Alaska Industrial Development and Export Authority

Board Meeting Minutes
September 3, 2010
Anchorage, Juneau, and Petersburg, Alaska;

1. CALL TO ORDER

Chairman Pat Galvin called the meeting of the Alaska Industrial Development and Export Authority to order on September 3, 2010 at 1:20 p.m.

2. ROLL CALL: BOARD

Board members present in Anchorage: Michael Felix (Public Member).

Participating via teleconference: John Winther (Public Member)-(Petersburg); Commissioner Bell (Department of Commerce, Community and Economic Development) (Juneau) and Commissioner Galvin (Department of Revenue) (Houston, Texas).

Board members absent: Commissioner Leo von Scheben (Department of Transportation & Public Facilities).

A quorum was established.

3. AGENDA APPROVAL

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present: Ted Leonard (AIDEA Executive Director); Chris Anderson (Deputy Director – Credit); Sara Fisher-Goad (Deputy Director – Operations); James Hemsath (Deputy Director – Development); Valorie Walker (Deputy Director – Finance); Brian Bjorkquist (DOL); Mike Harper (Deputy Director – Rural Energy); Sherrie Siverson (Executive Assistant); and Carmen Jones (Administrative Assistant).

Others Present: Tim Bradner (Alaska Journal of Commerce)

5. PUBLIC COMMENTS

There were no public comments.

6. OLD BUSINESS

There was no old business.
7. NEW BUSINESS

7A. Resolution G10-12 Purchase of Certain Power Project Fund Loans

The Chairman asked if there were any other questions regarding this Resolution from the Board members. Hearing none, a motion was requested regarding Resolution G10-12 Purchase of Certain Power Project Fund Loans.

MOTION: Commissioner Bell moved to approve Resolution No. G10-12. Seconded by Mr. Felix. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mme. Bell and Messrs. Galvin, Felix and Winther voting yea. Commissioner von Scheben absent.

7B. Resolution G10-13 Emergency Regulation Changes 3 AAC 99.250(d) and 3 AAC 99.350(e) Setting Interest Rates for Taxable and Tax-Exempt Loans

Resolution G10-13 deals with Senate Bill 300, which goes into effect on September 9, 2010, that changes the way AIDEA will effectively set rates going forward. An index needs to be established that will be the benchmark and floor going forward and setting regulations.

This applies when AIDEA is using its own assets to finance a loan participation. If AIDEA were to use bond proceeds to finance a loan participation the current scheme continues, the bond rate is the rate that would be used for the loan participation.

Currently, AIDEA is working on permanent Regulations that would provide a complete path to be used for setting rates. That would include reviews by the loan committee of what index would be used on a quarterly basis. This Regulation is just to be able to have the ability to choose the index for the period of now through October 20.

In October, those Regulations will have already gone through the comment period. AIDEA is not under the Administrative Procedures Act so those time frames do not apply. Notice has to be sent out at least fifteen days before the Board meeting at which the Regulations are to be adopted.

The 290 basis points was discussed. The 65% of the Federal Home Loan Bank rate was discussed.

That would be for setting rates for tax exempt groups and it is in conjunction with Western Financial Group (AIDEA's bond/financial analyst). Based upon historical trends, the tax exempt rates have been running 75% of taxable rates.

The 65% is both in the taxable and the tax exempt language. If the intent was to only have that in the tax exempt, there needs to be an adjustment to the regulation. Section D is the tax exempt and Section E is the taxable. Strike out “65% of”. The 65% applies to the tax exempt.

The following adjustments were made to the Regulation: Page 2 of 2, under subsection D, strike “65% of”, delete the comma after index on the third line and on page 1 of 2, on Section d (1)b, third line down, after the word index, strike the comma.
In the Regulations dealing with tax exempt, since they are a specialized rate, there is a limit of about one million dollars that can be funded internally. Anything above that, the Regulations state that we will go out to the market to fund it.

