potential statute/regulation changes to support improved and expanded Development Finance programs.

### 3 Expand the Deployment & Impact of AIDEA's Economic Development Financing

#### expand the deployment & impact of AIDEA's economic development financing

AIDEA's reputation as a major financier of economic development in the state is well established, but the Authority is perceived as a "passive" player. This perception is based on the reality that AIDEA has not been organized or oriented to promoting the availability of AIDEA's financing programs, nor has the Authority recruited projects to be financed in any organized fashion. To achieve AIDEA's mission and the strategic objectives, AIDEA will establish an outreach and deployment function to increase awareness of specific AIDEA financing capacities and to establish the Authority's role as "coordinator" or "arranger" of the whole range of state economic development financing tools.

AIDEA's deployment activities should be targeted to industry sectors, regions, project / asset types and even specific companies in some cases to ensure consistency with the state's and AIDEA's economic development strategies and goals.

While building consensus on statewide economic development goals and strategies is the responsibility of the state, AIDEA envisions its economic development agenda focused on initiatives that capitalize on the unique attributes of Alaska and that add value to existing industries and existing employment as well as future-oriented sectors and businesses.

Expanding programs and assuming a more active role in overall state economic development will require that AIDEA's efficiency and effectiveness be enhanced. Detailed analysis and concepts for resource, organization and process changes are provided in this section of the report.



### 3.1 1-3 Year Objectives – Expand AIDEA’s Economic Development Deployment & Impact

Determine short/intermediate term economic sector targets (in coordination with statewide planning efforts) and tailor AIDEA strategies and programs to those target sectors

Establish AIDEA strategies for the sector targets meeting economic development criteria:

- ▶ Consistent with strategic initiatives
- ▶ Future-oriented
- ▶ Based on reality / market-driven
- ▶ Meeting identified needs:
  - Rural
  - Industries / sectors
- ▶ Leveraging known projects / existing projects

Target AIDEA investments to major economic development “themes”:

- ▶ General
  - Strategic Location
  - Comparative Advantage
  - Import Substitution
  - Traded Sector
  - Value added
- ▶ Alaska-specific
  - Alternative energy, in-state energy
  - New rural technology
  - Arctic transport
  - Multi-purpose hubs



Develop capacity for outreach to all relevant private and public sector participants in Alaska economic development to increase awareness of AIDEA programs and capabilities

Establish systems for outreach, intake, analysis and sponsorship of target economic development financing alternatives

Recruit targeted projects into AIDEA's economic development finance "funnel" with the objective of increasing both the Development Finance and Commercial Finance portfolios significantly in three years

Establish AIDEA's role in the context of overall state economic development efforts.

- ▶ "Board member" input to overall state economic development strategy
- ▶ "CFO" – providing the state's resources for financial and business feasibility analysis
- ▶ Principal public "investment banker" for state economic development programs and projects
- ▶ Current and expanded AIDEA finance tools
- ▶ "One-stop" portal to all state economic development finance tools

Develop a single point of contact financing capability to support targeted private sector development and leverage state, federal and private capital by assembling multi-source project funding packages

- ▶ Major Project Sponsorship / Ownership
- ▶ Medium to major projects with public-private imperative
- ▶ Loan participation or guarantees
- ▶ Leverage other state programs and funding

Develop internal systems and processes for rapid and efficient "intake" and assignment of economic development financing opportunities

Re-engineer internal AIDEA organizational structure, systems, decision-making processes consistent with the mission and program objectives

Aggressively manage existing projects for maximum economic development benefit, while maintaining financial prudence

### 3.2 Target Sectors for AIDEA Investment Development

The following target sectors have been identified for potential project investment. It is anticipated that these sectors or clusters will form the basis of future economic development finance project.

<b>NATURAL RESOURCE EXTRACTION</b> Oil, gas, coal, methane Minerals	<b>LOGISTICS</b> Air, sea, land movement of goods, materials Transportation infrastructure
<b>ENERGY</b> Renewable Gas to liquids, etc. Transmission lines / pipelines	<b>COMMUNICATIONS</b> Intra-state & interstate Fiber optic, satellite Internet servers
<b>FISHERIES</b> Fishing fleet Fish processing, packing, etc. Aquaculture	<b>TOURISM</b> Cruises, traditional tourism Eco-tourism
<b>FEDERAL</b> Military BLM, Interior, Fish & Game Coast Guard, Homeland Security	<b>AEROSPACE</b> General aviation Space launch facilities
<b>HEALTH CARE</b> Alaskans in Alaska Rural healthcare facilities	<b>AGRICULTURE &amp; FORESTRY</b> Import substitution Value-added

### 3.3 Integration of AIDEA Programs & Activities with Overall State Economic Development Strategies

expand the deployment & impact of AIDEA's economic development financing

Multiple state agencies and authorities participate to some degree in economic development activities.

AIDEA's mission, statutory authorities and strategic direction promote the establishment of a more active and central role for the Authority in overall state economic development efforts. This strategic vision anticipates that AIDEA will be an active participant in the state economic development efforts.

Further, the strategy anticipates that AIDEA would serve as the central financial resource for the state's ongoing economic development activities, advising other state agencies on business and financial feasibility of initiatives, identifying barriers to implementation of financing and providing options to overcome those barriers.

AIDEA will be the principal architect for the state for financing statewide economic development efforts by implementing a "one-stop" process for financing economic development initiatives.

This process will include coordinating efforts by the state, boroughs and municipalities with regard to implementation and financing of statewide initiatives, pursuing public/private partnerships to achieve statewide initiatives, and working with the legislature to create new financing and funding mechanisms.

In this role, AIDEA will take the lead on project financing, management, and ownership when it is the most appropriate organization to do so, particularly on major projects where well-developed skills in project assessment, financing and management are essential.



## 3.4 Analysis & Proposals – AIDEA Outreach

### 3.4.1 Outreach Concept / Objectives

The Environmental Scan and the overall low level of loan and project activity in recent years both indicate that AIDEA’s “passive” approach to business development is not sufficient to ensure continued success in meeting economic development finance objectives for the state. A more active “outreach” program by AIDEA aimed at significantly increasing the volume of loan and project prospects and at translating those prospects efficiently into loans and development projects will be taken. In summary, the AIDEA outreach concept includes the following elements:

- ▶ Add a “Business Development” function at AIDEA dedicated to developing and implementing a broad-based outreach program to both the public and private sectors.
- ▶ Develop outreach initiatives and targets based on the sectors and regions identified in the SWOT, environmental scan and state economic development strategies
- ▶ Add a “Single-Point-of-Contact” or “One-Stop-Shopping” function at AIDEA dedicated to managing new processes for intake, evaluation and disposition of economic development finance prospects and opportunities.
- ▶ Establish business and technical advisory committees to leverage AIDEA’s internal resources in outreach, evaluation and implementation of the expanded AIDEA programs.

