SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/30/03

FURTHER:

DATE TURNED IN TO OFFICE: 8 May 2003

Finance Committee considered HOUSE BILL NO. 203

HB 203 AIDEA DIVIDENDS TO STATE

"An Act relating to the definitions of 'net income' and 'unrestricted net income' for purposes of calculating the dividends to be paid to the state by the Alaska Industrial Development and Export Authority; and providing for an effective date."

and recommends:

[ ] be **replaced** with _______ **CS** ____________________ (________)

[ ] adopt **previous** _______ **CS** ____________________ (________)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ____________________ Committee

[ ] further referral to ____________________ Committee

Senate Bill:
[ ] same title
[ ] new title
House Bill:
[ ] same title
[ ] technical title
[ ] new: SCR #_____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
DCED	4/2/03		✓	#1

[ ] **APPROPRIATION - no fiscal note**

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
Robin Taylor	✓			
[signature]			✓	
Donald C. Olson			✓	
[signature] Bunde			✓	
Ben Stevens	✓			
COCHAIR: Lyda Green			✓	
COCHAIR: Gary Wilken	✓		[initials]	

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 203
(H) Publish Date: 4/4/03

Revision Date/Time (Note if correction):
Title: AIDEA Dividends to State
Sponsor: House Finance Committee
Requester: House L&C Committee

Dept. Affected: DCED
BRU: AIDEA (125)
Component: AIDEA
Component No. 1234

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (1004)	**					

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

POSITIONS	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Accounting standards require AIDEA to treat impairment losses on development projects financed under AS 44.88.172 as expense items. Under the current dividend statute, impairment losses recognized on AIDEA projects in FY2002 preclude AIDEA from declaring a dividend for FY2004.

HB 203 excludes impairment losses from the AIDEA dividend calculation.

** If effective, this bill will require the AIDEA Board of Directors to declare a dividend available for appropriation for FY2004. The potential dividend would range between $9 million and $18 million.

Prepared by: Sara Fisher-Goad, Financial Analyst — Phone 907-269-4623
Division: Alaska Industrial Development and Export Authority — Date/Time 4/2/03 9:58 AM
Approved by: Edgar Blatchford, Commissioner — Date 4/2/2003
Agency: Department of Community & Economic Development

(Revised 9/2002 OMB)

Alaska State Legislature
House Finance Committee

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MEMORANDUM

To: Senator Wilken,
Co-Chair, Senate Finance Committee

From: Representative Mike Hawker,
House Finance Committee

Re: Hearing for House Bill 203

Date: Wednesday, April 30, 2003

The House Finance Committee respectfully requests a hearing in the Senate Finance Committee on House Bill 203 "An Act relating to the definitions of 'net income' and 'unrestricted net income' for purposes of calculating the dividends to be paid to the state by the Alaska Industrial Development and Export Authority; and providing for an effective date", at your earliest convenience.

House Bill 203 clarifies the definition of income to exclude expenses recorded as a result of recognizing impairment losses on development projects owned and operated by Alaska Industrial Development and Export Authority.

Under current statute there will be no AIDEA income available for a dividend in fiscal 2004 as a result of impairment losses recognized on the Healy Clean Coal Project and Alaska Seafood International. Still, AIDEA has $789 million in unrestricted net assets and $356 million of unrestricted cash and investments from which a dividend could be paid. The dividend formula proposed in House Bill 203 would make $9 to $18 million of this money available for a dividend to the State in Fiscal 2004.

House Bill 203 produces a comprehensive dividend formula that provides a more consistent, stable and predictable business environment for AIDEA, the financial community and the State of Alaska. The amended AIDEA dividend policy is sound financial practice and good fiscal policy.

Attached is the Sponsor Statement, a copy of HB 203, the bill history and pertinent background information.

Please contact David Brewster in my office if you have any questions.

Thank you for your consideration!

Alaska State Legislature

House Finance Committee

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Sponsor Statement for
House Bill 203 – AIDEA Dividends to State

AS 44.88.088 requires the Alaska Industrial Development and Export Authority (AIDEA) to adopt a policy for payment of a dividend to the State each fiscal year and defines the amount to be between 25 percent and 50 percent of the net income of the authority. The dividend shall not exceed the unrestricted net income of the authority.

The 22nd Alaska Legislature modified the definitions of "net income" and "unrestricted net income" to accommodate technical changes that had been made by the accounting profession to the reporting standards AIDEA is required to follow. The legislature defined Income to exclude intergovernmental transfers, capital contributions and grants. These are items included by accounting standard, but which are not actually part the authority's operating income. The legislature desired to consider only recurring cash flow in the dividend calculation.

House Bill 203 further clarifies the definition of income to exclude expenses recorded as a result of recognizing impairment losses on development projects owned and operated by the authority. Impairment losses do not require current or future cash expenditure. Impairment losses recognize a write-down of the carrying value of physical assets paid for in the past.

Under current statute there will be no AIDEA income available for a dividend in fiscal 2004 as a result of impairment losses recognized on the Healy Clean Coal Project and Alaska Seafood International. Still, AIDEA has \$789 million in unrestricted net assets and \$356 million of unrestricted cash and investments from which a dividend could be paid. The dividend formula proposed in House Bill 203 would make \$9 to \$18 million of this money available for a dividend to the State in Fiscal 2004.

House Bill 203 results in a comprehensive dividend formula that provides a more consistent, stable and predictable business environment for AIDEA, the financial community and the State of Alaska. The amended AIDEA dividend policy is sound financial practice and good fiscal policy.

LEGAL SERVICES

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Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM April 7, 2003

SUBJECT: Sectional summary of HB 203 (Work Order No. 23-LS0796\H)

TO: Representative Mike Hawker
Attn: David

FROM: TB Theresa L. Bannister
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1. Amends the definition of "net income" (for the purposes of calculating the dividend AIDEA is required to pay to the state) to exclude impairment losses on development projects financed under AS 44.88.172 (the economic development account).

Section 2. Amends the definition of "unrestricted net income" (for the purposes of calculating the dividend AIDEA is required to pay to the state) to exclude impairment losses on development projects financed under AS 44.88.172 (the economic development account).

Section 3. States for which state fiscal years the calculation changes in secs. 1 and 2 apply.

If I may be of further assistance, please advise.

TLB:lmb
03-139.lmb

House Bill 203
AIDEA Dividends to State
Calculations For Committee Presentation

	in thousands
Decrease in Net Assets for the year ended June 30, 2003	$ (72,506)
Write down of impaired assets	91,346
	18,840
Intergovernmental transfer (prior year dividend)	17,500
"Net Income" per AS 44.88.088	36,340
Possible Dividend at 25%	9,085
Possible Dividend at 50%	18,170
Cash and cash equivalents	14,415
Investment securities - current	82,573
Investment securities - non-current	259,601
Unrestricted cash and investments	356,589
Unrestricted net assets	$ 789,354

THE
FOLLOWING
DOCUMENT(S)
ARE
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ORIGINAL
COPIES

AIDEA Dividend Statute

Alaska Statutes.
Title 44. State Government
Chapter 88. Alaska Industrial Development and Export Authority
Section 88. Payment of Dividend to State.

previous: Section 85. Administrative Procedure.
next: Section 90. Bonds of the Authority.

AS 44.88.088. Payment of Dividend to State.

(a) The authority shall adopt a policy for payment of a dividend to the state each fiscal year. The amount of the dividend for a fiscal year may not be less than 25 percent nor more than 50 percent of the net income of the authority for the base fiscal year. In no event, however, shall the dividend for a fiscal year exceed the total unrestricted net income of the authority for the base fiscal year. The dividend for a fiscal year shall be made available by the authority before the end of that fiscal year. The authority shall notify the commissioner of revenue when the dividend for a fiscal year is available for appropriation.

(b) In this section,

(1) "base fiscal year" means the fiscal year ending two years before the end of the fiscal year in which the payment is made;

(2) "net income" means the authority's change in net assets as set out in the audited financial statements of the authority for the base fiscal year, excluding amounts attributable to intergovernmental transfers, capital contributions, or grants;

(3) "unrestricted net income" means the authority's unrestricted change in net assets as set out in the audited financial statements of the authority for the base fiscal year, excluding amounts attributable to intergovernmental transfers, capital contributions, or grants.

Sec. 44.88.172. Economic development account.

(a) The economic development account is established in the revolving fund. The economic development account consists of money or assets appropriated, loaned, or transferred to the authority for deposit in the account and other money or assets deposited in the account by the authority. While money is on deposit in the economic development account, the money may be used only to finance, acquire, manage, and operate development projects that the authority intends to own and operate. The term "operate" includes operation directly by the authority or by an agent of the authority.

(b) [Repealed, Sec. 23 ch 123 SLA 1990].

(c) [Repealed, Sec. 23 ch 123 SLA 1990].

This discussion and analysis is intended to serve as an introduction to the June 30, 2002 financial statements of the Alaska Industrial Development and Export Authority (AIDEA) Revolving Fund (Authority). All amounts, unless otherwise indicated, are expressed in thousands of dollars.

The Authority's June 30, 2002 financial statements are presented in a different format than historically, due to the implementation of Governmental Accounting Standards Board (GASB) 34 during the year. The June 30, 2001 financial statements are not presented in the accompanying financial statements. The condensed June 30, 2001 financial information presented in this discussion and analysis has been restated to conform to the revised format.

The financial statements include only the activities of the Authority, AIDEA's Revolving Fund, through which AIDEA conducts the majority of its business. Information on AIDEA's two other statutory loan programs, which are administered by the Department of Community and Economic Development, is included in Note 1 to the Financial Statements. AIDEA's Revolving Fund Financial Statements are comprised of four separate components:

1) Balance Sheet
2) Statement of Revenues, Expenses and Changes in Fund Net Assets
3) Statement of Cash Flows
4) Notes to Financial Statements

Financial Highlights
The Authority's Revolving Fund assets exceeded its liabilities at June 30, 2002 by $792,665. Of the total net assets, $789,354 was unrestricted and therefore available to meet the Authority's financial obligations.

