



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Monday, August 22, 2011
Kotzebue and Anchorage, AK

1. CALL TO ORDER

Chairman Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on August 22, 2011 at 10:01 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Kotzebue: Chair Hugh Short (Public Member); Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development); Bryan Butcher (Commissioner, Department of Revenue); Robert Sheldon (Public Member); and Gary Wilken (Public Member).

Member participating from Anchorage: Wilson Hughes (Public Member).

Absent: Ron Arvin (Public Member).

3. AGENDA APPROVAL

The agenda was approved as amended.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Kotzebue: Ted Leonard (Executive Director); Mark Davis (Deputy Director-Investment Finance and Analysis); Valorie Walker (Deputy Director-Finance); Jim Hemsath (Deputy Director-Project Development and Asset Management); Mark Schimscheimer (Project Manager); Sherrie Siverson (Executive Assistant); and Teri Webster (Administrative Assistant).

Others present in Kotzebue: Eugene Smith (Mayor-City of Kotzebue); Derek Martin (City Manager-City of Kotzebue); Grant Hildreth (City of Kotzebue); Walter G. Sampson (President-Northwest Arctic Borough Assembly); Hendy Ballot (Vice President-NWAB Assembly); Brandon Chapman (Northwest Arctic Borough (NWAB) Planning Department); John Chase (NWAB Planning Department); Miles Cleveland, Sr. (NWAB Assembly); Nathan Headley, Jr. (NWAB Assembly); Ingemar Mathiasson (NWAB Energy Coordinator); Matt Mead (NWAB); Christy Mulluk (NWAB Deputy Borough Clerk); Ukallaysaaq Okleasik (NWAB Planning Department); Lincoln Saito (NWAB Economic Development Director); Patrick Savok (NWAB Assembly); Austin Swan, Sr. (NWAB Assembly); Dean W. Westlake (NWAB Assembly); Martha Whiting (Mayor NWAB); Wayne Hall (Teck-Red Dog); and Cole W. Schaeffer (Kikiktagruk Inuiat Corp).

Staff present in Anchorage: Chris Anderson (Deputy Director-Credit); Bill Phelan (Loan Officer II); Mike Catsi (Business Development Officer); Chris Rutz (Procurement Officer); Jay Drewry (Chief Procurement Officer); Shauna Howell (AEA Executive Assistant); Sandy Burrows (Administrative Assistant); and Karin St. Clair (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Rich Wilson (Alaska Ratepayers Association); Jim McMillan and Tom Saville (First National Bank Alaska (FNBA)); and Andrew Romerdahl (Double Glacier Builders/Pfeffer Development).

Participating via conference call: Doug Ward (Alaska Ship and Drydock).

Listen to the full audio recording of the 8/22/2011 meeting at <http://www.aidea.org/boardmin.html>

5. PUBLIC COMMENTS

Martha Whiting, Mayor, Northwest Arctic Borough

Mayor Whiting welcomed AIDEA board members and staff and thanked them for visiting the region. She mentioned the trip to the Red Dog mine and said there are development opportunities in the region and they look forward to working closely with AIDEA.

Walter Sampson, President, Northwest Arctic Borough Assembly

Mr. Sampson welcomed AIDEA board members and staff to the Northwest region. He said AIDEA has done a lot of work, both in the region as well as state-wide, and he looks forward to a good productive dialog with the Board in regards to NWAB future projects.

Doug Ward, Alaska Ship and Drydock

Mr. Ward, director of shipyard development for Alaska Ship and Drydock said their company is the commercial operator of the Ketchikan Shipyard under a 30-year agreement with AIDEA. He was pleased to learn from the opening comments that this is the first time in 13 years the AIDEA board has ventured outside of Anchorage. He said it is a significant change and he supports the Board visiting other regions in Alaska. As a Ketchikan Chamber of Commerce board member, he invited the AIDEA board to consider Ketchikan for a future board meeting.

Mr. Ward spoke to Resolution G11-18 and said they support the adoption of this resolution. He requested a few language changes to the document and was open to answer questions regarding those proposed changes.

Mr. Ward proposed the following changes:

Page 1 – Fifth WHEREAS paragraph – after “...bringing oil and gas fields into production...” insert a comma and strike “and”. After “...port development...” insert “and industrial capacity and manufacturing”.