### 3.4.2 Outreach Resources & Organization

To assist in identifying new economic development opportunities AIDEA will add three, primarily outward-looking, resources to assist in filling the business development “funnel”:

- ▶ AIDEA Business Development Officer
- ▶ AIDEA Business Advisory Committee
- ▶ AIDEA Technical Advisory Committee

These resources would manage and implement the outreach initiatives aimed at raising AIDEA’s profile in both public and private sector economic development circles and at seeking specific economic development opportunities.

Additionally, the Team recommends adding one, primarily internally-oriented resource:

▶ **AIDEA Economic Development Officer**

This position would be responsible for designing and implementing the “one-stop” center for economic development finance. This function would, although directed mostly at making AIDEA more efficient and effective, also serve as a resource for all of the state’s economic development functions. This latter function would be accomplished by being very knowledgeable about all economic development finance mechanisms (whether AIDEA or not) and having the appropriate contact to “triage” opportunities and outsource those opportunities that, for whatever reason, don’t fit AIDEA’s programs.

The best practices review indicates that there is value in having an intake mechanism for the private sector that is quick and efficient and who can take a more proactive approach to dealing with inquiries. Most business people do not have the patience and/or time to figure out how to sort through the myriad agencies and programs to determine which mechanisms are appropriate for their need.

### 3.4.3 Outreach Initiatives

In order to accomplish the goal to “fill the funnel”, a number of outreach initiatives are being considered, to be finalized by the new resources during 2010. It is expected that the Business Advisory and Technical Advisory committees would be active “multipliers” in these efforts. Future outreach initiatives include:

- ▶ **Annual Economic Development Finance “Summit”**
- ▶ **R&D “seed” programs**
- ▶ **RFP/RFI’s for potential projects**
- ▶ **Industry sector-specific financing “workshops”**

These initiatives, of course, would be supplementary to a well-designed and implemented “traditional” marketing program aimed at specific industry sectors, related parties and potential partners.

### 3.4.4 Outreach Targets

Based on the Environmental Scan and the Best Practices Review, initial target categories for the outreach effort have been compiled, including:

#### Public Sector

- ▶ State agencies involved in economic development
- ▶ Federal agencies involved in economic & community development
- ▶ Federal agencies with major operations in Alaska
- ▶ Boroughs and local governments
- ▶ ARDORS
- ▶ Universities, colleges

#### Private Sector

- ▶ Target industry sectors (see Preliminary Sectors section above)
- ▶ ANCSA corporations
- ▶ Commercial banks
- ▶ Investment banks
- ▶ Institutional investors
  - Pension funds
  - Endowments
  - Insurers
- ▶ Business professionals
  - Legal
  - Real estate
  - Engineering & design
  - Construction
  - Accounting & tax consulting
- ▶ Labor unions

Specific targets and communications strategies will be developed by the Team during 2010.



## expand the deployment & impact of AIDEA's economic development financing

### 3.5 Analysis & Proposals – AIDEA Structure & Processes

AIDEA's structure, staffing, processes and systems were reviewed and several areas for potential improvement were identified. In summary, the key elements of these proposed improvements involve:

- ▶ Intake, analysis, approval processes and structure
- ▶ Metrics & performance measures
- ▶ Asset Management

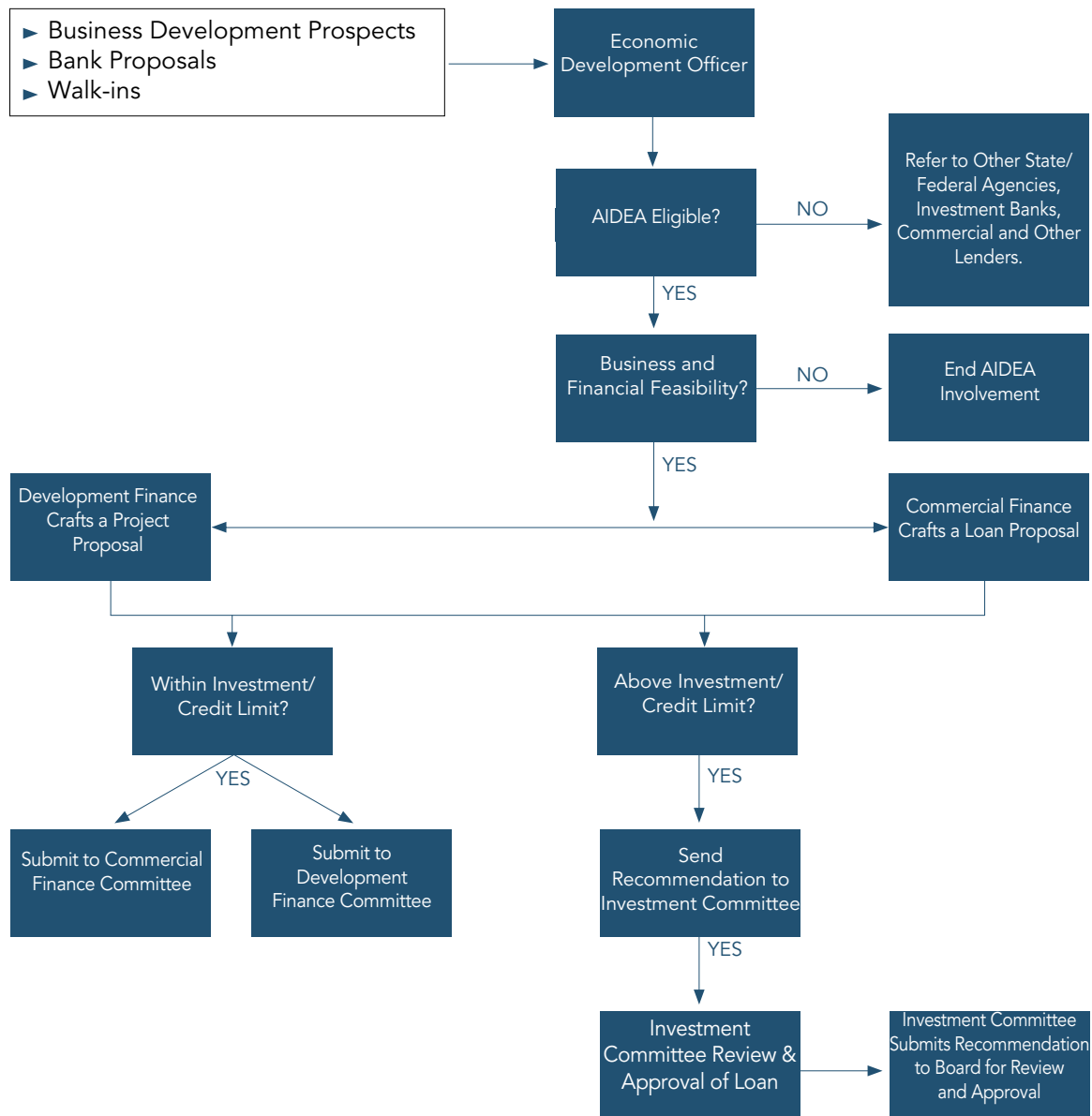
#### 3.5.1 Intake, Analysis & Approval Processes & Structure

Based on the review of best practices and on feedback received through the AIDEA environmental scan, the Strategic Plan Team derived the concept of a "One-Stop-Shop" or single-point-of-contact resource and process to improve handling of economic development financing opportunities. This concept would involve both the addition of a dedicated resource for this purpose and the modification of AIDEA's internal procedures to take advantage of this resource. The previous section of this report detailed the "outreach" components of the one-stop-shop concept. This section deals specifically with the internal role for that resource.

