

AIDEA

AIDEA Information Sheet: HB 74

Why providing AIDEA the ability to use project financing without ownership is useful?

- It more closely matches AIDEA's financing tools with the nature of the projects being financed, and is more consistent with public policy supporting economic development finance programs.
- It reduces complexity, cost and time involved in structuring financings
- It provides AIDEA (and the state) more protection from possible risk and liabilities associated with projects being financed
- It can improve overall economics of financings by more closely aligning ownership with potential tax benefits.

Examples of projects for which this new financing tool might be used:

- Industrial development as opposed to commercial real estate
- Oil and gas
- Minerals and mining
- Infrastructure development (ports, roads, etc.)

AIDEA's ownership in large "enabling infrastructure" projects including DMTS and the ports of Ketchikan and Skagway have achieved significant economic development results for Alaskan regions, while providing modest financial returns to AIDEA. The ownership model, with AIDEA maintaining an active, ongoing ownership role, will continue to be an

appropriate approach to infrastructure projects supporting private economic activities – in situations where AIDEA's long-term ownership meets state public policy objectives.

For infrastructure projects sponsored by other entities, where AIDEA may be playing a more facilitating financing role – and there are public policy or business reasons for the sponsoring entity to maintain ownership – project financing (without AIDEA ownership) would be more appropriate.

Similarly, for non-infrastructure projects, the "develop and own" model is not ideal. These are typically industrial resource development projects that involve direct financing and operations of private businesses (as opposed to infrastructure), and engender risk profiles not common to commercial real estate. There is usually no public purpose rationale for AIDEA to hold an ownership position in these industrial facilities. In fact there are good public policy and business arguments for AIDEA not having an ownership position, including risk mitigation, cost of complex ownership structures, potential competition with other private investments and tax issues.

Benefits include AIDEA participating in financing for industrial development projects as a project lender with greater flexibility and with a more effective firewall against environmental and liability risks and lower transaction costs. This will also result in faster more timely transactions.

Alaska Industrial Development and Export Authority