Financial Analysis
Total assets, total liabilities and total net assets at June 30, 2002 and 2001 follow:

	June 30, 2002	June 30, 2001	Decrease
Current Assets	$ 121,973	$ 222,450	$ (100,477)
Non-current Assets	1,020,250	1,022,849	(2,599)
Total Assets	1,142,223	1,245,299	(103,076)
Current Liabilities	14,888	16,855	(1,967)
Non-current Liabilities and those Payable from Restricted Assets	334,670	363,273	(28,603)
Total Liabilities	349,558	380,128	(30,570)
Total Net Assets	792,665	865,171	(72,506)
Total Liabilities and Net Assets	1,142,223	1,245,299	(103,076)

The decline in current assets results from a decrease in cash, cash equivalents and investment securities maturing in one year or less. The Authority funded the $77,100 Four Dam Pool Power Agency Loan on January 31, 2002. At June 30, 2001, funds had been invested to meet this cash requirement, causing short-term investments to be at higher balances than normal. At June 30, 2002, no commitment requiring a large expenditure of funds during the next year existed.

The majority of the decline in total assets resulted from the $25,600 and $65,746 impairment losses recognized on the Alaska Seafood International and Healy Clean Coal development projects, respectively, as further described in Notes 7 and 11 to the

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Financial Statements. Substantially all of the remaining decrease in total assets resulted from return of principal on development projects accounted for as direct financing leases, loss recognition on an investment and depreciation on development projects. Funding the Four Dam Pool Power Agency Loan resulted in a corresponding decline in cash and investments and produced no net change in total assets on a year to year basis.

Loan balances remained virtually unchanged at June 30, 2002 compared to June 30, 2001 but loan activity during the year was not static. As borrowers took advantage of the lower interest rate environment, the Authority funded approximately $40 million of loans during the year ended June 30, 2002 compared to only $10 million of loans funded during the previous year. Borrowers made nearly $39 million in principal payments on loans during the year, with loan payoffs accounting for in excess of $23 million of the amount collected.

The decline in total liabilities was substantially caused by the reduction in bonds payable during the year resulting from scheduled maturities ($11,115) and the early call of bonds ($16,305, excluding bonds refunded). As further discussed in the Financial Statements, the Authority issued $20,475 of refunding bonds in June 2002, retiring $20,540 of higher interest rate bonds.

The $72,506 decrease in net assets results from the operating loss ($55,006) and the dividend ($17,500). The $25,600 and $65,748 write-downs of the Alaska Seafood International and Healy Clean Coal development projects, respectively, comprised the single largest operating expense during the year ended June 30, 2002. The $17,500 dividend was the second largest reduction of net assets incurred during the year.

Components of the Authority's operating revenues, operating expenses and non-operating revenues and expenses for the year ended June 30, 2002 compared to the same period ended June 30, 2001 follows. Certain reclassifications have been made to the June 30, 2001 financial information in order to conform to the 2002 presentation.

	June 30, 2002	June 30, 2001	Increase (Decrease)
Operating Revenues:			
Interest on loans	$ 17,132	$ 19,151	$ (2,019)
Interest on Four Dam Pool Power Agency loan	2,065	—	2,065
Interest on direct financing leases	17,890	17,903	(13)
Investment interest	19,927	24,887	(4,960)
Net increase in fair value of investments	7,397	13,022	(5,625)
Other income	4,033	4,693	(660)
Restricted income	4,832	4,880	(48)
Total Operating Revenues	73,276	84,536	(11,260)
Operating Expenses:			
Interest	16,058	16,738	(680)
General and administrative	7,055	7,962	(907)
Depreciation	3,900	1,053	2,847
Write-down of development projects	91,346	10,419	80,927
Write-downs and net expenses associated with other assets	3,074	2,462	612
Other expenses	2,017	1,382	635
Interest on liabilities payable from restricted assets	4,832	4,880	(48)
Total Operating Expenses	128,282	44,896	83,386
Operating Income (Loss)	(55,006)	39,640	(94,646)
Non-operating Revenue	—	850	(850)
Dividend to State of Alaska	(17,500)	(18,500)	1,000
Change in Net Assets	(72,506)	21,990	(94,496)

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Operating income declined $11,260 during the year ended June 30, 2002 compared to 2001. A decrease in investment interest accounted for $4,960 of the change. The net increase in fair value of investment securities provided $5,625 less operating income in 2002 than 2001. The decreases in these income categories result from the changing interest rate environment that occurred during the year as well as a change in the maturity mix and decrease in investment securities held by the Authority during the year. The $77,100 funding of the Four Dam Pool Power Agency Loan required the Authority to hold short term investments prior to the funding, which generally provide less return than longer term investments. As stated earlier, investment securities balances declined during the year (the Authority held approximately $76,000 less at June 30, 3002 compared to June 30, 2001), providing a smaller base on which to earn.

The $2,019 decline in interest on loans results from the general decline in interest rates over the past several years. The $2,065 received from interest on the Four Dam Pool Power Agency Loan represents the earnings on the loan since it was funded on January 31, 2002.

As discussed previously and as more fully described in the Financial Statements, the Authority recorded $25,600 and $65,746 of impairment losses on its investments in the Alaska Seafood International (ASI) and Healy Clean Coal (HCCP) development projects, respectively. As the Authority continues to support the ASI project and is hopeful that the facility can become profitable, operations at the facility became virtually dormant subsequent to June 30, 2002. Authority management therefore recognized the need to value the ASI facility at its estimated fair value in the event the value added seafood plant ceases operations. The Authority continues to explore options to operate the HCCP under existing systems. However, Authority management recognized the need to value the HCCP at its estimated fair value. During the year ended June 30, 2001, the Authority recorded a $10,419 impairment loss on its investment in the Skagway Ore Terminal. Therefore, the 2002 impairment losses exceeded the one recorded in 2001 by $80,927.

The Authority distributed a dividend of $17,500 to the State of Alaska (State) during the year ended June 30,2002, which is accounted for as a transfer. The dividend was the second largest reduction in net assets incurred during the year. In 2001, the Authority transferred a $18,500 dividend to the State. AIDEA makes available to the State an annual dividend, which by statute is to be determined by AIDEA's Board of Directors. The dividend must be at a level between 25% and 50% of audited "net income" (as defined in the statute) for the "base year." The "base year" is the fiscal year ending two years before the end of the fiscal year in which the dividend payment is made. In no case may the dividend exceed base year unrestricted audited "net income". The actual transfer of the dividend requires a legislative appropriation that may be line item vetoed by the Governor.

Balance Sheet

June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents (notes 3 and 4)	$ 14,415
Investment securities (note 4)	82,573
Loans (note 5)	10,225
Four Dam Pool Power Agency Loan (note 8)	1,401
Development projects accounted for as:	
Net investment in direct financing leases (note 7)	2,948
Notes receivable (note 7)	420
Accrued interest receivable	6,923
Other assets	3,068
Total current assets	121,973
Non-current assets:	
Investment securities (note 4)	259,601
Loans (note 5)	205,265
Less allowance for loan losses (note 6)	(12,030)
Net loans	193,235
Four Dam Pool Power Agency Loan (note 8)	75,045
Development projects accounted for as:	
Net investment in direct financing leases (note 7)	301,068
Development projects (note 7)	61,029
Notes receivable (note 7)	5,335
Other assets	11,105
Restricted assets:	
Cash and cash equivalents (notes 3 and 4)	2,234
Investment securities (note 4)	12,721
Snettisham (note 7):	
Cash and cash equivalents (notes 3 and 4)	9,488
Net investment in direct financing leases (note 7)	89,393
Total non-current assets	1,020,250
Total assets	$ 1,142,223
LIABILITIES AND NET ASSETS	
Current liabilities:	
Bonds payable – current portion (note 9)	$ 10,415
Accrued interest payable	3,183
Accounts payable	1,290
Total current liabilities	14,888
Non-current liabilities:	
Bonds payable – non-current portion (note 9)	233,165
Other liabilities	2,626
Total non-current liabilities	235,791
Liabilities payable from restricted assets – Snettisham:	
Power revenue bonds payable (note 9)	90,075
Other	8,804
Total liabilities	349,558
Net assets (note 2):	
Restricted for debt service	3,311
Unrestricted	789,354
Total net assets	792,665
Commitments and contingencies (notes 1, 5, 10 and 11)	
Total liabilities and net assets	$ 1,142,223

See accompanying notes to basic financial statements.

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Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2002		[illegible]
Operating revenues:		
Interest on loans (note 5)	$	17,132
Interest on Four Dam Pool Power Agency Loan (note 8)		2,065
Interest on direct financing leases (note 7)		17,890
Interest on Snettisham restricted direct financing lease (note 7)		4,832
Investment interest		19,927
Net increase in fair value of investments		7,397
Other income		3,555
Other project income		478
Total operating revenues	$	73,276
Operating expenses:		
Interest		16,058
Interest on Snettisham liabilities payable from restricted assets (note 9)		4,832
General and administrative		7,055
Wr[illegible]-downs associated with development projects (notes 7 and 11)		91,346
De[illegible]reciation		3,900
Ot[illegible]er project expenses		2,017
Write-downs and net expenses associated with other assets		3,074
Total operating expenses		128,282
Operating loss		(55,006)
Dividend to State of Alaska		(17,500)
Decrease in net assets		(72,506)
Net assets – beginning of period (note 2)		865,171
Net assets – ending of period	$	792,665

See accompanying notes to basic financial statements.