Central to this concept is that addition of an Economic Development Officer charged with being fully informed about AIDEA's programs, processes and criteria for involvement and with being the single point of contact for intake and review of potential economic development financing prospects.

Once the resource is in place, AIDEA's processes would be re-engineered to include the following steps (with parallel tracks for "projects" and "loans"):





Embedded in the process diagram above are a number of meaningful changes intended to improve AIDEA efficiency and effectiveness:

- ▶ Centralized intake analysis for AIDEA eligibility / program fit, with formal process for both approval and pass-on to relevant AIDEA division OR for “out-placing” to the opportunity to potential 3rd party assistance.
- ▶ A formal, coordinated process for AIDEA review of business and financial feasibility of the project/loan – prior to full credit or investment due diligence and review.
- ▶ Assignment of credit/investment limits to the Commercial Finance and Development Finance divisions, similar to the concept of “officer limits” at banks. If a project or loan meets the appropriate criteria (AIDEA-eligible, business and financial feasibility), and is under the delegated investment/lending limit, the commitment could be made without Investment Committee or Board involvement or approval.

In addition to the process changes noted above, this Strategic Plan also proposes to change the structure and membership of the “credit” committee, and to have parallel, but different membership for either a commercial loan credit approval and for a development project investment approval. The Investment Committee, as envisioned in this proposal, would be structured as follows:

DEVELOPMENT PROJECT INVESTMENT COMMITTEE	COMMERCIAL LOAN INVESTMENT COMMITTEE
EXECUTIVE DIRECTOR	EXECUTIVE DIRECTOR
DD – COMMERCIAL FINANCE	DD – DEVELOPMENT FINANCE
DD- FINANCE	DD- FINANCE
BOARD DESIGNEE	BOARD DESIGNEE
COMMUNITY DESIGNEE – POOLED	COMMUNITY DESIGNEE – POOLED

Although there is some benefit to the proposed Board and “Community” participation, there are some logistical and potentially legal challenges to implementing that part of the proposal which will have to be addressed as part of an implementation plan.

Exact changes to structure, resources and processes will be explored in more detail during 2010 and approved and implemented through appropriate procedures.

### 3.5.2 Metrics and Performance Measures

In order to track AIDEA’s progress versus mission, goals and strategic initiatives, metrics and performance measures relevant to economic development should be established. Based on the Best Practices review, a preliminary set of metrics were developed. It should be noted, that for at least 2010, these metrics, when fully developed, will be supplementary to performance measures integrated in the State’s budget processes. Part of the Strategic Plan implementation process during the 10-11 fiscal years will be to finalize and plan for implementation of any additional metrics adopted by AIDEA.



TYPE	BENCHMARK / METRIC
ED	TOTAL PRIVATE INVESTMENT (EQUITY) FACILITATED BY AIDEA PARTICIPATION
ED	NUMBER OF JOBS CREATED / RETAINED
ED	AVERAGE HOURLY WAGE OF JOBS CREATED / RETAINED
ED	% OF TOTAL JOBS CREATED / RETAINED – "LIVING WAGE"
ED	% OF JOBS CREATED FILLED BY CURRENT AK RESIDENTS
ED	NUMBER OF JOBS CREATED / RETAINED IN RURAL AREAS
ED	AIDEA INVESTMENT BY INDUSTRY SECTOR (TARGETS)
ED	AIDEA INVESTMENT BY GEOGRAPHIC REGION (TARGETS)
ED	JOBS CREATED AS % OF TOTAL JOBS IN BOROUGH OR CENSUS AREA (CONSTRUCTION & ONGOING)
ED	% & AMOUNT OF CONSTRUCTION SPENDING IN-STATE (I.E. PURCHASE FROM AK BUSINESS) WAGES PAID TO AK RESIDENTS
ED	LOAN PARTNERS BY ALASKA REGION (TARGETED PARTNERS)
ED	INCREASE IN STATE, LOCAL TAX REVENUES / BASE
F	TOTAL FUNDS (DEBT) FROM OTHER LENDERS
F	TOTAL FUNDS FROM OTHER PARTIES
F	TOTAL AMOUNT OF AIDEA FUNDS INVESTED
F	LEVERAGE RATIO FOR AIDEA FUNDS (TOTAL INVESTMENT / AIDEA FUNDS)
F	NET RATE OF RETURN TO AIDEA
F	CREDIT RATING ON EXISTING DEBT
F	BALANCE SHEET CAPACITY / WEIGHTED RISK PROFILE
F	RATE OF RETURN ON AIDEA FUNDS
F	DEBT CAPACITY AT PLANNING LIMITS (COVENANT PLUS MARGINS)
F	COVERAGE RATIO (BOND COVENANT TEST)
F	PAR DEBT OUTSTANDING
F	TOTAL INVESTMENT (EQUITY & DEBT) CREATED THROUGH AIDEA PARTICIPATION
P	NUMBER OF LOANS / GUARANTEES BY PROGRAM
P	NUMBER OF PROJECTS BY SIZE OF INVESTMENT (HISTOGRAM)
P	LIQUIDITY CAPACITY AND % OF CAPACITY USED
P	# OF DECLINES (OR DECLINES AS % OF TOTAL APPLICATIONS)
P	# OF PREFLIGHTS
P	# / % OF PREFLIGHTS THAT BECAME LOANS
P	MOST PROFITABLE TO LEAST PROFITABLE LOANS (SIMPLE AGING)
P	OVERALL AIDEA % OF LOANS TO MAX ALLOWED
P	NEW DEVELOPMENT FINANCE PROJECTS PER YEAR
P	AVERAGE ANNUAL LOANS (AND/OR \$) PER AIDEA FTE

ED = ECONOMIC DEVELOPMENT, F = FINANCIAL, P = PERFORMANCE (EFFICIENCY & EFFECTIVENESS).

The table summarizes a potential starting point for these metrics, that can apply to both Commercial Finance and Development Finance.

expand the deployment & impact of AIDEA's economic development financing

### 3.5.3 Enhanced Asset Management

As AIDEA reviews its role, assets and challenges, the fixed asset portion of the balance sheet is also being evaluated.

AIDEA has considerable investment in assets through the Development Finance program, and continues to own and operate major facilities in diverse regions of the state.

- DeLong Mt. Transportation System
- FedEx Maintenance Facility
- Snettisham Hydroelectric Project
- Ketchikan Shipyard
- Skagway Ore Terminal
- Healy Clean Coal Project

In order to ensure AIDEA's financial stability, and to promote the achievement of AIDEA's economic development objectives, the policies, structure and procedures for maintaining and optimizing value from those assets should be updated.

