

# **State of Alaska FY2004 Governor's Operating Budget**

## **Department of Community & Economic Development Alaska Industrial Development and Export Authority Budget Request Unit Budget Summary**

## **Alaska Industrial Development and Export Authority Budget Request Unit**

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### **BRU Mission**

The mission of the Alaska Industrial Development and Export Authority (AIDEA) is to create jobs through statewide economic development and statewide diversification.

The mission of the AIDEA Facilities Maintenance Component is to maintain and operate the office building occupied by AIDEA.

The mission of the Alaska Energy Authority (AEA) Statewide Operations and Maintenance Component is to tap Alaska's natural resources and new technology to achieve the lowest reasonable consumer power costs.

### **BRU Services Provided**

AIDEA acts as an economic development catalyst by providing capital at a reasonable cost for Alaskan businesses, with emphasis on projects that create new jobs and economic activity in the private sector. AIDEA is a primary source of secondary financing in the state for business loans made by financial institutions. The loans are serviced by the banks, thereby limiting staffing requirements at AIDEA. The Authority can also own and operate specific development projects that enhance the economy of the state and support private sector investment. The Authority acts as a conduit for the issuance of both taxable and tax-exempt bonds for specific business development projects. For small businesses, AIDEA has a Business and Export Assistance program, which provides loan guarantees, with particular emphasis on businesses in rural Alaska.

Bonds sold for AIDEA-owned projects do not carry the expressed moral obligation of the state of Alaska. AIDEA bonds are either general obligations of AIDEA or are backed by the revenue produced by a specific AIDEA-owned project.

AIDEA provides all staffing for Alaska Energy Authority (AEA). This encompasses (1) the oversight of the operations and maintenance of all AEA-owned power projects (two hydroelectric plants and the Alaska Intertie transmission line), (2) the management and staffing of AEA's Rural and Alternative Energy Programs, (3) the administration of the Power Cost Equalization (PCE) Program, and (4) the administration of the Circuit Rider Program.

Provide for the operations, maintenance and repair costs of the AIDEA office building.

### **BRU Goals and Strategies**

See components.

### **Key BRU Issues for FY2003 – 2004**

See components.

### **Major BRU Accomplishments in 2002**

See components.

**Key Performance Measures for FY2004**

**Measure:**

**The number of permanent jobs created.**

Sec 29(b)(1) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

In FY02 AIDEA funded loan participations totaling approximately \$40 million, creating approximately 366 construction jobs and 568 new jobs, and guaranteed two loans totaling \$1,841,250, retaining 97 permanent jobs. In FY03 AIDEA will purchase between \$40 and \$50 million in loan participations. In FY04, AIDEA will purchase approximately \$30.0 million in loan participations with financial institutions; and guarantee \$2.0 million in small business loans. The number of jobs created is one of the factors in AIDEA's determination to participate in a loan financing; however, AIDEA has not traditionally projected the number of jobs to be created by its financing participations. After a loan is approved AIDEA is able to track that information. On average, over 300 permanent jobs are created annually by AIDEA's loan participations and guarantees.

	Jobs Created/Retained	
	Construction	Permanent
1992	77	34
1993	191	568
1994	334	349
1995	268	215
1996	298	128
1997	504	176
1998	600	500
1999	381	442
2000	506	275
2001	185	163
2002	366	568

The number of "permanent jobs created" dropped from FY00 to FY01 primarily due to a drop in loans funded, from \$30.9 million in FY00 to \$9.9 million in FY01. The drop in fundings is in part due to large new construction projects that AIDEA committed to but were not completed within the fiscal year. There is often a lag time between approved loans and funded loans, possibly 60 days to a year. FY02 numbers reflect the statistics for completed projects that AIDEA committed to in FY01.

**Benchmark Comparisons:**

No other state similar in population has a public development corporation identical to AIDEA.

**Background and Strategies:**

AIDEA provides the financing mechanisms necessary to participate in long-term commercial loans, guaranteeing small business loans including export transactions, to own projects that promote economic development and to provide conduit financing of projects owned by others that promote economic development.