Mr. Bjorkquist read in some corrections to the Regulations: to be deleted from subsection 350 e on page 2 of 2, at the end of subparagraph b, it should read "and expressed as an annual rate of interest that would apply to the Authority's taxable...", the two places it reads "tax-exempt" should read "taxable".

The premise of the emergency is that as of September 9, 2010, when the Legislation goes into effect, that we have the authority to look to a proxy to set our rates or is it that we drop into some methodology that is expected to set our rates and absent these Regulations we would have nothing.

If these Regulations are not adopted then the statutory authority for having an interest rate on loan participation requires the Authority to adopt those rates by Regulation. With the statute changing, the old Regulations would no longer be used because those are based on the interest rate that AIDEA would get if it issued bonds that no longer has a statutory basis. AIDEA would be left without any basis for establishing interest rates for loan participations that it funds with its own assets.

This emergency Regulation sets the index for the temporary period as the Federal Home Loan Bank of Seattle's advanced rate, which statute says we say that we need an index to apply ourselves to.

The impact on business and the changing interest rates were discussed.

There has been increased activity. The market still does not have a great deal of confidence in it. Lenders in general are hungry for business and AIDEA is in the business for doing term transactions for commercial real estate loans. When we do go to the new rate, when we add our overhead to our floor, that interest rate is actually going to be slightly above what our current rates are above what we have been publishing on all of our fixed rates. It's not substantial; it does not appear that it will negatively impact business, but right now all of those rates will be below what our floor will currently be.

The rate we set based on looking at taxable bonding for a twenty-five year is approximately 5.56% and based on the floor that is set in statue on a fixed rate it would be 5.81%. Again, as we look at those transactions, our cost of funds is in that range. Right now we are getting approximately 5.37% over a five year period on our earnings, so 5.81% truly reflects our opportunity cost.

Lenders are also setting floors on their participating interest and their floors are above ours. This week the Federal Home Loan Bank of Seattle's index rate for a twenty-five year loan is 5.06%. Their rate is set daily. With the operational spread, AIDEA's rate would be 5.48%. If AIDEA were doing a tax exempt transaction it would be 65% of the 5.48%.

The language for the fixed rate loan is the rate during any fiscal year may not be lower than the five year return on the investment funds of the Authority, that language is responsive to statutory language. Mr. Bjorkquist stated that for fixed rate loans it's included in the statute.
MOTION: Mr. Felix moved to approve Resolution No. G10-13. Seconded by Commissioner Bell. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mme. Bell and Messrs. Galvin, Felix and Winther voting yea. Commissioner von Scheben absent.

8. DIRECTOR COMMENTS

Mr. Leonard stated that the Recovery Zone deadline has come and gone as of August 31, 2010. We received applications for a total of $162 million for the $135 million of the allocation that we have so we are getting ready to go through the process of awarding allocations. It was a really good mix of small businesses and one large project. Total jobs that would be created based on the estimates in the applications would be over 248 new jobs. This program looks like it is going to be a success as we thought it would be. We will have more information for the Board on September 22, 2010.

The Chairman asked if there were any action items on the agenda for September 22, 2010.

Mr. Leonard stated there will be a couple of due diligence agreements for the Board to look at on projects. One of the agreements is very time sensitive. On the conduit bond applications and regulations, they are very much tied to the recovery zone allocations that we are doing and we are looking at a simplified process for these conduit bond applications that you will be looking at over September and October. There may be one more regulation change on an emergency basis to make it easier for the Board in October and November as they do the reimbursement resolutions and approve the conduit applications that are tied to the recovery zone allocations.

The Chairman asked if there were any further comments. There were none. The next meeting will have some action items and some portion of it will be a work session to orient the new Board members to AIDEA and AEA.

8A. Director’s Status Report

Mr. Leonard referred board members to information in their packets.

8B. Next scheduled meeting Wednesday September 22, 2010

9. BOARD COMMENTS

There were no comments.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 2:02 p.m.

Ted Leonard, Executive Director/Secretary
Alaska Industrial Development and Export Authority