During FY09-10, AIDEA's project development management team will be reviewing and developing policies and procedures to:

- ▶ **Manage owned assets to optimize current revenue and/or long-term return to AIDEA**
- ▶ **Assess potential for expansion of or addition to existing assets:**
  - Evaluate new and expanded markets for private "partners" / tenants
  - Increased private investment in complementary Facilities
  - Improved economic development opportunities through re-purposing facilities

In addition to consideration of and planning for enhanced operation of owned-assets, AIDEA is, and will continue to, exploring alternative approaches, including selling portions of assets to partners and re-deployment of funds through sale of assets.



## Alaska Economy SWOT (Strengths-Weaknesses-Opportunities-Threats)

### alaska economy analysis

In order to provide a context for the development of the AIDEA Strategic Plan, a “Strengths–Weaknesses–Opportunities –Threats” (“SWOT”) analysis was conducted both for the Alaskan economy and for AIDEA itself. Although the purview of the Plan is limited to AIDEA’s role in economic development finance, an understanding of how Alaska fits in the national and world economy, as well as how outside economic trends will affect Alaska, is necessary background for an understanding of AIDEA’s role going forward.

The table below provides a graphical summary of the SWOT for the Alaska economy.

STRENGTHS	WEAKNESSES
Oil reserves	Geographic isolation
Minerals resources	Small market size
Natural gas reserves	Limited economic diversity
Natural attractions	Concentrated / out-of-state economic power
Marine resources	Limited rural infrastructure
Strategic location (Asia, NW passage)	Limited rural eco/devo opportunity
Marine facilities	Lack of early stage capital
Air transport facilities	Inelastic state revenue structure
Public ownership of natural resources	Seasonality of employment
Alaska Permanent Fund	Severe weather
Constitutional Budget Reserve	High labor force turnover
ANCSA Corporations	High cost environment
No statewide personal taxes	
OPPORTUNITIES	THREATS
Global climate change - Arctic transport	Locked-up credit markets
Natural gas, liquid coal demand expansion	Low & volatile minerals, gas, oil prices
New mineral tech (viscous oil, etc.)	Global economic slowdown
Import substitution	Overall loss of Federal govt. clout
Alaska "brand" development	Federal military spending priorities
Federal economic stimulus packages	Global climate change - enviro restrictions
Value-added in resource industries	Global climate change - lost tourism
Retirement demographics	Declining oil reserves / capacity
Global Warming, Food, Fiber, Tourism	Threats to SBA 8a ANC contracting



- ▶ While the Alaska economy continues to out-perform the U.S. overall, the global recession in all sectors does present potential risks for Alaska. The last year has seen 25-35% reductions in wealth, trade, industrial production, as well as very high volatility in commodities prices, including the key Alaska sectors of oil and minerals.
- ▶ It is too early to determine whether these global factors will result in secular (long term) restructuring of certain sectors and markets or will have only short-term effects, and to what degree those effects will influence the Alaska economy. So far in this recession, credit market conditions and access to capital in Alaska remain considerably more favorable than in the rest of the country.

In evaluating potential strengths and weaknesses of Alaska’s key economic sectors, projected short, medium and long term trends may provide some guidance for future strategies. The table below postulates some of those potential trends.

Sector	Short	Medium	Long
Oil	Reduced revenues due to low prices	Slow growth in prices Potential major growth with gas pipeline	Oil reserves decline Gas potential growth Environmental pressure
Federal - civilian	Potential losses mitigated by stimulus	Gradual reduction due to lost influence	Potential effects of responses to global climate change
Federal - military	Stabilizing effect on economy	Potential reductions due to overall budget pressure	Future mission changes?
Minerals	Reduced economic activity due to low prices	Slow growth as prices rise	Potential growth due to technology, transport
Fisheries	Reduced prices and revenues	Moderate increases	Potential effects of global climate change
Transport	Substantial reductions due to global economy	Slow growth	Potential major activity with Arctic marine transport
Tourism	Slow due to global economy	Slow growth	Potential effects of global climate change
Commercial	State factors better than national	Reactive to driving sectors	Reactive to driving sectors

alaska economy analysis

- ▶ The “1/3 Oil, 1/3 Federal, 1/3 Other (mostly resource-based)” structure of the Alaska economy provides both positive and negative potential for future growth. Because both oil production and federal programs tend to remain fairly stable, they can be a continuing foundation for the Alaska economy.
- ▶ Continued high projected levels of construction, for example, indicate that the oil and federal sectors are providing that foundation despite the global recession. The table below of projected 2009 construction expenditures demonstrates the foundational role oil and gas and federal construction have in the Alaska economy.

	Employment		Personal Income		Direct \$ Inflows	
	000	%	Billion	%	Billion	%
Seafood	37.71	10.4%	\$ 1.481	6.1%	\$ 0.746	5.2%
Mining	12.06	3.3%	0.799	3.3%	0.402	2.8%
Timber	5.90	1.6%	0.315	1.3%	0.159	1.1%
Agriculture	0.45	0.1%	0.028	0.1%	0.014	0.1%
<b>Traditional Resources</b>	<b>56.12</b>	<b>15.5%</b>	<b>\$ 2.623</b>	<b>10.8%</b>	<b>\$ 1.321</b>	<b>9.2%</b>
Tourism	40.22	11.1%	\$ 1.894	7.8%	\$ 0.955	6.7%
Air Cargo	7.38	2.0%	0.415	1.7%	0.209	1.5%
Other manu. & services	0.32	0.1%	0.016	0.1%	0.008	0.1%
<b>New Resources</b>	<b>47.92</b>	<b>13.3%</b>	<b>\$ 2.325</b>	<b>9.6%</b>	<b>\$ 1.172</b>	<b>8.2%</b>
Non-Defense Federal	67.01	18.5%	\$ 5.576	23.0%	\$ 3.739	26.1%
National Defense Federal	64.35	17.8%	4.160	17.1%	2.096	14.6%
<b>Federal</b>	<b>131.36</b>	<b>36.4%</b>	<b>\$ 9.736</b>	<b>40.1%</b>	<b>\$ 5.835</b>	<b>40.7%</b>
Production	51.78	14.3%	\$ 3.596	14.8%	\$ 1.812	12.6%
State/Local Revenues	50.16	13.9%	2.538	10.5%	1.279	8.9%
APF and CBR	5.87	1.6%	0.788	3.2%	0.661	4.6%
<b>Petroleum</b>	<b>107.81</b>	<b>29.8%</b>	<b>\$ 6.922</b>	<b>28.5%</b>	<b>\$ 3.752</b>	<b>26.1%</b>
Retirees	14.53	4.0%	\$ 2.147	8.8%	\$ 1.832	12.8%
Non-earned income	3.63	1.0%	0.516	2.1%	0.439	3.1%
<b>Personal Assets</b>	<b>18.16</b>	<b>5.0%</b>	<b>\$ 2.663</b>	<b>11.0%</b>	<b>\$ 2.271</b>	<b>15.8%</b>
<b>TOTAL</b>	<b>361.37</b>	<b>100.0%</b>	<b>\$ 24.269</b>	<b>100.0%</b>	<b>\$ 14.351</b>	<b>100.0%</b>