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Statement of Cash Flows

Year ended June 30, 2002	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Interest received on loans (net)	$ 16,884
Interest received on Four Dam Pool Power Agency Loan	1,983
Receipts from borrowers	2,109
Principal collected on loans	38,680
Principal collected on Four Dam Pool Power Agency Loan	654
Other operating receipts	1,729
Loans originated	(39,766)
Loan to Four Dam Pool Power Agency	(77,100)
Payments to suppliers and employees for services	(8,283)
Other operating payments	(2,152)
Net cash used by operating activities	(65,262)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:	
Dividend paid to the State of Alaska	(17,500)
Interest paid on noncapital debt	(1,127)
Net operating loans to the Alaska Energy Authority	(929)
Principal paid on noncapital debt	(6,020)
Net cash used by noncapital and related financing activities	(25,576)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Direct financing lease receipts	20,649
Direct financing lease receipts – Snettisham	5,938
Investment in direct financing leases	(4)
Investment in development projects	(2,935)
Proceeds from capital debt	20,887
Proceeds from capital grants	1,903
Interest paid on capital debt	(15,059)
Principal paid on capital debt	(41,940)
Interest paid on capital debt – Snettisham	(4,857)
Principal paid on capital debt – Snettisham	(1,065)
Net cash used by capital and related financing activities	(16,483)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investment securities	508,693
Purchases of investment securities	(439,622)
Receipts from notes receivable	850
Interest collected on investments	20,919
Net proceeds from sales of other real estate owned	1,986
Proceeds from return on equity investment	250
Net cash provided by investing activities	93,076
Net decrease in cash and cash equivalents	(14,245)
Cash and cash equivalents at beginning of year	40,380
Cash and cash equivalents at end of year	$ 26,135

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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	$	(55,006)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Principal collected on loans		38,680
Principal collected on Four Dam Pool Power Agency Loan		654
Loans originated		(39,766)
Loan to Four Dam Pool Power Agency		(77,100)
Investment interest income		(19,927)
Amortization of unearned income on direct financing leases		(17,890)
Amortization of unearned income on direct financing lease – Snettisham		(4,832)
Interest income – notes receivable		(445)
Bond interest expense		15,424
Bond interest expense – Snettisham		4,832
Depreciation		3,900
Net appreciation of investment securities		(7,397)
Write-downs and net loss on sale of other assets		2,939
Write-down of development projects		91,346
Increase in accrued interest receivable – Four Dam Pool Power Agency Loan		(82)
Decrease in accrued interest receivable and other assets		348
Decrease in accounts payable and other liabilities		(938)
Net cash used by operating activities	$	(65,262)

See accompanying notes to basic financial statements.

(1) ORGANIZATION AND OPERATIONS

The Alaska Industrial Development and Export Authority (AIDEA) is a component unit of the State of Alaska (State). AIDEA is the primary economic development financing agency of the State, financing economic development projects using existing assets, general obligation bonds or debt secured by project revenues. The Authority'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. AIDEA has various powers that support its economic development mission, including, but not limited to, the ability to adopt regulations, to acquire ownership interests in projects, to lease projects, to issue bonds and to acquire and manage projects. AIDEA conducts the majority of its business through the AIDEA Revolving Fund (Authority), established pursuant to legislation. The Authority has two main programs under which it transacts its business, as more fully described below under the headings "Enterprise Development Account" and "Economic Development Account". AIDEA has several smaller programs including a small business economic development loan program and a rural development initiative program that are not part of the Authority. The accompanying financial statements include only the activities of the Authority.

(a) Enterprise Development Account

A summary of programs available under the Enterprise Development Account follows:

- The loan participation program, under which the Authority purchases participations in loans made by financial institutions to their customers. The Authority's participation is limited to the lesser of 80% or $10,000,000 of the permanent financing for qualifying facilities. The Authority currently has tax-exempt bonds outstanding under this program, which are general obligations of the Authority.

- The business and export assistance program, under which the Authority provides up to an 80% guarantee of the principal balance and a guarantee of interest to the financial institution making a qualifying loan. The maximum guarantee amount of any loan is $1,000,000.

(b) Economic Development Account

Through the Economic Development Account, the Authority has the ability to own and operate facilities which will help to accomplish its mission. Current own-and-operate projects undertaken through the Economic Development Account are:

- DeLong Mountain Transportation System (Red Dog Project). This project consists of a road and port to serve regional needs and permit transportation of lead and zinc concentrates and other minerals from the Red Dog deposit, the largest zinc deposit in the world, located in the DeLong Mountains in northwestern Alaska. The Red Dog Project was financed with Authority funds and bond financings, including $150,000,000 of general obligation bonds issued in May 1997, which refunded outstanding revenue bonds and provided construction funds.

- Skagway Ore Terminal (Skagway Terminal). This project is a public-use ore terminal port facility in Skagway, Alaska. The Skagway Terminal was financed by a $25,000,000 bond issue completed in December 1990; all remaining outstanding bonds were called in April 2002. The purchase of a petroleum products tank farm and vehicle fueling facility was financed using Authority funds.

- Federal Express Project. This project consists of an aircraft hangar and maintenance facilities at the Anchorage International Airport. The Federal Express Project was partially financed by a $28,000,000 bond issue completed in September 1992; the issue was refunded in June 2002.

- Healy Clean Coal Project (Healy Project). This project is a coal-fired power plant located near Healy, Alaska. The Authority received a $25,000,000 state legislative appropriation and $117,327,000 of funding from the U.S. Department of Energy, Clean Coal Technology III Demonstration Grant Program to assist in financing the Healy Project. In May 1998, $85,000,000 of bonds were issued to refund $85,000,000 of Variable Rate Revolving Fund Bonds originally issued in July 1996, the proceeds of which were used to finance a portion of the Healy Project.

- Seward Coal Load-Out Facility. In May 1995, the Authority purchased a 49% interest in a coal load-out facility in Seward, Alaska for approximately $8,900,000. The purchase was subject to specific conditions and the execution of a demand note and repurchase agreement, and corporate guarantees by project participants. In September 2002, final coal shipments through the facility occurred; no new contract has been negotiated by the operator.

- Ketchikan Shipyard (Shipyard). Ownership of the Shipyard, located in Ketchikan, Alaska, was transferred to the Authority in July 1997, under an agreement between the Authority and the State Department of Transportation and

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Public Facilities. In connection with the transfer, the City of Ketchikan and the Ketchikan Gateway Borough agreed to provide relief from real property taxes and favorable electric rates for the facility. The Borough agreed to provide ongoing funds for maintenance and repairs for the Shipyard. The Authority also agreed to provide funds for maintenance and repairs in an amount equal to the amount contributed by the Borough. The Authority is currently in discussions to sell the Shipyard to the City of Ketchikan or the Ketchikan Gateway Borough for the Authority's net cash investment.

- Snettisham Hydroelectric Project (Snettisham). This project was acquired in August 1998 when the Authority issued $100,000,000 of revenue bonds to purchase the project, located in southeast Alaska near Juneau, from the Alaska Power Administration, a federal agency, and to provide funds for the purchase and installation of a submarine cable system, which has been completed. The Authority has agreements with Alaska Electric Light and Power (AEL&P), the sole Juneau electric utility. These agreements provide for the sale of the project's entire electrical capability to AEL&P, require AEL&P to provide the project's operations and maintenance, and provide an option for the purchase of the project at any time after five years from the issue date.

- Alaska Seafood International (ASI). The Authority initially loaned money for the construction of the ASI facility, which performs secondary processing for various types of seafood. An equity interest was purchased in November 1998. The project was completed in September 1999 and the Authority purchased the facility and underlying and associated real estate for $48 million. In addition, the Authority acquired additional equity interests under a December 2000 restructuring.

Proposed own-and-operate projects for which the Legislature has authorized the issuance of bonds are:

- The Authority has $55,000,000 of remaining authorization (from an original $85,000,000 authorization) to issue bonds to finance the acquisition, design and construction of aircraft maintenance/air cargo/air transport support facilities located at Ted Stevens Anchorage International Airport.

- The Authority has bonding authorization of $50,000,000 for a bulk commodity loading and shipping terminal to be located within Cook Inlet to be owned by the Authority.

- The Authority has bonding authorization of $50,000,000 for a facility to be constructed in Anchorage for the offloading, processing, storage and transloading of seafoods. The Authority purchased ASI in September 1999 and no issuance of bonds is anticipated.

- The Authority has bonding authorization of $20,000,000 to finance the acquisition, design and construction of the Kodiak rocket launch complex and tracking station and the Fairbanks satellite ground station space park. The Authority does not currently anticipate that it will participate in financing the projects.

- The Authority has bonding authorization of $80,000,000 to finance the expansion, improvement and modification of the existing Red Dog Project port facilities and to finance the construction of new related facilities to be owned by the Authority. The project is currently being reviewed by the U.S. Corps of Engineers for potential federal funding of a portion of the improvements.

- The Authority has bonding authorization of $30,000,000 to finance the improvement and expansion of the Nome port facilities to be owned by the Authority. The Authority does not currently anticipate that it will participate in financing the project.

- The Authority has bonding authorization of $28,000,000 to finance development of a railroad right-of-way within a railroad and utility corridor from near Healy to the eastern boundary of Denali National Park.

- The Authority has bonding authorization of $15,000,000 to finance the construction and improvement of phase 1 of the proposed Hatcher Pass Ski Resort, located in the Matanuska-Susitna Borough.

Pursuant to legislation enacted in 1993, the members of the Board of Directors of the Authority also serve as the Board of Directors of the Alaska Energy Authority (AEA). The staff of the Authority serves as the staff of AEA. The Authority and AEA continue to exist as separate legal entities. Pursuant to legislation effective July 1, 1999, certain programs previously administered by the former Department of Community and Regional Affairs, Division of Energy, were transferred to AEA for administration. There is no commingling of funds, assets or liabilities between the Authority and AEA and there is no responsibility of one for the debts or the obligations of the other. Consequently, the accounts of AEA are not included in the accompanying financial statements.

(c) Other
The Authority has a stand-alone revenue bond program under which the Authority acts as a conduit to facilitate a financing transaction for facilities owned by third parties. Stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable only out of revenues derived from the financing of projects or the private businesses for which the projects are financed. The Authority is specifically authorized to issue revenue bonds to finance the construction of power transmission interties to be owned by electric utilities in a collective amount not to exceed $185,000,000; as of June 30, 2002, no bonds under this authorization have been issued. As of June 30, 2002, the Authority had issued revenue bonds for 299 projects (not including bonds issued to refund other bonds). The principal amount payable for revenue bonds issued after July 1, 1995 was $97,768,000. The aggregate amount outstanding for the remaining revenue bonds, which were issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $616,000,000 (not including bonds issued to refund other bonds).

(d) Small Business Economic Development and Rural Development Initiative Fund Loan Programs
AIDEA's Small Business Economic Development Loan Program provides financing to eligible applicants under the United States Economic Development Administration Long-Term Economic Deterioration program and the Sudden and Severe Economic Dislocation program. The Small Business Economic Development Revolving Loan Fund was created to receive loan fund grants from the United States Economic Development Administration.