AIDEA will continue to work with the private sector to develop infrastructure projects that AIDEA can own and lease to the private sector, complimenting private sector investment. AIDEA will also continue to work with the private sector to provide conduit revenue bond financings of projects owned by private sector investments that promote economic development. AIDEA will continue to work with financial institutions to assist in providing long term loans for capital projects.

**Measure:**

**The loan delinquency rate.**

Sec 29(b)(2) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

In August 2002, AIDEA's delinquency rate on loan participations dropped to .78 percent. This is a lower delinquency rate than Alaskan banks average for their total loan portfolio. This is down from a 1.04 percent delinquency rate for July 2002. Delinquency rates cannot be directly controlled by AIDEA. Delinquency rates are more a result of the economy. However, through prudent business practices, AIDEA can make knowledgeable decisions on participating in loans that will help diversify Alaska's economy and create jobs for Alaskan.

**Historical Delinquency (Total Portfolio)**

Fiscal Year End	Portfolio Balance \$	Delinquent Loans \$	Delinquent Loans %
6/30/86	372,833,597	36,975,029	9.92%
6/30/87	329,070,910	85,017,004	25.84%
6/30/88	282,280,437	75,172,882	26.63%
6/30/89	269,187,088	71,877,069	26.70%
6/30/90	237,442,336	31,283,646	13.18%
6/30/91	215,871,257	20,608,511	9.55%
6/30/92	208,496,198	25,292,336	12.13%
6/30/93	216,898,077	10,102,823	4.66%
6/30/94	216,343,028	17,422,823	8.05%
6/30/95	238,177,839	15,968,625	6.70%
6/30/96	232,004,260	15,120,064	6.52%
6/30/97	242,941,647	14,249,212	5.87%
6/30/98	233,819,970	3,491,526	1.49%
6/30/99	222,395,176	5,878,085	2.64%
6/30/00	227,615,585	5,698,987	2.50%
6/30/01	208,094,608	3,249,730	1.56%
6/30/02	209,974,246	4,892,365	2.33%

**Benchmark Comparisons:**

No other state similar in population has a public development corporation identical to AIDEA.

**Background and Strategies:**

AIDEA will continue to carefully review all loan participation requests from banks to help insure that each business receiving the loan can produce adequate revenues to repay the loan and that AIDEA's loan portfolio remains strong.

AIDEA will monitor its loan portfolio monthly and work with originating banks and businesses to help insure their loans are current.

AIDEA will insure its loan portfolio is diverse regionally and by industry sector.

**Measure:**

**The amount and percentage of earnings of the authority available to the state as a dividend.**

Sec 29(b)(3) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

Since the Dividend Program became law in 1996, AIDEA has provided over \$129 million to the General Fund in the form of a dividend, including the FY03 dividend of \$20.1 million. AS 44.88.088 requires that the amount of the dividend for a fiscal year may not be less than 25% nor more than 50% of the net income of the authority for the base fiscal year

Base Fiscal Year June 30	Net Income	Payable		Net Income %
		In FY	Dividend	
1995	37,461,096	1997	15,000,000	40.042%

1996	42,902,054	1998	16,000,000	37.294%
1997	42,880,361	1999	16,000,000	37.313%
1998	52,373,699	2000	26,000,000	49.643%
1999	37,092,829	2001	18,500,000	49.875%
2000	35,597,000	2002	17,500,000	49.161%
2001	40,299,000	2003	20,149,500	50.000%
Cumulative	<u>288,606,039</u>		<u>129,149,500</u>	<u>44.749%</u>

**Benchmark Comparisons:**

AIDEA's Dividend Program is unique.

**Background and Strategies:**

Through prudent business practices and a guiding investment policy, AIDEA will continue to produce net income, thereby allowing AIDEA to provide a dividend to the General Fund to fund other important programs.

AIDEA recommends that this measure be amended to reflect the statutory requirements for the dividend payment.

**Measure:**

**The change in the number of unscheduled outages of hydroelectric projects owned by the Alaska Energy Authority (AEA).**

Sec 30(b)(1) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

AEA works closely in an administrative role with the operating utilities to minimize the number of unscheduled outages at the hydroelectric projects owned by the Authority and to insure the projects are operated effectively and efficiently through regular maintenance and budget oversight. The utilities are tasked with providing the necessary service to get the projects back on line when there is an unscheduled outage and provide backup generation when outages occur.