Structural Analysis of the Alaska Economy, What are the Drivers? Scott Goldsmith/ISER 10/08





- ▶ Volatility of oil prices, rapidly declining oil production and declining Congressional influence could, however, undermine the future support of that foundation. Commodities price volatility also make the other resource-based segments of the Alaska economy less certain.
- ▶ The economic & fiscal effects of economic development in Alaska are somewhat unique:
- ▶ External control and/or ownership of much of the economic base mean that a high proportion of “profits” from resource-based industries are “repatriated” out of Alaska.
- ▶ Due to the tax structure, state capture of the benefits of economic development of non-petroleum resources is limited.
- ▶ Alaska state revenue structure is not responsive to economic growth & yet is volatile due to oil prices
- ▶ Regional and urban/rural differences are exacerbated in Alaska. Because of the distances, topography and climate, the geography of the Alaska economy is challenging. Layered on top of the geographic challenges is the relatively recent introduction of a functioning cash economy to many of the more remote parts of the state. The multiple major differences among Alaska regions result in an even greater challenge to economic development than the “normal” urban/rural and state regional differences present in most Lower 48 states.

	2009 \$Millions	% of total	% change	2008 \$Millions
<b>Oil and Gas</b>	<b>3,014</b>	<b>43%</b>	<b>-6%</b>	<b>3,195</b>
Utilities	392	6%	-31%	514
Mining	265	4%	-25%	331
Residential	263	4%	-27%	334
Other Commercial	220	3%	-30%	286
Hospitals	141	2%	41%	83
Other Rural Basic Industry	55	1%	-15%	63
<b>Subtotal - Private w/o Oil &amp; Gas</b>	<b>1,336</b>	<b>19%</b>	<b>-24%</b>	<b>1,657</b>
<b>Total Private</b>	<b>4,350</b>	<b>62%</b>	<b>-12%</b>	<b>4,872</b>
Highways	663	9%	60%	265
National Defense	501	7%	1%	496
Airports & Ports	400	6%	7%	372
Other State and Local	399	6%	19%	323
Other Federal	324	5%	8%	298
Education	280	4%	0%	280
Denali Commission	90	1%	0%	90
Alaska Railroad	65	1%	0%	65
<b>Total Public</b>	<b>2,722</b>	<b>38%</b>	<b>16%</b>	<b>2,286</b>
<b>Grand Total</b>	<b>7,072</b>	<b>100%</b>	<b>-3%</b>	<b>7,284</b>

Alaska’s Construction Spending 2009 Forecast, Scott Goldsmith & Marry Killorin / ISER

## alaska economy analysis

The tables below demonstrate the seasonal nature of certain key Alaska rural industries and the relatively high level of non-resident employment in the Alaska private sector.

	Employment 000			Ratio
	July	January	Swing	(July/Jan)
Timber Harvest	0.5	0.2	0.3	2.50
Fish Harvesting	20.2	7.3	12.9	2.77
Fish Processing	18.2	7.3	10.9	2.49
Tourism-related	42	25.5	16.5	1.65
Construction	21.4	14.5	6.9	1.48
Mining	12.5	11	1.5	1.14
<b>Private</b>	<b>283</b>	<b>220.8</b>	<b>62.2</b>	<b>1.28</b>
<b>Total</b>	<b>349.2</b>	<b>299.8</b>	<b>49.4</b>	<b>1.16</b>

Structural Analysis of the Alaska Economy: What are the Drivers, Scott Goldsmith / ISER 10/08

Industry	Non-Resident Share of Workers
Fish Processing	73%
Fish Harvesting	39%
Logging & Wood Products	38%
Accommodation & Food Service	29%
Oil & Gas	25%
Mining	25%
<b>All Private</b>	<b>22%</b>

Structural Analysis of the Alaska Economy: What are the Drivers, Scott Goldsmith / ISER 10/08



## AIDEA SWOT

### AIDEA environmental scan, results and analysis

Highlights of the SWOT for AIDEA itself include:

- ▶ AIDEA’s financial reserves and access to capital provide considerable capacity to support economic development financing for the state.
- ▶ AIDEA’s institutional capacity (finance, project development, commercial lending) also provide potential for an expanded role, particularly in an environment where alternative funding / financing sources are under stress from the global financial markets upheaval.
- ▶ AIDEA’s relatively limited statutory scope prevents (or hampers) participation in certain types of economic development finance activities pursued by similar agencies in other states.
- ▶ The lack of an overall strategic plan for Alaska economic development, and AIDEA’s relatively passive stance in recent years, along with potential overall state budget constraints are barriers to expanded AIDEA participation in major projects.

STRENGTHS	WEAKNESSES
Financial reserves	Unclear State goals for eco/devo
Access to capital / strong bond ratings	Project analysis systems
Institutional capacity - projects	Lack of tools for rural development
Institutional capacity - lending	Lack of coordination with agencies
Financial management capacity	Non-market restrictions on lending
Quasi-independence	Limited grant-giving capacity
Long operational history	Reactive lender / developer
Ability to partner with public/private	Lack of public awareness
Institutional capacity - feasibility analysis	Perceived project problems: HCCP etc
Engaged stakeholders	Management / executive turnover
OPPORTUNITIES	THREATS
Potential new projects	Locked-up credit markets
Perceived need for greater AIDEA role	Legislative dividend expectations
Need: early stage funding	Global economic slowdown
Need: rural eco/devo financing	Politically driven projects
Need: project financing	Overall State budget stress
ADEPT planning process	Perceived inaction / irrelevance
Commercial & investment bank turmoil	

## Environmental Scan Introduction

The Alaska Industrial and Export Authority (AIDEA) contracted with Western Financial Group (WFG), based in Portland, Oregon, to assist the Authority (a public corporation) with a strategic planning effort.

Several groups contributed responses to surveys, including the following:

- ▶ A general workshop, open to the public, was held at the BP Energy Center. The audience separated into four groups and contributed answers and suggestions as noted in the first set of responses following this synthesis.
- ▶ AIDEA's Board of Directors provided answers through an interview process managed by Northern Economics, based in Anchorage. This is the second group of comments attached to this document.
- ▶ AIDEA's staff contributed a series of answers and comments to the workshop; these are the third group of comments attached to this introduction.
- ▶ Finally, commercial lenders provided answers to the same questions presented to the prior groups. Their input comprises the fourth set of comments attached to this document.