Page 1 – final WHEREAS as it goes to page 2 – after “...(industrial roads, rail...” insert a comma and strike “and”. After “..ports...” insert “and related manufacturing capacity”).

Page 2 – final WHEREAS paragraph – after “...intermodal transportation development projects...” insert “and supporting industrial capacity”.

Page 2 – Section 2 end of paragraph – after “...and the construction of intermodal transportation...” insert “and maintenance”.

Page 2 – Section 3 end of paragraph – after “...ore processing facilities,...” strike “and”. After “...energy facilities.” Insert “and industrial manufacturing facilities”.

Mr. Ward said Alaska’s manufacturing industrial capacity is very important to creating new jobs and supporting resource extraction, as well as, oil and gas, and shipping in the Arctic.

6. PRIOR MINUTES

The AIDEA Board Work Session minutes of June 9 and 10, and AIDEA Board Meeting Minutes of July 19, 2011 were approved as amended.

7. NEW BUSINESS

7A. Loan Resolution No. L11-06 Double Glacier Builders, LLC

Mr. Leonard said Loan Resolution No. L11-06 is a request that AIDEA participate in a \$1,631,064 loan with First National Bank Alaska. AIDEA is being asked to participate at 90% in the amount of \$1,467,958. He said AIDEA has the capacity to fund this loan under the new targets. He said the reason this loan was coming to the board was because the borrower has more than \$3,000,000 of loans with AIDEA.

Ms. Anderson provided an overview of the information outlined in the Memo to the Board. The borrowing entity for the loan is Double Glacier Builders, LLC. The loan is for a retail building on the Kenai Spur Highway in Kenai. There are multiple guarantors listed in the credit report presented to the board. The loan has a 90% Bureau of Indian Affairs (BIA) guaranty. Twenty-seven construction jobs will be created by this request. There will be no permanent jobs created with the borrowing entity. However, 10 permanent jobs will be created with the tenant, Alaska Communication Systems (ACS). The building is 100% leased to ACS and is under a build-to-suit lease.

Ms. Anderson said there is related debt, two loan participations guaranteed by Mark Pfeffer totaling \$12,278,073. The first loan is to VDG-OPA, LLC which is a medical office building in Anchorage and the second loan is to Okmok Development, LLC for a medical office building in Anchorage. AIDEA also approved and issued a commitment in the amount of \$1,350,000 to Sea Lion, Inc. This is also a 90% participation in gross loan of \$1,500,000 with FNBA. That particular loan will provide term financing for new construction of a store in Hooper Bay and will be funded upon the completion of the project.

Ms. Anderson said based on the economic value of this loan participation and having sufficient funds unencumbered under the Loan Participation target, staff recommends funding the loan participation subject to certain conditions listed in the report provided to the board.

Mr. Sheldon said he noted that Moody's Rating Service has rated the prospective tenant (ACS) at B1. However, with the Department of Interior/Bureau of Indian Affairs guarantee, he could get past his concern. He noted the appraisal was dated November 1, 2010 and asked AIDEA staff and FNBA at what point an appraisal is considered stale. Ms. Anderson said typically the rule is one year, but if you are in a very fast moving market they sometimes shorten that to six months. She said Credit has not seen this kind of environment for several years.

Mr. Sheldon asked if the fast moving market could be either up or down. Ms. Anderson said it could be either, but there would be more of a concern if it were down.

Mr. Sheldon asked the FNBA representatives about their policy. Mr. Jim McMillan said FNBA's policy is similar, one year or less. They take into consideration what may be happening in the market or what they perceive in the market. One year or more, they would request a new appraisal. They considered the appraisal to be current.

Chair Short said during the credit presentation he noted AIDEA has a variable rate but in the confidential credit presentation AIDEA listed a fixed rate. He asked for the correct rate to be paid on AIDEA's 90% portion. Mr. McMillan said it is a variable rate, but it only adjusts every three years. Mr. Phelan said the AIDEA portion will be fixed at the 25-year rate. Chair Short said to note the discrepancy in the credit presentation which was in the packet to the board.