AIDEA's Rural Development Initiative Fund Loan Program is designed to create job opportunities in rural Alaska by providing small Alaskan businesses with needed capital that may not be available in conventional markets. Businesses must be Alaskan owned and located in a community of 2,500 or less on the road system or off-road communities of 5,000 or less.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
On July 2001, the Authority adopted three new accounting statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments;*
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus;* and
- Statement No. 38, *Certain Financial Statement Disclosures*

GASB Statement No. 34 (as amended by GASB Statement No. 37) resulted in modifications in the financial reporting model used by the Authority. Modifications include presentation of management's discussion and analysis (as required supplementary information), cash flow statement using the direct method and reclassification of net assets according to certain criteria. The adoption of GASB Statement No. 34 had no cumulative effect on net assets.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. While this Statement does not affect amounts reported in the financial statements of the Authority, certain note disclosures have been added and or amended.

(a) Basis of Accounting – Enterprise Fund Accounting
The accounts of the Authority are organized as an Enterprise Fund. Accordingly, the financial activities of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when goods or services are received or the related liability is incurred.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides two options for reporting proprietary fund activities. The Authority has elected to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

(b) Cash and Cash Equivalents
For purposes of the statement of cash flows, cash and cash equivalents consist of cash, short term commercial paper and repurchase agreements, whether unrestricted or restricted as to their use.

(c) Investments
The Authority's marketable securities are reported at fair value in the financial statements. Unrealized gains and losses are reported as components of the change in fund net assets. Fair values are obtained from independent sources for marketable securities.

(d) Loans and Related Interest Income

Loans are primarily secured by first deeds of trust on real estate located in Alaska and are generally carried at amounts advanced less principal payments collected. Interest income is accrued as earned. Accrual of interest is discontinued whenever the payment of interest or principal is more than ninety days past due or when the loan terms are restructured. The Authority considers lending activities to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets. Loans are considered program loans for the purposes of cash flow presentation.

(e) Net Investment in Direct Financing Leases

The Authority leases various projects pursuant to certain agreements (as more fully described in note 7) which are recorded in the accompanying financial statements as direct financing leases. Interest income related to direct financing leases is recognized using the effective interest method which produces a constant periodic rate of return on the outstanding investment in the lease. The Authority considers such activity to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets.

(f) Development Projects

The Authority's development projects are carried at cost, adjusted for permanent impairments of value. The Authority recognizes impairment losses for long-lived assets whenever events or changes in circumstances result in the carrying amount of the assets exceeding the sum of the expected future cash flows associated with such assets. The Authority considers development project activity, including impairments, if any, to be part of its principal ongoing operations and classifies it as operating in the statement of revenues, expenses and changes in fund net assets.

(g) Notes Receivable

The Authority owns a partial interest in a facility that is accounted for as a note. Interest income is recognized when it is earned. Interest is calculated using a rate of 7.5%.

(h) Allowance for Loan Losses

The allowance for loan losses represents management's judgment as to the amount required to absorb potential losses in the loan portfolio. The factors used by management to determine the allowance required include historical loss experience, individual loan delinquencies, collateral values, economic conditions and other factors. Management's opinion is that the allowance is currently adequate to absorb known losses and inherent risks in the portfolio.

(i) Allowance for Lease Receivables

The allowance for lease receivables represents management's judgment as to the amount required to absorb potential unrealizable direct financing lease receivables. The factors used by management to determine the allowance required include individual lease delinquencies, property values, economic conditions and other factors. Management's opinion is that no allowance for lease receivables is required at June 30, 2002.

(j) Environmental Issues

The Authority's policy relating to environmental issues is to record a liability when the likelihood of Authority responsibility for clean-up is probable and the costs are reasonably estimable. At June 30, 2002, there were no environmental issues which met both of these criteria and, accordingly, no provision has been made in the accompanying financial statements for any potential liability which may result.

(k) Appropriations and Grants

The Authority recognizes grant revenue under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, whereby, revenue is recognized when all applicable eligibility requirements, including time requirements are met.

(l) Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. The Authority is a political subdivision of the State performing an essential governmental function and is therefore exempt from Federal and State income taxes.

(m) Depreciation

Depreciation is charged to operations by use of the straight-line method over the estimated useful lives of depreciable assets, ranging from 10 to 35 years.

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(n) Transfers

Transfers out to other State agencies are recorded when the liability has been incurred and the amount is reasonably estimable.

(o) Segment Information

For purposes of segment reporting, activity related to Snettisham is considered to be a separate segment. The financial statements disclose all information required by the Authority's Snettisham bond resolution.

(p) Estimates

In preparing the financial statements, management of the Authority is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

(3) ADDITIONAL INFORMATION REGARDING CASH AND CASH EQUIVALENTS

At June 30, 2002 the Authority's carrying amount of deposits was $26,135,000 ($11,720,000 was restricted) and the bank balance was $26,482,000. All of the bank balance was covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

(4) INVESTMENT SECURITIES

Major components of investment securities, the maturity distribution and carrying value at June 30, 2002 follows (stated in thousands):

U.S. Treasury securities maturity:		
Within one year	$	72,233
After one but within five years		49,875
After five but within ten years		14,507
Thereafter		31,710
		168,325
U.S. Government agencies maturity:		
Within one year		20,280
After one but within five years		40,218
After five but within ten years		28,342
Thereafter		1,598
		90,438
Corporate securities maturity:		
After one but within five years		40,411
After five but within ten years		42,416
Thereafter		13,305
		96,132
	$	354,895

All cash, investments and collateral for the repurchase agreements are registered in the Authority's name and are held by the Authority or its custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by GASB Statement No. 3 and Technical Bulletin No. 87-1.

Certain investment securities, repurchase agreements and cash are restricted by the terms of the Authority's bond resolutions or other agreements. A summary of restricted amounts at June 30, 2002 follows (stated in thousands):

	Allowable usage		
Capital reserve funds	Secure debt service payments – bonds	$	2,494
Debt service and loan prepayment accounts	Funds held for future debt service – bonds		817
Red Dog Project			
Sustaining Capital Fund	Project costs		11,644
Snettisham Hydroelectric			
Project Funds	Various costs relating to the project		9,486
		$	24,441

(5) LOANS

The Authority participates with regulated financial institutions in secured commercial real estate and other loans to businesses throughout the State. Although the Authority has a diversified loan portfolio, the Authority's ability to collect on loans is generally contingent upon economic conditions in the State.

Loans outstanding at June 30, 2002 are classified as follows (dollar amounts stated in thousands):

	Number	Amount
Appropriated	265	$ 8,035
Loan participation:		
Bonds outstanding	34	7,994
Bonds retired	48	15,565
Internally funded	159	173,072
OREO sale financing	28	10,346
Other	18	478
	552	215,490
Less current portion		(10,225)
		$ 205,265

The aging of loans at June 30, 2002 follows (dollar amounts stated in thousands):

	Percent	Amount
Current	97.69%	$ 210,505
Past due:		
31–60 days	1.92%	4,134
61–90 days	0.24%	521
Over 90 days	0.15%	330
	100.00%	$ 215,490

Loans which are more than 90 days past due, excluding restructured loans, on which the accrual of interest has been discontinued amounted to $330,000 at June 30, 2002. Gross interest income which would have been received on these loans amounted to $32,000 for the year ended June 30, 2002. The amount of interest income collected and included in the change in net assets was $27,000 for the year ended June 30, 2002.

Loans on which the terms have been restructured amounted to $3,583,000 at June 30, 2002. Gross interest income which would have been received on these loans amounted to $306,000 for the year ended June 30, 2002. The amount of interest income collected and included in the change in net assets was $210,000 for the year ended June 30, 2002.

(6) ALLOWANCE FOR LOAN LOSSES

An analysis of changes in the allowance for loan losses for the year ended June 30, 2002 follows (stated in thousands):

Balance at beginning of year	$ 12,197
Recoveries of loans charged off	40
Loans charged off	(207)
Balance at end of year	$ 12,030

(7) NET INVESTMENT IN DIRECT FINANCING LEASES, NOTES AND DEVELOPMENT PROJECTS

(a) Direct Financing Leases

- The Authority leases the Federal Express Project under an agreement which is recorded as a direct financing lease, expiring twenty years after the facility was placed in service in March 1995. Minimum lease payments under the agreement will return the cost of the Federal Express Project plus 7.55% interest and are expected to be sufficient to pay the debt service on the $20,475,000 Revolving Fund Refunding Bonds issued June 20, 2002.

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- Minimum annual toll fees for usage of the DeLong Mountain Transportation System return the cost of the initial Red Dog Project, which went into service in 1990, to the Authority over 50 years at an interest rate of 6.5%. Toll fees for the expansion to the Red Dog Project return the cost of the expansion from the in-service date through the end of the term of the agreement at a rate based on bonds issued to finance the expansion.

- The Authority leases the Alaska Seafood International project under an agreement which is recorded as a direct financing lease with an initial term of 30 years. Monthly minimum lease payments range from $360,000 to $370,000 with several larger payments scheduled during the lease term. During an initial operating term, lease payments may be deferred if certain performance benchmarks are not satisfied. Additional information regarding this project is described below.

The components of the Authority's net investment in direct financing leases at June 30, 2002 are (stated in thousands):

Minimum lease payments receivable	$	824,645
Less unearned income		(495,031)
Less impairment loss		(25,600)
Net investment in direct financing leases	$	304,014

At June 30, 2002, future minimum lease payments receivable for each of the five succeeding fiscal years are (stated in thousands):

Year ending June 30:		Amount
2003	$	20,650
2004		22,900
2005		23,650
2006		24,730
2007		25,090

The components of the Authority's net investment in direct financing leases by project at June 30, 2002 are (stated in thousands):

Alaska Seafood International	$	22,400
Federal Express Project		24,537
Red Dog Project		257,077
	$	304,014

The Authority provided construction financing and, upon substantial completion in 1999, acquired the ASI facility and underlying and associated real estate for $48 million. The Authority entered into a long-term lease of the facilities, with rent payments scheduled to commence in October 2000. Initially, private U.S. investors and a Taiwan investment company comprised the ownership of the operator of the facility. In February 2000, following a change in political control in Taiwan, the Taiwan investment company was directed to return to Taiwan, and the project encountered financial difficulties. In April 2001, Sunrise Capital Partners of New York (Sunrise) purchased a 51% interest in ASI. Concurrent with the purchase by Sunrise, the Authority, a secured lender, the other owners and ASI signed an agreement to restructure approximately $25 million of debt, to provide new operating capital and to make the Authority and the secured lender equity owners of ASI. The Authority converted accrued and prospective payments due under the lease agreement and an equity contribution of $2.5 million for a 29% equity interest in ASI. Operations at the plant resumed in 2001. After the restructuring, Sunrise and other equity owners contributed additional equity, so that the Authority's interest in ASI dropped to approximately 20%.