## AIDEA environmental scan, results and analysis

### Environmental Scan Introduction

Highlights of the SWOT for AIDEA itself include:

#### **Mission**

From AIDEA's 2008 Financial Statements:

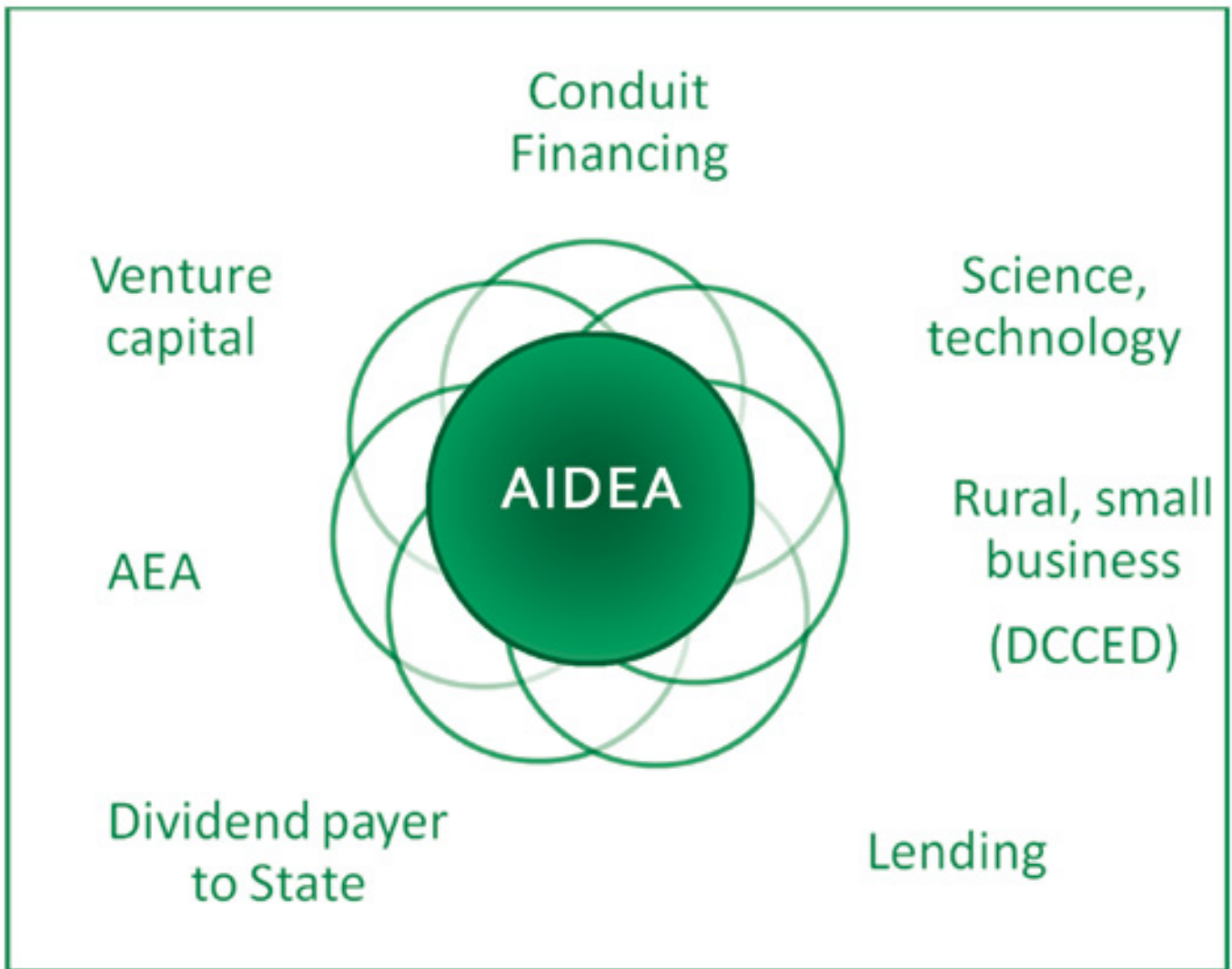
*AIDEA's mission is to promote, develop, and advance the general prosperity of the people of Alaska, to relieve problems of unemployment and to create additional employment by providing various means of financing and facilitating the financing of industrial, manufacturing, export and business enterprises, and other facilities within the State.*

#### **History**

AIDEA evolved from its 1967 enabling legislation into a \$1.165 billion (assets) public corporation as of June 30, 2008. It has a number of roles and there is some confusion about them, as stated in the attached workshop and interview summaries.

Figure 1 illustrates some of the actual and perceived roles that AIDEA may assume, depending on the project, the audience, or the expectation of a potential developer (or borrower). As shown, AIDEA's roles encompass a wide swath of perception and expectation, from creating jobs, lending funds, and paying a dividend to the State of Alaska. The roles shown are not always real, but they exist in the eyes of certain citizens; there are others, as well, that are not shown in an effort to simplify the display. The diagram illustrates AIDEA's difficulty in determining what its strategies should be as the organization is pulled, pushed or tugged in any one of several directions.

Figure 1. Current and Potential Roles, Alaska Industrial Development and Export Authority.



Source: Northern Economics Inc.

## AIDEA environmental scan, results and analysis

### Public Workshop

**The following sections summarize comments from the four groups, in the same order as the attached comments.**

Those attending the public workshop emphasized jobs: retention, creation, and diversification (by industry and geography). Other suggestions were as varied as the participants, with opinions that ranged all across Alaska's diverse population.

Attendees generally acknowledged the need for AIDEA and its programs, though many who attended did not fully understand what the Authority can (and cannot) do.

AIDEA operates in a political environment and most understood how this could affect the Authority's operations, from tax-exempt status to required dividend payments to the state and from pure equity investment (venture capital) to commercial-bank type operations.

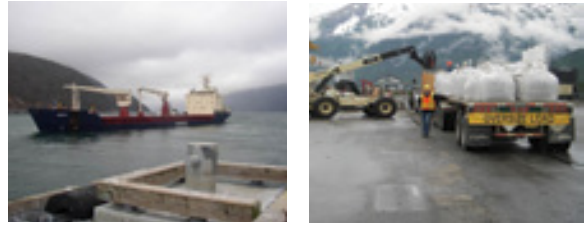
Suggested financing opportunities also ranged from small business to very large, capital-intensive projects. Attendees suggested a wide array of possible investments, from new infrastructure to rural village businesses, and from collaboration with private firms to full grant programs.

Finally, attendees were asked to submit candidates for current federal stimulus funding and over 20 suggestions came forward, for both short-term and long-term development (investment).

### Board of Directors

Directors offered many of the same thoughts as those at the public workshop. AIDEA's role in economic growth means jobs and diversification for all Alaskans. Several noted the difficulties in job growth and retention in rural areas with declining village populations and limited markets.





AIDEA's potential role in shaping Alaska's economy ran the full gamut of options, from no big projects to shedding its current (perceived) passive investment approach.

When asked who was responsible for setting statewide economic policy, answers again reflected a wide diversity of opinion, from the governor to private businesses.

Directors expressed interest in learning more about new or different economic development strategies, especially those that succeeded in other states.

Resource development and energy projects generally led the Directors' list of potential projects.

## AIDEA Staff

AIDEA's staff provided more detailed and lengthy answers to strategic questions. Energy and resource development dominated the list of most-mentioned industry segments while others included health care and retail opportunities, along with increased tourism.