MOTION: Commissioner Bell moved to adopt Loan Resolution No. L11-06. Seconded by Commissioner Butcher. There being no discussion, the question was called. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Sheldon, Mr. Hughes, Commissioner Butcher, Commissioner Bell and Chair Short voting yea.

**7B. Resolution No. G11-10 Adoption of AIDEA Procurement Regulations
Resolution No. G11-11 Delegation of Procurement Authority
Resolution No. G11-17 Appointment of Chief Procurement Officer**

Mr. Leonard said during the last legislative session, the Legislature gave AIDEA the authority to set its own procurement regulations. These three resolutions are the first steps in writing these regulations. The first resolution deals with temporarily agreeing to continue with procurement statute AS 36.30 and regulation 2 AAC 12 except that AIDEA delegates the authority from the Commissioner of Administration and Commissioner of DOT&PF to AIDEA personnel and to the AIDEA board. The first resolution is setting up the rules and regulations that will be followed.

The second resolution delegates procurement rights, powers, duties, and authority to the Executive Director, the Chief Procurement Officer and the Board.

The third resolution appoints Chris Rutz as the Chief Procurement Officer as the Authority moves through the process of writing its own regulations. Once the regulations are complete, AIDEA will ask the Board to appoint the new procurement officer, Jay Drewry, to that position.

Mr. Wilken asked if the regulations are modeled after some other part of state government. Mr. Bjorkquist said the statutory framework for AIDEA to operate is similar to what is done for other public corporations and authorities. These particular regulations differ from what others do because it is a temporary mechanism to have regulations in place to follow the current procurement code and regulations until AIDEA can, through a more deliberative process, have

its long-term procurement regulations put into place. From a statutory basis it's similar to some other public corporations. These particular temporary regulations differ in that they filling a gap until long-term regulations can be put into place.

Mr. Wilken asked when the formal regulations will be brought forth. Mr. Rutz said by Christmas he hopes they would have the formal regulations in place. He will solicit public input in the regulation process. Having been involved in the adoption of the procurement code and procurement regulations in the early 80s and 90s, Mr. Rutz knows it is very worthwhile to keep the public informed. As a public corporation, he said it's an important process for AIDEA.

Mr. Wilken asked if it is anticipated that there will be significant divergence from current regulations under which the Authority worked. Mr. Rutz said at this particular point in time he does not see a major divergence. This was discussed with the Legislature, with testimony, that processes would be followed similar to other public corporations or even AS 36.30 itself. He anticipates some unique challenges with respect to public-private partnerships and how AIDEA chooses to address that issue.

Mr. Wilken asked if these bleed over to AEA or would there be a different set for that side of the Authority. Mr. Bjorkquist replied the authority was only granted to AIDEA. The Alaska Energy Authority does not have the authority to adopt its own procurement regulations. AEA is subject to the current state statutes and procurement regulations and has to work through the Department of Transportation & Public Facilities (DOT&PF) for construction and the Department of Administration for other procurements.

Mr. Leonard said this was in AEA's bill last year and was taken out. Chair Short added that Ms. Fisher-Goad indicated she is going to approach the Legislature for some sort of a procurement authority next session. This conversation will be continued at the next AEA meeting, along with the Susitna Dam which is an area where it will likely be needed.

MOTION: Mr. Wilken moved to adopt Resolution No. G11-10. Seconded by Mr. Sheldon. A roll call vote was taken and the motion passed with Mr. Wilken, Mr. Sheldon, Mr. Hughes, Commissioner Butcher, Commissioner Bell and Chair Short voting yea.

MOTION: Commissioner Bell moved to adopt Resolution No. G11-11. Seconded by Commissioner Butcher. The motion passed with Mr. Wilken, Mr. Sheldon, Mr. Hughes, Commissioner Butcher, Commissioner Bell and Char Short voting yea.

MOTION: Commissioner Bell moved to adopt Resolution No. G11-17. Seconded by Commissioner Butcher. The motion passed with Mr. Wilken, Mr. Sheldon, Mr. Hughes, Commissioner Butcher, Commissioner Bell and Chair Short voting yea.