In the third quarter of 2002, the company again ran into financial difficulties and operations became virtually dormant. Another restructuring by the equity owners was completed subsequent to year end. The Authority's ownership interest decreased to approximately 8% as a result. As part of the restructuring, the Authority purchased from ASI land adjacent to the ASI facility for $2 million and agreed, under certain conditions, to contribute, for additional equity in ASI, up to

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$500,000 more to be used for facility related expenses. The Authority received land with an estimated market value at least equal to the amount paid for the land. Other participants contributed additional equity of approximately $1,350,000, and further agreed to other deferrals and concessions which effectively provide ASI additional working capital. The restructuring provided ASI with necessary working capital to continue operations. Certain organizational changes also took place, including the appointment of a new president and CEO of ASI.

The Authority recognized an impairment loss of $25,600,000 on its investment in the ASI facility during the year ended June 30, 2002 in response to the operating problems incurred by ASI. The facility was valued at its estimated fair value in the event that ASI operations cease (based upon an appraisal).

(b) Notes Receivable

The Authority receives user fees in consideration of its interest in the Seward Coal Load-Out facility. The user continues to operate the facility at its sole expense. The Authority accounts for this transaction as a note receivable.

(c) Development Projects

- The Skagway Terminal is currently vacant. The Authority is attempting to locate potential new users, however low world base metal prices have precluded new mineral development in the areas that the Skagway Terminal services.

- See note 11 for information relating to the Healy Project.

- The Authority entered into an operations and maintenance agreement for the Shipyard with Alaska Ship and Drydock (ASD). Under that agreement, the Authority is paid a minimum $1,500 per month for certain uses of the facility and is also paid a percentage of net profits resulting from ASD's activities at the Shipyard. The Authority is currently negotiating to sell the Shipyard and has reduced the carrying value of its investment to estimated net realizable value.

The components of the Authority's net investment in development projects at June 30, 2002 are (stated in thousands):

Skagway Terminal	$ 1,982
Healy Clean Coal Project	56,000
Ketchikan Shipyard	3,047
	$ 61,029

Capital asset activity for the year ended June 30, 2002 follows (stated in thousands):

	Balance at June 30, 2001	Additions	Losses and Deletions	Balance at June 30, 2002
Capital assets not being depreciated:				
Development projects	$ 2,128	1,915	1,736	2,307
Land	600	—	—	600
Total capital assets not being depreciated	$ 2,728	1,915	1,736	2,907
Capital assets being depreciated:				
Development projects	$ 134,394	4	65,746	68,652
Other capital assets	2,698	—	—	2,698
Total capital assets being depreciated	137,092	4	65,746	71,350
Less accumulated depreciation for:				
Development projects	6,030	3,900	—	9,930
Other capital assets	79	135	—	214
Total accumulated depreciation	6,109	4,035	—	10,144
Capital assets being depreciated, net	$ 130,983	(4,031)	65,746	61,206

(d) **Restricted Direct Financing Lease**
During 1999, the Authority purchased the Snettisham Hydroelectric Project from the federal government. Under the terms of various agreements, the project is operated by and all power from the project is sold to AEL&P. The project provides the majority of the Juneau-Douglas area electrical energy.

(8) FOUR DAM POOL POWER AGENCY LOAN
The Four Dam Pool loan is an up to $82,100,000 purchase-money financing the Authority provided to the Four Dam Pool Power Agency, a joint action agency (Agency) on January 31, 2002, to acquire the Four Dam Pool Project from AEA.

The project consists of the generation and transmission facilities and other property associated with the Swan Lake Hydroelectric Project (providing power to Ketchikan), the Lake Tyee Hydroelectric Project (providing power to Wrangell and Petersburg), the Solomon Gulch Hydroelectric Project (providing power to Valdez and Glennallen), and the Terror Lake Hydroelectric Project (providing power to Kodiak) (collectively, "the Four Dam Pool Project"). At the present time, none of the individual projects or the communities they serve are interconnected. Since the Four Dam Pool Project's inception, power from the projects has been sold pursuant to a Long Term Power Sales Agreement (PSA) entered into between AEA and the City of Ketchikan dba Ketchikan Public Utilities, the City of Wrangell dba Wrangell Municipal Light and Power, the City of Petersburg dba Petersburg Municipal Power and Light, Copper Valley Electric Association, Inc. and Kodiak Electric Association, Inc. ("Purchasing Utilities"). With certain limited exceptions, the Purchasing Utilities are obligated to purchase their power requirements from the Four Dam Pool Project to the extent the power is available. Power is sold to the Purchasing Utilities at a uniform rate. The Loan Agreement provides that the PSA may not be amended without the Authority's consent.

On January 31, 2002, AEA sold the Four Dam Pool Project to the Agency. The Agency's membership is composed solely of the Purchasing Utilities. Under the terms of the sale, the Agency was assigned all of AEA's interest and assumed all of AEA's obligations in the Four Dam Pool Project and the PSA.

The Authority loaned $77,100,000 to the Agency for the purchase, closing costs and initial funding of reserves related to the Agency's acquisition of the Four Dam Pool Project. The Authority further agreed to lend to the Agency up to an additional $5,000,000 no later than April 30, 2010, if the Agency meets certain conditions related to construction of an intertie between the Swan Lake Hydroelectric Project and the Lake Tyee Hydroelectric Project or if the Agency owes a purchase credit to AEA because the Agency fails to make timely progress on the Swan-Tyee intertie project.

The Four Dam Pool Loan, comprising both the initial and potential loan, with interest at 6.5% per annum, is payable in installments over no more than 25 years from revenues generated by the sale of power pursuant to the PSA. The Authority's interests in the Four Dam Pool Loan are secured under a trust agreement and a deed of trust and security agreement. Under the loan agreement with the Authority, the Agency is required to deposit the entire debt service component of the power rate into a dedicated account which is then available to make the required deposits to the trustee for debt service and required reserve account deposits. The trustee under the trust agreement holds and administers various accounts and assets of the trust estate. Assets that secure the Four Dam Pool Loan include the Four Dam Pool Project, project reserve funds and dedicated accounts, the PSA and other associated tangible and intangible assets.

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(9) BONDS PAYABLE

The composition of bonds outstanding issued under the Authority's Revolving Fund Bond Resolution (Revolving Fund Bonds) at June 30, 2002 follows (interest rate and maturity date information is as of June 30, 2002. Dollar amounts are stated in thousands):

	Balance at June 30, 2001	Additions	Deletions	Balance at June 30, 2002	Amounts due within one year
Revolving Fund Bonds:					
Series 1990A – issued December 13, 1990, called April 2002	$ 14,285	—	14,285	—	—
Series 1992A – issued September 30, 1992, defeased June 20, 2002	21,665	—	21,665	—	—
Series 1995A – 5.85% to 6.0%, issued May 17, 1995, maturing through 2005	3,165	—	495	2,670	825
Series 1997A – 5.5% to 6.125%, issued March 27, 1997, maturing through 2027	136,115	—	3,940	132,175	4,160
Revolving Fund Refunding Bonds:					
Series 1993A – 5.6% to 6.2%, issued June 3, 1993, maturing through 2010	7,605	—	1,720	5,885	605
Series 1994A – 5.6% to 5.9%, issued March 30, 1994, maturing through 2006	3,330	—	970	2,360	525
Series 1995B – 5.7% to 5.85%, issued May 17, 1995, maturing through 2005	5,325	—	2,835	2,490	615
Series 1998A – 4.5% to 5.25%, issued May 14, 1998, maturing through 2023	79,575	—	2,050	77,525	2,140
Series 2002A – 4.0% to 5.5%, issued June 20, 2002, maturing through 2014	—	20,475	—	20,475	1,545
	$ 271,065	20,475	47,960	243,580	10,415

At June 30, 2002, all Revolving Fund Bonds are secured by the general assets and future revenues of the Authority. Various bonds are further secured by loan proceeds and capital reserve funds established pursuant to terms of the bond resolutions (note 4). Various bonds are further secured by bond insurance.

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In June 2002, the Authority issued $20,475,000 of Revolving Fund Refunding Bonds for purposes of refunding and defeasing $20,540,000 of Series 1992A Revolving Fund Bonds. The refunded Series 1992A bonds were called in July 2002. The refunding resulted in aggregate debt service payments over the next twelve years in a total amount approximately $2,500,000 less than the debt service payments which would have been due on the refunded bonds. There was an economic gain of approximately $1,576,000, which is calculated as the net difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

The minimum payments related to all Revolving Fund Bonds for the years subsequent to June 30, 2002 are as follows (stated in thousands):

	Principal	Interest	Total
2003	$ 10,415	13,410	23,825
2004	10,870	13,094	23,964
2005	11,880	12,510	24,390
2006	10,175	11,856	22,031
2007	10,110	11,286	21,396
2008-2012	57,195	47,416	104,611
2013-2017	64,635	30,511	95,146
2018-2022	41,070	15,216	56,286
2023-2027	27,230	4,390	31,620
	$ 243,580	159,689	403,269

Revolving Fund Bond resolution covenants effective June 30, 2002 preclude the Authority from incurring any general obligation indebtedness unless future estimated net income (as defined in the Revolving Fund Bond Resolution) equals not less than 150% of the general obligation annual debt service requirement in each year or from taking any action to cause its unrestricted surplus (as defined in the Revolving Fund Bond Resolution) to be less than the lesser of $200,000,000 or the amount of general obligation indebtedness outstanding, and in no event less than $100,000,000. At June 30, 2002, the Authority has estimated that projected future coverage for each future year exceeds 150%, giving effect only to existing projects at that date, including the projected effect of completion of all current projects, and excluding the effect of proposed projects. At June 30, 2002, unrestricted surplus was approximately $738,000,000. The Authority is also required by Revolving Fund Bond covenants to maintain 25% of the unrestricted surplus requirement described above in cash and U.S. Treasury securities maturing within one year. At June 30, 2002, the liquidity requirement was $50,000,000.