Two groups seemed to emerge during the staff workshop. One group reflected the lending (or credit) nature of AIDEA's investment programs. Bond ratings and reputation within the credit market were concerns of this group.

The second group was more risk tolerant and likely reflects AIDEA's large project experience, both with those projects considered successful and those that were less so. This group suggested more investment in infrastructure and resource development, with minerals and the energy sectors most often mentioned.

The daily operations of a public Authority such as AIDEA can generate strong "pulls" from the private (banking and credit) sector as well as the government (pay an annual dividend) sector. Staff expressed their opinions on these stresses and offered suggestions on reducing or resolving issues raised by these seemingly opposing forces. Staff who identified these concerns generally suggested education and awareness as the preferred solution, offering these as solutions to Directors, managers, and especially the Authority's borrowers and developers.

## Lenders

Bankers offered candid opinions on the state's economy and how AIDEA can assist with its development. Resource development in oil, mining, and fishing led bankers' candidates as most likely to expand in the future.

Infrastructure development for resource development seemed to be a good "fit" with AIDEA's mission, according to commercial bankers.

Economic development fit better with the private sector, not government, in the minds of those interviewed. A common theme mentioned by interviewees was globalization, with markets and development driven more and more by out-of-state forces.

One of those interviewed suggest that job growth, while a worthy endeavor, was more of a head count than a true measure of economic development. Job growth numbers tended to ignore wages, skills, or contribution to state gross domestic product.

In summary:

- ▶ AIDEA is perceived as competent and is a respected participant in the Alaska economy, although there remain significant, particularly private sector, economic actors that are unaware of AIDEA's mission, role and programs.
- ▶ AIDEA is viewed by certain economic development parties as reactive or passive, and by some as subject to potential political interference, or not sufficiently coordinated with other state agencies.
- ▶ Ideas about AIDEA's future role in the state's economic development activities were, for the most part, consistent with AIDEA's current program priorities – project financing and commercial lending support. Some respondents promoted the notion of a more active role for AIDEA in overall state economic development leadership.
- ▶ When asked about AIDEA's programs, there was a consensus from scan participants that AIDEA should take a more active approach to project development – particularly in developing infrastructure supporting minerals, gas, fisheries and other marine activities. There was also interest in expanding AIDEA's role as a lender alongside the banks, and potentially in providing capital for early stage companies.
- ▶ Multiple responders also favored an approach with AIDEA developing new programs for rural economic development.



## best practices review - economic development programs

### Summary of Best Practices Review

While many different structural approaches, some common elements of successful economic development strategies include:

- ▶ Large stakeholder organizations, engaging key players from both the public and private sector
- ▶ Organized, long-term strategic planning efforts
- ▶ Designated lead agencies with both authority and responsibility for meeting economic development objectives

A number of common strategic approaches also dominate, including:

- ▶ Identification of key "traded-sector" (exporting) industry sectors and formation of "clusters" aimed at fostering growth in each individual sector.
- ▶ Development of, and management to, "theme" based vision, mission, goals & strategies, often through selection of target industries or categories of industries, for example "sustainable" or "creative". In some cases, these strategies also involve initiatives to "brand" a state or region's products in order to improve
- ▶ Finally, some of the most successful strategies have developed sophisticated metrics to measure the effectiveness of strategy elements and to provide goals and targets for the overall economic development effort. These measurement systems often include environmental, social, cultural and other benchmarks as well as the traditional measures of investment, jobs and income.

Similarly, the most successful economic development programs draw from a comprehensive toolbox of economic development financing tools, with particular emphasis on:

- ▶ **Grants, tax abatements, tax credits / rebates**
- ▶ **Infrastructure financing**
- ▶ **Loan guarantees / participation**
- ▶ **Special condition lending / credit support**
- ▶ **Public/Private partnerships**
- ▶ **Venture capital & seed equity funds**

While it should be emphasized that no state exemplifies all of the best practices in structure, strategy and financing, many states are working toward adopting best practices in all of these areas.

AIDEA's strategic plan team has evaluated the best practices overall with the intent of adopting only those elements most applicable to AIDEA's mission and roles and to the Alaska economic development environment.



best practices review -  
economic development  
programs

## Main Themes from Best Practices Review Approaches to Organizing for Economic Development

Different areas organize in different ways depending on the thrust of their goals for economic development.

### Big, stakeholder organizations

Example: Puget Sound Regional Council, Four County Prosperity Partnership

- ▶ These organizations start without an organizational framework (they are not an existing organization but are normally created by some level of government).
- ▶ With these types of efforts, a great deal of energy is spent getting participation and buy-in from a broad coalition of "stakeholders."
- ▶ The focus of the collective effort tends to be on broad ideas of vision, goals, and strategies.
- ▶ Normally such efforts are designed to use existing state, local government & special purpose organizations as the implementing agents.

### Special purpose organizations

Example: Northern New Mexico Regional Development Corporation Greater Phoenix Economic Council

- ▶ These are organizations which often emerge from unique circumstances/situations within a community or area. They have a narrower focus than the big stakeholder approaches and broad state-wide or regional efforts. The Northern New Mexico RDC is focused on technology transfer from the Los Alamos National Laboratory to the growth of small businesses within the area.
- ▶ They coordinate/communicate with specific stakeholders whose interests fit within specific economic development goals.
- ▶ If they have implementing tools (funding), they tend to target specific activities. (Northern NM RDC)
- ▶ If they don't have dedicated funding, they tend to focus on marketing, technical assistance and reactive strategies (Greater Phoenix Economic Council)

### Designated “lead” agency – usually a state

Example: State of Oregon Business Plan, Kentucky Cabinet for Economic Development

- ▶ States typically have an overall thrust for state-wide economic development. Often such efforts use a big stakeholder approach to pull a broad coalition of stakeholders into a process of defining state-wide vision, goals and strategies.
- ▶ Alternative approaches at the state level focus on coordinating the efforts of other agencies and organizations without necessarily setting a state-wide vision or goals.
- ▶ The state’s economic development work is housed within a designated “lead agency” to at least implement the process and sometimes to actually be the program implementation agency.
- ▶ Implementation approaches depend on the source and level of funding

### Narrow or Single Purpose Organizations

Example: Silver City, New Mexico, Main Street Historic Preservation Project

- ▶ These are organizations that have very narrowly focused economic development goals.
- ▶ With Silver City, the focus for economic development is tourism and the strategy is designed around the City’s history and the re-creation of the imagery and character of the old historic city. In this case, the focus for implementation is on design controls and theme continuity

## Common “Tools” of Economic Development

### Industry Clusters

A very common tool used for regional and state-wide economic development planning is to target goals and strategies around industry or economic clusters. This becomes a convenient and identifiable way to create industry/economic groupings for the purpose of setting goals, strategies and programs and providing marketing, support services, synergy, and channeling governmental priorities

### “Theme” based vision, mission, goals, and strategies

These are tools used to try to carve out a market “niche.”

