

Behind the Headlines with AIDEA

Authority continues to fund Alaska projects.

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Several years ago I was hired to appraise the proposed Cruise Ship Berth IV in Ketchikan on behalf of a major lender. The long flight aside, this was a dream assignment for an appraiser and I was pleased to be involved. Upon initiating the assignment I knew immediately that the Alaska Industrial Development and Export Authority (AIDEA or simply, "the Authority") was involved in the deal, because the client ordered 10 copies of the appraisal – one for each AIDEA board member. Ultimately, Berth IV was built. Today, Berth IV contributes millions to the Ketchikan economy and is a major addition to the tourist infrastructure of Alaska.

In Alaska, the appraisal business, like all commercial real estate, is directly influenced by AIDEA. Like appraisers, AIDEA sometimes does not get the credit they deserve for their contribution to the Alaska economy. Admittedly, both work behind the scenes and are not exactly headline material.

BIG CONTRIBUTOR

Most Alaskans would be shocked to learn that since its dividend program was established in 1996, AIDEA has provided more than \$251.3 million to the State coffers. This includes a \$22.72 million dollar distribution in 2008. Simply put, the owners of AIDEA (the people of Alaska) are receiving a positive return on their investment, which is something that can not be said today of very many other financial institutions, let alone government-owned entities. But the dividend program itself represents only a small part of the benefit AIDEA provides to the state of Alaska and its residents.

AIDEA is unique to Alaska, only one other state (Pennsylvania) has a

similar agency. As a public corporation established by the Alaska Legislature in 1967, the Authority's mission has always been "to encourage economic growth and diversification in Alaska by providing various means of financing and assistance to Alaska businesses." AIDEA Executive Director Ted Leonard further qualifies this. "AIDEA helps promote economic development by providing financing to viable projects that the private sector would not, or could not, finance without our participation," Leonard said. Most market participants view the Authority as a partner with the private sector, rather than a competitor, according to Leonard.

INDUSTRIAL DEVELOPMENT

AIDEA fulfills its mission through the Development Finance Program and six different credit programs. Through the Development Finance Program (DFP) the Authority develops, owns and operates facilities within the state. Eligible projects are ones deemed "essential to the economic well-being of an area," and having the ability, "to produce adequate revenues to repay the bonds sold to finance the project." The DFP does not compete with the private sector; rather it supports projects that are in the best interest of the State. Seven facilities are currently owned under this program, including the Healy Clean Coal Project, the Skagway Ore Terminal and the Delong Mountain Transportation System.

FINANCING FEASIBILITY

One credit program, the Loan Participation Program (LPP), provides long-term financing through the pur-



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chase of up to 90 percent of an organization's loan. In most cases, the Authority's share of the loan features a lower interest rate and a longer amortization period than the other lender's share, thereby making the project financially feasible. H2Oasis, Marriott Springhill Suites, Phillips Cruises & Tours and Alaska Laser Wash are just a few examples of borrowers that have benefited from this program.

As of Nov. 28, 2008, the LPP had participated in 264 loans worth approximately \$374 million. The scope of the LPP is not limited to any particular industry or region of the state as its portfolio is invested in nine different industries across seven geographic regions. Six different industries and five different regions each account for more than 5 percent of the outstanding principal of the portfolio.

The services AIDEA's programs provide have made it increasingly possible for organizations to access the funds necessary for their initiation and growth. Christine Anderson, deputy director of AIDEA, believes