The Authority also issued $100,000,000 of Power Revenue Bonds to finance the purchase of Snettisham. The bonds bear interest at rates ranging from 4.75% to 6.0%, mature at varying dates through 2034 and are payable solely from project revenues, currently received from AEL&P pursuant to a power sales agreement, and from other project funds. Certain of the bonds are insured by Ambac Assurance Corporation. In December 1999, the Authority defeased $6,865,000 of the bonds using funds on hand. The minimum payments related to the Power Revenue Bonds for the years subsequent to June 30, 2002 are as follows (stated in thousands):

	Principal	Interest	Total
2003	$ 1,115	4,806	5,921
2004	1,170	4,753	5,923
2005	1,230	4,692	5,922
2006	1,295	4,627	5,922
2007	1,360	4,559	5,919
2008-2012	7,990	21,629	29,619
2013-2017	10,540	19,056	29,596
2018-2022	13,810	15,792	29,602
2023-2027	17,765	11,834	29,599
2028-2032	22,850	6,756	29,606
2033-2034	10,950	891	11,841
	$ 90,075	99,395	189,470

"DOCUMENTATION FROM AIDEA 2002 ANNUAL REPORT"
DISTRIBUTED BY REPRESENTATIVE MIKE HAWKER

(10) RETIREMENT PLAN

(a) Plan Description

The Authority contributes to the State of Alaska Public Employees' Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State to provide pension, postemployment healthcare, death and disability benefits to eligible employees. All full-time Authority employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(b) Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

Contribution rates:	
Employee	6.75%
Employer	7.20%
Annual pension cost	$402,000
Contributions made	$402,000
Actuarial valuation date	June 30, 1997
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Amortization period	Rolling 25 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Inflation rate	4.00%
Investment return	8.25%
Projected salary increase:	
Inflation	4.00%
Productivity and merit	1.50%
Health cost trend	5.50%

In the current year, the Authority determined, in accordance with provisions of GASB Statement No. 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

(11) COMMITMENTS AND CONTINGENCIES

(a) Commitments

At June 30, 2002, the Authority held approximately $147,000 of borrower and participating lender money which had not yet been remitted or applied. Additionally, the Authority held approximately $87,001,000 of investments in trust for the construction of two intertie projects. The Authority held approximately $24,410,000 of investments in trust for others under various agreements. The moneys and related liability are not reflected in the accompanying financial statements.

(b) Healy Clean Coal Project

A Power Sales Agreement between Golden Valley Electric Association (GVEA) and the Authority for the Healy Project was originally entered into in 1991. In 1998, GVEA initiated litigation alleging that the Authority had breached the Healy Project Power Sales Agreement, among other allegations.

On March 9, 2000, GVEA and the Authority entered into a settlement agreement regarding the Healy Project litigation. The settlement agreement provided for the interim shutdown of the Healy Project, which is now maintained in custodial status by the Authority. The settlement agreement further provided terms of partial financial assistance under which GVEA, if it elected to proceed, could either retrofit the plant to conventional combuster technology or operate the Healy Project under existing systems.

GVEA has declined the financing option provided under the settlement agreement for either retrofit option. GVEA continues to seek federal funding for the retrofit of the Healy Project to conventional combuster technology. To date, no federal participation has been authorized.

The Authority continues to also explore options to operate the Healy Project under existing systems. The Authority has applied for a grant through the U.S. Department of Energy to assist in costs associated with such a start-up. The Authority has also retained Capital Energy, an affiliate of American Electric Power Inc., to provide further technical evaluation of the Healy Project and to assist in negotiation of a Power Sales Agreement.

During 2002, the Authority determined that the carrying value of the project was impaired, and wrote it down by approximately $66,000,000 to its estimated fair value of $56,000,000. The estimated fair value was determined based upon a future cash flow analysis discounted at the risk free rate.

(c) **Dividend**
Pursuant to Alaska statutes the Authority's Board is required to annually determine the amount of a dividend to be made available for appropriation by the legislature. The dividend made available by the Board is to be not less than 25% and not more than 50% of the Authority's audited "net income", as defined in statute, for the fiscal year two years before the fiscal year in which the dividend is to be made. In no event, however, may the dividend exceed unrestricted "net income". The Authority's Board has authorized a $20,149,500 dividend to be paid during the year ending June 30, 2003.

(d) **Other Commitments and Contingencies**
The Authority from time to time may be a defendant in legal proceedings and contract disputes related to the conduct of its business. In the normal course of business, it also has various commitments and contingent liabilities, such as commitments for the extension of credit and guarantees, which are not reflected in the accompanying financial statements. At June 30, 2002, the Authority had extended loan commitments for loans of $29,338,000 and loan guarantees of $2,015,000. In the opinion of management, the financial position of the Authority will not be affected materially by the final outcome of any present legal proceedings or other contingent liabilities and commitments.

End of Financial Statements

Exemption from taxation
The Alaska Industrial Development and Export Authority is a political subdivision of the State of Alaska performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44.88.140 (a), the Authority submits the following information describing the nature and extent of the tax exemption of the Authority's property:
All furniture, fixtures and equipment utilized by Authority personnel and real property occupied by the Authority offices within the Municipality of Anchorage are exempt from Municipality of Anchorage property taxes. All real and personal property associated with or part of projects developed, originally owned or operated under the Economic Development account located within cities, municipalities and/or boroughs are exempt from any respective real and personal property taxes.

"Documentation from AIDEA 2002 Annual Report"
Distributed by Representative Mike Hawker

Alaska Industrial Development and Export Authority

AIDEA/AEA

Alaska Energy Authority

May 7, 2003

The Honorable Lyda Green, Co-Chair
The Honorable Gary Wilken, Co-Chair
Senate Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

RE: Questions posted during Senate Finance hearing 5/6/03

Dear Senator Green and Senator Wilken:

The following are answers to questions/requests posed by members of the Senate Finance Committee concerning the Alaska Industrial Development and Export Authority (AIDEA) at the May 5, 2003 meeting

Question

1. What were the triggers for the FY02 write-downs of Alaska Seafood International (ASI) and Healy Clean Coal Project (HCCP). Why were they not written down in previous years?

Answer

At the end of FY01, we evaluated our investment in ASI and determined that any changes in circumstances were positive, so there was no need to further consider taking an impairment loss. Shortly before that time, ASI entered into an agreement with Sunrise Capital LLC and received an injection of capital. We viewed that as a positive change in circumstances surrounding the project, so that an impairment analysis was not required at that time. In 2002, ASI experienced a continuing decline in operations and cash flow despite the additional capital contributions. That continuing decline in 2002 was the triggering event that caused the Authority to evaluate and ultimately write down the carrying value of ASI in our financial statements.

With regard to HCCP, in 1999, the Authority conducted an impairment analysis and wrote down HCCP's contributed capital by approximately $150 million. At the end of FY01, the Authority determined that there were no negative changed circumstances requiring an impairment loss. At that time, the Authority and Golden Valley Electric Association (GVEA) were implementing a settlement agreement under which payments to the Authority would exceed the then current book value of HCCP. The apparent circumstances changed in FY02. GVEA appeared unwilling to pursue implementing options under the settlement agreement to make the facility operational and the tone of our negotiations changed. This judgment was consistent with the collective view of the Authority's legal counsel, a view proven correct in April 2003 when GVEA formally terminated its rights to purchase power under terms of the settlement agreement.

Question

2. What are the future expectations of ASI and HCCP?

Answer

The Board and staff of AIDEA are working to resolve problems relating to these projects and will evaluate them at the end of the fiscal year.

Question

3. What is the current net book value of HCCP and ASI?

Answer

The net book values of HCCP and ASI as of 12/31/02 were $55,096,774 and $22,400,000 respectively. We are in the process of closing our books for the quarter ending 3/31/03.

Question

4. What is the 5-year history of impairment losses for AIDEA (since FY98)?

Answer

- For the year ended June 30, 1998-The Authority recorded no impairment losses.
- For the year ended June 30, 1999-The Authority wrote-down its investment in the Healy Clean Coal Project by $150,398,370. The write-down represents contributions to the project made by contractors and federal and state governments. Therefore, contributed capital was also reduced by this amount.
- For the year ended June 30, 2000-The Authority recorded no impairment losses.
- For the year ended June 30, 2001-The Authority wrote-down its investment in the Skagway Ore Terminal by $10,419,000.
- For the year ended June 30, 2002-The Authority recognized an impairment loss of $25,600,000 on its investment in the ASI facility, a loss of approximately $66,000,000 on HCCP and approximately $1.7 million on the Ketchikan Shipyard(the loss taken on the Ketchikan Shipyard was substantially offset by a capital grant resulting in approximately $12,000 of expense taken on AIDEA's FY02 financial statements.)

Question

5. What were AIDEA's unrestricted cash/cash equivalents and unrestricted equity (net assets) for the last 5 years (FY98-FY02)?

Answer

Please see Schedule 1 attached.

Question

6. What amount of AIDEA's FY02 change in net assets was directly attributable to Red Dog?

Answer

Net Income directly attributable to Red Dog for FY02 was approximately $7,680,000. This includes interest expense and amortization associated with bonds that financed a portion of the project and expenses relating to an ongoing feasibility study for a deep water port.

I hope the information in this letter and attachment answers your questions. Please feel free to contact me if you have further requests or questions.

Sincerely,

Ron Miller
Executive Director

RWM:lgl
H:\2003 Legislation and Budget FY04\FY03 House Finance Questions.doc
Attachment

cc: Senator Con Bunde
Senator Ben Stevens
Senator Robin Taylor
Senator Lyman Hoffman
Senator Donald Olson
Mike Tibbles, Office of the Governor
Tom Lawson, Department of Community & Economic Development

AIDEA
Schedule 1
Unrestricted Cash/Investment and Unrestricted Net Assets
FY98-FY02
Stated in thousands of dollars

	1998	1999	2000	2001	2002*
Unrestricted Cash/Investments	423,402.00	408,270.00	380,396.00	428,913.00	356,589.00
Total Unrestricted Equity	976,883.00	846,577.00	856,174.00	866,171.00	789,354 00

Note: The information above is based on the accounting standards in effect for that fiscal year.
* Due to the required implementation of three new Governmental Accounting Board Statements in FY02, AIDEA was required to restrict equity which in previous years was not considered restricted.