- ▶ “Green” industries
- ▶ “Solar” industries
- ▶ “Sustainable” industries
- ▶ “Historic Preservation”
- ▶ “New Economy”



## best practices review - economic development programs

### Benchmarks, measurements of success

If implementation is a weakness of many economic development efforts, monitoring the success of such efforts is even weaker. Long term strategies and implementation programs need to be monitored to understand how and which strategies and programs are successful and what impact the overall effort has toward meeting goals. The State of Oregon has had a benchmarking program for over 20 years with 91 specific factors to be measured annually. The New Economy Index uses a specific set of measurements to determine the movement of states from an Old Economy to a New Economy.

### Funding the process; funding implementation

There are two types of funding important to successful economic development efforts. One is the funding of the process of preparing and maintaining economic development strategies and plans; the second is funding the plan's implementation measures. Funding implementation is the more critical to the ultimate success of the programs and is one of the reasons that many programs struggle to succeed.

Often funding the process and its implementation are done through the general funds of government. Such efforts generally find it difficult to sustain effective long term strategies when the funding is subject to annual renewals and political priorities.

Some organizations rely heavily on volunteer contributions from "members" or stakeholders. Again, such sources of funding are dependent on the sustained willingness of volunteer contributions so as with governmental general funding, undertaking long term strategies is often difficult.

Dedicated funding from a tax source, bonding capacity, or other earmarked funding is critical to developing and implementing long term strategies. The most successful programs are wrapped around such sources of funding.



## Most Potentially Relevant Economic Development Program

With regard to programs that are most relevant to AIDEA, given AIDEA's mission as an implementing authority within the State of Alaska, the focus was more on how programs implement strategies rather than on how they develop and reach agreement on strategies. Of those programs researched the following seem to have the greatest potential to offer alternative implementing approaches within AIDEA's strategic plan.

- ▶ Kentucky Cabinet for Economic Development
- ▶ Kentucky Economic Development Finance Authority
- ▶ Kentucky Strategic Plan for Economic Development

Kentucky's is a "lead agency" approach to economic development where the state used its own agency to take the lead for the state's economic development efforts. This is one of the more complex yet complete organizational structures found from those that were investigated in this Best Practices assessment.

The state's program has a heavy emphasis on implementation and it is clear that the state legislature has provided a broad range of authorities from which the agency has developed a variety of targeted funding and assistance programs to achieve its economic development goals.

The agency has a strategic plan with 4 broad goals, each with a series of objectives. The connection from the strategic plan to the agency's organization and its specific programs is not clear from the material obtained. It is presumed that the plan provides targets that the various divisions, departments and other parts of the organization use to take a proactive approach to achieving their mission. Again, the linkage from the plan to the organization is not immediately evident from the materials.

The Cabinet for Economic Development is the primary state agency in Kentucky responsible for creating new jobs and investment in the state. Programs administered by the Cabinet are designed to support and promote economic development within the state, primarily by attracting new industries to the state, assisting in the development of existing industries, and assisting communities in preparing for economic development opportunities.

By statute, the Cabinet is governed by the Kentucky Economic Development Partnership. The Partnership Board is responsible for directing and overseeing the Cabinet and adopting a Strategic Plan. The Kentucky Economic Development Finance Authority (KEDFA) is a statutorily created organization under the authority of the Partnership Board. KEDFA is responsible for awarding most of the financial incentives offered by the Cabinet. Looking at the titles of the various departments, divisions and then programs within the Cabinet gives a good idea of the breadth and scope of the agency's focus and many of their implementation tools.

Department of Commercialization and Innovation

- ▶ **High-Tech Investment Pool**
- ▶ **Kentucky New Energy Ventures Fund (KNEV)**
- ▶ **Commonwealth Seed Capital, LLC (CSC)**
- ▶ **SBIR-STTR Matching Funds**
- ▶ **Innovation and Commercialization Center Network**

Department for New Business Development

Department for Existing Business Development

- ▶ **Regional Economic Development Divisions**
- ▶ **Division of International Trade**
- ▶ **Division of Small Business Services**
  - **Kentucky Procurement Assistance Branch**
  - **Small and Minority Business Branch**
- ▶ **Commission on Small Business Advocacy**

Department of Financial Incentives

- ▶ **Programs Management Division**
- ▶ **Programs Servicing Division**
- ▶ **Bluegrass State Skills Corporation (BSSC)**
- ▶ **Industrial Revenue Bond Issue Program (IRB)**

Kentucky Economic Development Finance Authority

Kentucky Economic Development Finance Authority (KEDFA) Small Business Loan Program

Kentucky Economic Opportunity Zone Program (KEOZ)

Kentucky Enterprise Initiative Act (KEIA)

Kentucky Environmental Stewardship Act (KESA)

Kentucky Industrial Development Act (KIDA)

Kentucky Industrial Revitalization Act (KIRA)

Kentucky Investment Fund Act (KIFA)

Kentucky Jobs Development Act (KJDA)

Kentucky Rural Economic Development Act (KREDA)

Incentives for Energy Independence Act (IEIA)

Tax Increment Financing (TIF)

## Various Funding Options for Economic Development

In the several economic development programs investigated, there are a variety of ways agencies fund their own efforts and then provide funding to implement economic development projects.

<b>Kentucky</b>	
High Tech Investment Pool	"forgivable loans"
New Energy Ventures Fund	Grants as well as equity investments
Commonwealth Seed Capital	"Seed" capital directly to companies but also invests in Seed and Venture funds that make investments in targeted companies in Kentucky
Federal SBIR-STTR Matching Funds	\$100K and \$500K matching of federal funds
Innovation & Commercialization Center Network	Funds these centers (staffing and organization support) which link scientists and entrepreneurs to other sources of funding
Bluegrass State Skills Corporation	An independent corporation – awards grants and tax credits to support its mission of increasing worker skills
Industrial Revenue Bond Program	Traditional municipal revenue bonds
Economic Development Finance Authority	Loans
EDFA Small Business Loan Program	Loans
Economic Opportunity Zone Program	Tax Credits
Enterprise Initiative Act	Refunds sales and use taxes paid on targeted construction and equipment purchases
Environmental Stewardship Act	Tax incentives
Industrial Development Act	Tax incentives
Industrial Revitalization Act	Tax incentives
Investment Fund Act	Tax credits
Jobs Development Act	Tax incentives
Rural Economic Development Act	Tax incentives
Incentives for Energy Independence	Tax incentives including: <ul style="list-style-type: none"> <li><input type="checkbox"/> Sales and use tax reimbursement</li> <li><input type="checkbox"/> Tax credits on income and LLC entity taxes</li> <li><input type="checkbox"/> Wage assessment incentives</li> </ul>
Tax Increment Financing	Diversion of property taxes to fund redevelopment efforts
<b>Ravalli County (Montana) Economic Development Authority</b>	
	Revolving Loan Fund
<b>Regional Development Corporation (New Mexico)</b>	
Venture Acceleration Fund	Direct investments in companies
NM Small Business Assistance	Gross tax receipts credits



---

A I D E A   S T R A T E G I C   P L A N  
I N V E S T I N G   I N   A L A S K A N S