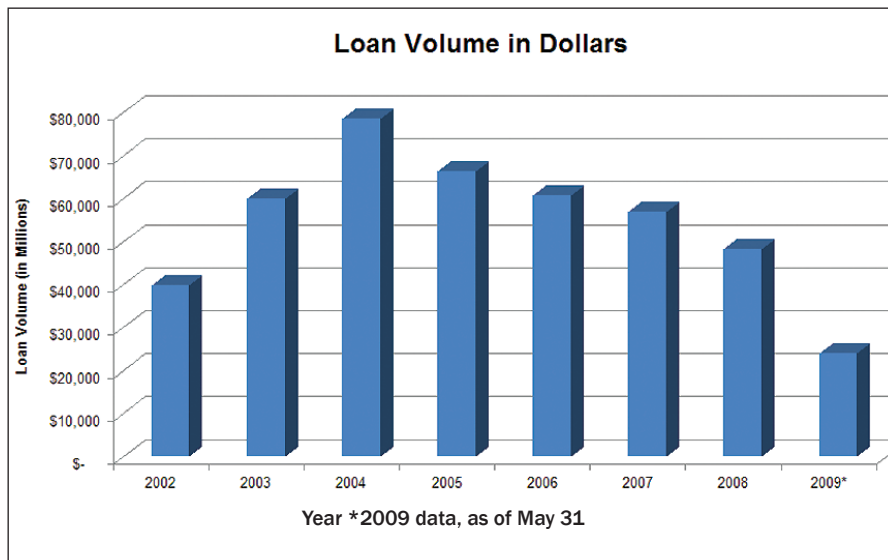
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—Ted Leonard
Executive Director
AIDEA

projects like the Fresenius Medical Care Cook Inlet Dialysis Center on Dimond Boulevard in Anchorage “would probably not have moved forward without us (AIDEA).” Through the LPP, the Authority was able to purchase 90 percent of the \$2,831,250 loan originated by a local lender, which holds the other 10 percent. The dialysis center was anticipated to create 32 jobs and opened this past February. Anderson says that transactions like this are a “win-win all the way around,” in that they are profitable for both the bank and the Authority while giving the borrower “some consistency in knowing what their future debt service will be.”

HIGH RATINGS

Despite its nonprofit-driven mission statement and its geographic and industrial diversification, the Authority continues to have a strong balance sheet. As of May 31, 2009, AIDEA’s 90-day delinquency rate on its portfolio was only 0.08 percent – this represents only one default in the entire \$374 million dollar portfolio. The Authority’s strong balance sheet has not gone unnoticed by ratings agencies. Moody’s Investors Services and Standard and Poor currently rate the Authority an A1 and an AA(-), respectively. John Kelsey, a member of AIDEA’s board of directors, at-



tributes these high ratings to “well-established conservative management ... and sound business principles.”

HIGH RATES

By statute, the interest rate offered by AIDEA is indexed to the prevalent rates within the bond market. While this has been beneficial to the Authority in the past, the meltdown of the global financial markets and premiums currently required by bond investors has resulted in an increase in AIDEA rates. While the spreads (the difference between a lender’s cost of funds and the interest rate charged to consumers) for most banks have been increasing, in order to remain active, AIDEA’s spreads have been shrinking.

Even though it is beyond AIDEA’s control, some participants we spoke with in the commercial real estate industry have been critical of AIDEA’s higher rates. Anderson agrees that current rates are “a little on the high side relative to years past.” The year-to-date high for a 25-year fixed interest loan was 9.74 percent in early May, while the year-to-date low was 8.46 percent in early January. For the week of June 21, 2009, the rate was 8.67 percent. Anderson concedes that it is “difficult when you are underwriting to have things pencil at that rate.”

GLOBAL ALASKA

The Authority is an excellent example of how Alaska, while different, is not removed from the influence of

global markets. In the short term, due to conditions within the bond market, the ability of AIDEA to meet its mission statement may be negatively impacted. However, Anderson is quick to point out that “even under current conditions AIDEA is still doing lots of deals and our year-to-date loan volume is still substantial.” Anderson also points out that the private sector is aggressively pursuing deals and the availability of capital remains high. This is good news for all Alaskans.

In the long term, there is no question that the Authority will continue to be a resilient partner for Alaskan business. This is especially comforting at a time when many prestigious institutions have either collapsed or shaken our faith in their leadership. While AIDEA employees may not receive the press coverage they deserve, their efforts have ensured, and will continue to ensure, a vibrant and diversified Alaska economy. □

About the Author

Per E. Bjorn-Roli MAI is a managing member of Reliant LLC (formerly Integrated Realty Resources Inc.), an Anchorage-based firm providing statewide real estate appraisal and advisory services to leading financial institutions, Native corporations, federal and State agencies and the private sector. He holds the Appraisal Institute’s prestigious MAI designation and has appraised more than \$1.5 billion dollars in commercial real estate in Alaska since 2003.