AEA's primary role is to efficiently oversee the operations and maintenance of approximately \$430 million in electrical generation and transmission facilities in Alaska. AEA is the owner of the facilities with oversight of the project budgets. The utilities operate and maintain the facilities. Prior to 1993, AEA had a staff of seventeen to monitor the operations of the projects, providing detailed reports on operations, including unscheduled outages. AIDEA currently provides one staff position to provide oversight of the project operations and maintenance.

Due to lack of resources, detailed reporting, including the tracking of power outages, has been discontinued by AEA.

**Benchmark Comparisons:**

Not applicable.

**Background and Strategies:**

Continue to work with operating utilities to provide the local control of AEA projects for operation and maintenance services.

**Measure:**

**The number of four dam pool project repairs and upgrades completed on time and within budget (this measurement will be used until the transfer of ownership of the four dam pool projects has been completed).**

Sec 30(b)(2) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

Transfer occurred on January 31, 2002. This measure should be deleted.

**Benchmark Comparisons:**

Not applicable.

**Background and Strategies:**

Not applicable.

**Measure:**

**The change in the amount of revenue created by projects owned by the Alaska Energy Authority (AEA).**  
Sec 30(b)(3) Ch 124 SLA 2002(HB 515)

**Alaska's Target & Progress:**

In FY02 the AEA-owned projects generated approximately \$17,387,000 in revenues from operating plants and \$6,934,000 of investment and other income. Expenses, including depreciation, in excess of revenues offset the income.

The projects owned by AEA were built as infrastructure projects to provide lower-cost energy to Alaskans and were not intended to generate excess revenue. AEA works to maximize the revenues at the projects to cover operating expenses.

**Benchmark Comparisons:**

Not applicable.

**Background and Strategies:**

AEA administers the outstanding long-term debt of the AEA-owned projects, which is in excess of \$140 million, and administers special trust funds relating to the facilities. To the extent feasible, AEA contracts the direct operating, maintenance and repair responsibilities of the AEA-owned facilities to the operating utilities and works with the operating utilities to lower operating costs and improve efficiencies at the facilities owned by AEA.

Since AEA's goal is not to generate excess revenue from the operation of the projects, this is not an appropriate measure for the operation of AEA-owned facilities. This measure should be revised or deleted.

**Alaska Industrial Development and Export Authority**

**BRU Financial Summary by Component**

*All dollars in thousands*

	FY2002 Actuals				FY2003 Authorized				FY2004 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
<b><u>Formula Expenditures</u></b>	None.											
<b><u>Non-Formula Expenditures</u></b>												
AIDEA	0.0	0.0	5,128.5	5,128.5	0.0	0.0	6,362.5	6,362.5	0.0	0.0	6,436.3	6,436.3
AIDEA Facilities Maintenance	0.0	0.0	328.4	328.4	0.0	0.0	177.0	177.0	0.0	0.0	192.0	192.0
AEA Statewide Operations & Maint	0.0	0.0	760.0	760.0	0.0	0.0	1,067.1	1,067.1	0.0	0.0	1,067.1	1,067.1
<b>Totals</b>	<b>0.0</b>	<b>0.0</b>	<b>6,216.9</b>	<b>6,216.9</b>	<b>0.0</b>	<b>0.0</b>	<b>7,606.6</b>	<b>7,606.6</b>	<b>0.0</b>	<b>0.0</b>	<b>7,695.4</b>	<b>7,695.4</b>

**Alaska Industrial Development and Export Authority  
Proposed Changes in Levels of Service for FY2004**

See components.

**Alaska Industrial Development and Export Authority  
Summary of BRU Budget Changes by Component  
From FY2003 Authorized to FY2004 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2003 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>7,606.6</b>	<b>7,606.6</b>
<b>Adjustments which will continue current level of service:</b>				
-AIDEA	0.0	0.0	40.1	40.1
-AIDEA Facilities Maintenance	0.0	0.0	15.0	15.0
<b>Proposed budget increases:</b>				
-AIDEA	0.0	0.0	33.7	33.7
<b>FY2004 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>7,695.4</b>	<b>7,695.4</b>