Ratings

Moody's	S&P's (& Fitch)
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Inv. Grade T	
Ba1	BB+

To: David Brewster
Fax: 465-4979

From: Sara Fisher-Good
264-4623

STANDARD &POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

Summary: Alaska Indl Dev & Export Auth; Utility, State Revolving Funds/Pools

Publication date: 31-May-2002
Analyst: Gabriel Petek, San Francisco (1) 415-371-5042; Kurt Forsgren, San Francisco (1) (415) 371-5018

Credit Profile

$20.5 mil muni debt muni issue due 2014	A-	
Sale date: 06-JUN-2002		
OUTLOOK REVISED	**To**	**From**
$271.065 mil. Alaska Indl Dev & Export Auth Revolving Fd-non capital reserve ser 90 91 92 95 97 98	A-	A-
$34.385 mil. Alaska Indl Dev & Export Auth revolv fd-capital reserves ser 95	A	A-
OUTLOOK:	STABLE	

Rationale

The ratings on Alaska Industrial Development and Export Authority's bonds reflects the authority's:

- Large unrestricted cash investment balances totaling more than $450.8 million (compared to $270 million in outstanding debt);
- Good historic debt service coverage and financial performance;
- Experienced management and sound internal credit criteria; and
- Important and exclusive role in promoting economic development in the state.

Offsetting factors include:

- Growing portfolio concentration;
- An improved, but still high, number of past-due and restructuredloans; and
- A lack of legally segregated reserves for nearly all of theauthority's outstanding debt.

The bonds are GOs of the authority for which it has its full faith and credit. Proceeds of the series 2002A bonds will effect the current refunding of the authority's revolving fund bonds, series 1992A. The refunded bonds were issued in 1992 to finance a portion of the costs of constructing an aircraft hangar and maintenance facility and a fire suppression system at Ted Stevens Anchorage International Airport. The FedEx Project (completed in 1995) is owned by the authority and leased to the Federal Express Corp.

The authority has a number of programs through which it carries out its economic development activities. These programs consist of the authority's loan participation program, development finance program, conduit revenue bond program, and business export assistance loan guarantee program. The loan participation is the authority's primary focus and is likely to continue to grow in importance.

The top five revenue producers for the authority represent 58.7% of total new revenues. Two projects represent a significant concentration in the authority's portfolio, including facilities that support a zinc mine leased to a subsidiary of Cominco Metals Ltd. ('BBB' issuer credit rating) and the Four Dam Pool Project.

The single largest revenue producer is the Teck Cominco Alaska--Red Dog mine project. Teck Cominco Alaska has a non-exclusive priority right to use the DeLong Mountain Transportation System (DMTS) for an initial 50-year term to ship ore concentrates over the road, to store concentrates in the storage buildings, and to transload concentrates onto ore ships. The DMTS road leads from the lead/zinc mining district in northwest Alaska and the Red Dog mine to the terminal--a 52 mile, 30 foot wide, all-weather, industrial-haul road and a shallow water dock, concentrate storage facility, and other port facilities. The terminal facilities were completed in 1990 and expanded in 2000. For use of the DMTS, Tech Alaska is required to make annual payments of at least $17.7 million, or 33.5% of the authority's total net revenues.

Another major revenue producer is the Four Dam Pool Loan--which was an $82.1 million purchase by the Four Dam Pool Power Agency with financing provided by the authority. The agency comprises five public utilities that purchase power generated by the project pursuant to a long-term power sales agreement. The project consists of generation and transmission facilities and other property associated with four hydroelectric projects. The initial authority loan was in the amount of $77.1 million to the agency for costs related to the purchase of the project. The loan repayment to the authority is secured by net revenues to the authority made by the agency. Net revenues are revenues in excess of operating costs generated by the sale of the power to purchasing utilities, which are obligated (with limited exception) to purchase their power from the Four Dam Pool Project. Loan repayment to the authority is at 6.5% and must be completed within 25 years.

One of the authority's major projects, the Healy Clean Coal Project, is currently not performing and is held in custodial status. In 1991, Golden Valley Electric Association (GVEA) entered into a 30-year power-purchase agreement. GVEA's obligation to purchase power was subject to a demonstration that the plant could be operated on a sustained basis on commercial standards. Construction and testing was completed in 1999 at a total cost of $275 million. In 1998 GVEA disputed the efficiency of clean-coal technology and, therefore, the commercial viability of the plant. A limited retrofit of the project is estimated to cost $40 million-$85 million, and currently the authority is examining other options. Maintenance of custodial status on the project costs the authority approximately $3 million per year.

Overall financial trends for the authority have been positive, with historic debt service coverage in the 3.00 times (x)-5.00x range for the last five years and 3.47x in fiscal 2001. Projections reflect moderately conservative assumptions, and coverage appears healthy (2.94x at the lowest), assisted by the inclusion of an amortization credit that boosts coverage. Additional stress test scenarios were considered to determine what would be necessary for debt service coverage to drop to 1.0x. Stress tests began from the assumption of a 50% reduction on day one of the authority's available cash and investments. Then net revenues were reduced each year to lower coverage to 1.0x. On a cash basis, (excluding an allowance for investment amortization in coverage calculation) the authority could incur average losses of about $23 million per year, or almost 60% of its estimated total net revenues, and still be at 1.0x coverage.

Turnover in the authority's gubernatorial-appointed board and executive director position has had no effect on the authority's fundamentally sound operations, internal review procedures, or asset management. Growing concentration in large projects is a concern, with the top five loans representing a significant percentage of total assets on a pro forma basis. A "dividend policy" that permits transfers to the state based on up to 50% of net-audited income from two years prior ($20 million for fiscal 2001) is a negative credit factor. Mitigating factors limit the impact on the authority's rating. The most notable factors are that future transfers are predictable, formula-based, appear affordable, and will not impair the authority's bond covenants.

Outlook

The outlook is revised to stable, reflecting growing portfolio concentration and the continued uncertainty around the performance of the Healy Clean Coal project. The outlook also reflects the expectation of continued strong cash to debt ratios and good debt service coverage ratios.

Authority's Relation With the State

The authority was created in 1967 by the state legislature to serve as Alaska's primary economic development agency and it currently acts as the state's primary long-term lender. Two main programs, the loan participation program and the development finance program, are the primary vehicles by which the authority participates, in conjunction with local banks, in loans to Alaskan businesses. The authority also owns and operates facilities that are leased to third parties. Increased financing in authority-owned facilities has been a more recent trend.

Over the past several years, Alaska's efforts to realize a return on investments made by the authority, with the goal of transferring revenues from the authority to the state's general fund, culminated with the approval last year of an official "dividend policy" now embodied in statute. Essentially, the authority's board determines an amount to be transferred annually, which totals between 25% and 50% of audited net income from the two fiscal years prior, and which does not exceed the base year's unrestricted net income.

While there are some measures that could prevent transfers (e.g. the transfer requires legislative appropriation, which can be vetoed or reduced by the governor) the statute does allow for sizable transfers. The authority has paid $17.5 million in 2002, from a base year of 2000. For 2003, $20.15 million has been authorized.

Clearly, an entity not required to make dividend payments would be able to retain additional earnings, maintain higher liquidity levels and financial cushions, and reduce additional debt requirements. However, while such transfers to the state's general fund are a negative credit consideration, mitigating factors discussed above limit the impact on the authority's rating.

Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue
Published 3 Jun 2002

Alaska Industrial Devel. & Export Authority

Contacts

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Robert A. Kurtter	212-553-4453
Renee Boicourt	212-553-7162

Moody's Rating

Issue		Rating
Revolving Fund Refunding Bonds, Series 2002A		A2
Sale Amount	$20,400,000	
Expected Sale Date	06/04/02	
Rating Description	Revolving Fund Refunding Bonds	

moody's Assigns A2 Rating to Alaska Industrial Development and Export Authority Revolving Fund Refunding Bonds

Opinion

Moody's has assigned an underlying rating of A2 rating to the Alaska Industrial Development and Export Authority, Revolving Fund Refunding bonds, to be issued the week of June 3rd for interest cost savings. The Series 2002A Revolving Fund Refunding bonds are being issued to refund the Authority's outstanding Series 1992A revolving fund bonds, which were originally issued to finance construction of the aircraft hangar and maintenance facility at Ted Stevens Anchorgae international Airport (the "FedEx Project"). These bonds and all other revolving fund bonds of the Authority constitute general obligations of the Authority, and its full faith and credit are pledged to the repayment of such bonds. The A2 underlying rating is based upon strong management of assets and investments, good coverage of debt service from pledged revenue and sizable cash reserves and investments which exceed debt outstanding. These strengths are offset by the Authority's exposure to performance risk of large loans, and the state's dividend policy relative to the remittance of Authority cash balances annually to the state's general fund.

The bonds are expected to be insured by MBIA. Subject to Moody's review of the insurance policy and other relevant documentation, the bonds are expected to carry the insurer's current financial strength rating of Aaa. Moody's will continue to surveil and maintain the A2 underlying rating.

The Authority is a public corporation of the state established to promote the economic development of Alaska by making or guaranteeing loans to businesses throughout the state. The Authority has two main programs which generate the bulk of its non-investment securities assets: the Loan Participation Program, under which the Authority purchases participations in loans to Alaskan businesses and are secured by first mortgages in real property; and the Development Finance Program, under which the Authority owns and operates transportation, infrastructure, port, airport, utility, energy, tourism destination and other projects leased to third parties. Because Alaska's economic future is tied to the petroleum industry, the diversifying effects of AIDEA's loans should help soften the dislocation caused by the projected decline in oil production expected over the next 10 years.

On December 31, 2001, the Authority's Revolving Fund had net assets of $1.17 billion available to pay - or generate revenues to pay - debt service on Revolving Fund Bonds. As of April 1, 2002, the Authority had $245.5 million of outstanding Revolving Fund Bonds. Over the last five years, the Authority's net income has provided debt service coverage for its bonds ranging from a low of 3.2 times to a high of 5.1 times.

LEGISLATED 'DIVIDEND POLICY' RETURNS CASH TO STATE GENERAL FUND

AIDEA's substantial balances have proven attractive to state lawmakers as the state's General Fund faces continuing expenditure pressures and shrinking petroleum-related revenues. State lawmakers have made a number of attempts in the past to tap AIDEA's resources in support of the General Fund, culminating in legislation to annually share a portion AIDEA's net revenues. This "dividend policy" requires the Authority to annually calculate a "dividend" amount which is not less than 25% or more than 50% of the Authority's unrestricted net income two fiscal years before the fiscal year in which the calculation is made. The Authority has declared dividend payments to the state of $17.5 million for fiscal 2002 and $18.5 million for the prior year. The Authority has authorized a $20.15 million dividend to be paid in fiscal 2003. Moody's anticipates future annual dividend payments over the life of all outstanding bonds will not significantly affect the financial strength of the Authority.

LOAN DELINQUENCY RATES GREATLY IMPROVED

Although state budget issues have placed increased pressure on AIDEA, loan performance has improved in recent years. At their peak during the 1980s, loan delinquencies reached nearly 27% of all loans outstanding, but since then, ongoing seasoning of the loan portfolio and generally improving economic conditions have contributed to a reduced number of past due loans. As of December 31, 2001, nearly 99% of all loans were current, with only 0.5% more than 90 days past due.

The current small precentage of delinquencies relates to the Authority's program of issuing large loans, initiated in 1990. While the Authority still purchases a significant number of small loans originated by Alaskan commercial banks, since 1990, the Authority has increasingly focused on larger projects, some of which had been delinquent or required work-out programs.

INVESTMENT INCOME SUPPLEMENTS LOAN REPAYMENT; IMPROVING BOND SECURITY

In addition to loan repayments, a large portion of AIDEA's debt service coverage is derived from a significant investment portfolio which provided about 21% of the Authority's net revenues. The portfolio, which totaled $450.6 million at December 31, 2001, is conservatively managed, with approximately 80% in U.S. Treasury and agency securities.

Bonds issued by the Authority are backed by loan repayments and investment earnings on the Authority's substantial investment portfolio. Because AIDEA was started with loans originally funded directly by the state and not with bond proceeds, the ratio of assets in the form of loans, cash, and investments to bond liabilities is very favorable. Coverage of debt service by pledged loan repayments and investment earnings has always been solid, and base case cash flow projections indicate that net revenues should continue to cover debt service by more than three times debt service over the life of the Authority's debt.

In addition to ongoing coverage, strong legal provisions also provide comfort. These include a covenant to retain unrestricted surplus at the lesser of bonded debt or $200 million and to keep at least 25% of the required minimum unrestricted surplus as cash and government obligations. The Authority was well above covenanted levels with an unrestricted surplus at June 30, 2001 of $878 million, and investments maturing within one year of $183 million at June 30, 2001.

SEVERE STRESS SCENARIOS DEMONSTRATE AUTHORITY FINANCIAL STRENGTH

Base case cash flow projections indicate solid coverage of combined debt service requirements by several revenue sources, including loan repayments, project revenues, interest income conservatively estimated at 4% from investments, and annual amounts representing the Authority's investment in development projects. Net revenues are estimated to cover debt service by more than 2.9 times over the life of the Authority's debt. Included in this projection is an annual maximum dividend payment (50% of the Authority's unrestricted net income two fiscal years before the fiscal year in which the calculation is made).

The strength of the Authority's current revenue stream would enable it to weather a significant drop-off in collections and still make payment on the bonds, albeit with the thinnest of margins. In fact, the Authority could experience a 60% loss in revenue (representing an average decline of approximately $26 million) and still be able to make payment on its outstanding bonds through 2027. Under an alternate stress scenario, the Authority could experience a 50% drop in investments - losing $23 million in income per year - and still have sufficient net income to make payments on its bonds. Moody's does not expect the Authority to experience any sort of revenue declines of this magnitude. More realistically, debt service coverage is projected to be well-over three times for the next ten years, and then increase significantly through the life of the bonds.

Outlook

The outlook for the Alaska Industrial Development and Export Authority Revolving Fund bonds is stable. Consolidation of reserves with previously restricted revenue and reserves and continued strong performance of the loan portfolio has strengthened the Authority's financial position. Conservative financial and project management and revenue forecasting build additional credit cushion which will buffer the Authority against economic changes that could affect loan portfolio performance. State dividend policy skims Authority cash resources, but if adhered to, provides a known and manageable cash expenditure.

Alaska Industrial Development and Export Authority

AIDEA/AEA

Alaska Energy Authority

April 1, 2003

VIA FACSIMILE

The Honorable John Harris
The Honorable Bill Williams
Co-Chairmen
House Finance Committee
Alaska State Legislature
Juneau, Alaska

Subject: House Bill 203

Dear Representative Harris and Representative Williams:

I am addressing this letter to you on behalf of the Alaska Industrial Development and Export Authority (AIDEA) Board of Directors. At our meeting on March 24, 2003, the Board voted unanimously to oppose the changes to AIDEA's dividend statute proposed in House Bill 203.

When the dividend statute was enacted there was a great deal of discussion on whether such a program was needed and on the details of implementation. The legislation that was passed struck a balance between providing a return to the State for its investment in AIDEA and recognizing that general fund needs could outstrip AIDEA's capacity to meet its operating requirements. The dividend program was a success until this past year when AIDEA's operating loss did not allow a dividend. This loss came from write-downs of $91.3 million related to AIDEA's investments in the Healy Clean Coal Project and Alaska Seafood International.

While the current statute does not allow a dividend, the State General Fund still has compelling needs. Our choice is live by the rules without a dividend this year, or change the rules and pay a dividend. This is a straight-forward choice. What is not so straight-forward are the potential consequences of changing the rules. By amending the rules to address ad-hoc situations, we may be sending wrong messages to everyone involved.

The strongest of these messages may be that there are no consequences to making poor judgments regarding investments of AIDEA's funds. I can assure you that it is the primary goal of the new Board that AIDEA never again be in the position of not paying a dividend.

Another of these wrong messages is the implication that the rules will be changed whenever general funds are needed. There is considerable uncertainty regarding the State's fiscal future. AIDEA can, and should be, a meaningful contributor to Alaska's well-being. To the extent that uncertainty is added to its mix, it becomes more difficult for AIDEA to accomplish its goals.

813 West Northern Lights Boulevard • Anchorage, Alaska 99503

The Honorable John Harris
The Honorable Bill Williams
April 1, 2003
Page 2

The AIDEA Board shares with you the goal of moving Alaska forward. We are aware that you in the Legislature have a difficult time balancing the needs of the State with available funds, but we cannot support HB 203.

The Board is committed to making the necessary decisions to allow AIDEA to continue to foster employment and economic opportunity and to resume paying a dividend to the general fund. We look forward to working with you in this regard.

Sincerely,

Mike Barry

Mike Barry
Chairman

[illegible]

cc: House Finance Committee Members
AIDEA Board of Directors
Ron Miller, Executive Director

Alaska Industrial Development and Export Authority

AIDEA/AEA

Alaska Energy Authority

March 13, 2003

The Honorable Mike Hawker
Alaska State Legislature
State Capitol, Room 434
Juneau, Alaska 99801

Dear Representative Hawker:

AIDEA staff has forwarded to me the legislation that you have proposed to introduce to amend the dividend statute. We much appreciate the opportunity you have provided for us to make comments before the bill is introduced. It is my understanding that our staff will be forwarding a few minor changes intended to help the bill accomplish your intent. We do not make these recommendations as supporters or opponents of the legislation as the issue has not yet been brought before the full Board of Directors, and it would be, thus, inappropriate for us to take an official position for, or against.

Our next scheduled Board meeting is Monday, March 24. I ask you to withhold filing the legislation until our Board is given the opportunity to discuss and comment. As only one member of the Board, I am unwilling to attempt to give you any official feedback until the issue has come before the Board. I will be candid, however, and share with you my strong personal reservations that I have toward the proposed changes.

While the changes proposed are not particularly bothersome in their literal effect, I feel that they have the potential to cause harm to the AIDEA program and to the State. When the dividend statute was enacted there was a great deal of legislative discussion regarding whether, and how, such a program should be implemented. There was a perceived need for the State general fund to begin receiving a return on the significant investment made in AIDEA and there were constituents of AIDEA (such as bond investors, the business community, and the financial community) that recognized that general fund needs could outstrip AIDEA's capacity to meet its own operating requirements. The actual legislation that was passed struck a balance and was generally deemed to be successful until this past year when it did not allow a dividend.

It is not debatable that the current rules in place do not allow a dividend. It is not debatable that the general fund has compelling needs. Our choices are relatively straight-forward. Live by the rules without the dividend, or change the rules and pay a dividend. What is not so straight-forward are the potential consequences of changing the rules. It is my fear that this will be sending the wrong messages to everyone involved. The worst of these messages might be that there are no consequences to making poor judgments regarding investment of AIDEA's funds. I can assure you that it is a galvanizing goal of the new Board of AIDEA never to be in the position again of not being able to pay a dividend. Another poor message is the implication that the legislature will change the rules when funds are needed. There is considerable uncertainty regarding the State's fiscal future. AIDEA can (and should) be a meaningful contributor to the State's future economic well-being. To the extent that uncertainty is added to its mix, it becomes more difficult for AIDEA to accomplish its goals.

Please know that all of us share the same goal of moving Alaska forward. I am particularly mindful that you in the Legislature have a difficult time of allocating the State's resources. We are attempting to make the necessary decisions to allow AIDEA to continue to foster employment and economic opportunity, and to begin again to pay an ever-increasing dividend to the general fund. We look forward to working with you and the Administration in this regard.

Sincerely,

Mike Barry
Chairman

cc: Ron Miller, Executive Director

SENATE FINANCE COMMITTEE

S I G N - I N

HB 203-AIDEA DIVIDENDS TO STATE

NAME: Mike Barry Subject/Bill No: HB 203

Co./Dept./Title: AIDEA Ch. of B.O.D Phone: 907 223/614

Address: Zip:

Do you wish to testify? ___Yes ___No ✓Respond To Questions

NAME: Subject/Bill No:

Co./Dept./Title: Phone:

Address: Zip:

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NAME: Subject/Bill No:

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Do you wish to testify? ___Yes ___No ___Respond To Questions