7C. Resolution No. G11-18 Rare Earth Metals, New Mining Districts, Industrial Access Roads

Chair Short said he was excited and was looking forward to the conversations with this resolution. This resolution would allocate \$1.5M from AIDEA for road, ports and projects across Alaska. Kotzebue and the Northwest Arctic are rich in resources, but getting those resources to market is difficult. Hopefully this resolution can help move that forward.

Mr. Leonard said this resolution gives the staff authority to invest up to \$1.5M for the purpose of initial planning and analysis for infrastructure that AIDEA intends to own. It's very important to note this is for specific projects in order for AIDEA to use money from the Economic Development Account AS 44.88.172. He believes this initial investment will help attain AIDEA's mission and give back a rate of return that will recoup the initial expense.

MOTION 1: Mr. Sheldon moved to approve Resolution No. G11-18. Commissioner Bell seconded. The chair called for comments.

Mr. Bjorkquist said there are two different legal issues overlaying the implementation of this resolution. Mr. Leonard mentioned the first. Under Alaska statute 44.88.172 use of 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 second is that AIDEA's statute also provides that its operating budget is subject to the Executive Budget Act which means that the Legislature must appropriate money for the operating budget. In implementing this resolution AIDEA will need to ensure that all of the expenditures are capital, rather than operating in nature, and AIDEA will work with its accountants and Director of Finance in implementing this to assure it is met. Those are the two overlaying legal issues with respect to how AIDEA will need to implement this resolution.

Mayor Whiting asked if the process could be expedited. There are a lot of projects in the region that can be developed within the Upper Kobuk Mining District; they have the Cape Blossom Road and Port. She asked how many projects per region can be looked at and how can they expedite that process and the authority as AIDEA intends to operate? They have learned a lot from DMTS and tried to purchase DMTS. She stated if there is any revenue sharing involved that they benefit the Municipality.

Chair Short said the intention of this resolution is to allocate the funds and then have the staff bring back a process. There will be the opportunity, at further meetings, to understand which projects are high priorities that AIDEA feels are perfect for this type of funding. There are other projects that are further along that will have a reimbursable component to it with private developers. The intention of these funds is to work on projects that are less mature. This would enable AIDEA to go out and define the feasibility and hopefully get the private sector, as well as the state, involved.

Mr. Hemsath said the purposes of these funds are study funds. Historically, AIDEA's approach has been one of reactive. When a project comes to AIDEA relatively developed we are at a point where we can move to reimburse because we understand what the project is. The complexity of the infrastructure and the complexity of the mine drives us to the point where we need to do significant preliminary analysis. Which of these projects are there? What business approach do we take? How does AIDEA own a portion or its entirety and be consistent with the statute. This will move AIDEA to a point where a business plan can be formulated and brought to the board and possibly take to the market. It allows AIDEA to be more proactive than simply waiting for something to happen.

Motion 2: Commissioner Bell made a motion to reflect amendments suggested earlier.

Fifth "Whereas" clause, third line beginning with the phrase, "...bringing oil and gas fields into production..." add a comma and strike "and" so that it reads, "...production, port development, and industrial development and manufacturing capacity."

Resolution No. G11-18 page 2.

First line, in parentheses (industrial road, rail...), add a comma, and add "and related manufacturing capacity" so it reads (industrial roads, rail, ports, and related manufacturing capacity), retaining the word "ports".

Third "Whereas" clause starting with, "...intermodal transportation development projects..." add "...and supporting industrial capacity".

Section 2, at the end of that paragraph where it says, "...intermodal transportation facilities," add "and maintenance," so it reads, "...intermodal transportation and maintenance facilities."

Resolution No. G11-18 page 3.

Section 3, in the last line, with the phrase that begins "...road, ports, port facilities, ore terminals, ore processing facilities, and energy facilities," including the phrase, "...and industrial manufacturing facilities".

Motion 2 was seconded by Mr. Wilken.

Mr. Wilken asked if staff sees any problems with those additions.

Mr. Leonard said he does not see any problem with having "facilities" added. It does change the tone of the original resolution dealing with large infrastructure a little, but through the process of analyzing projects that this language works

Mr. Bjorkquist made a point regarding section 3. He said this change would expand the scope of the type of projects that could be used. That is a matter of prerogative for the board and also the staff as to whether that is consistent with what they want to do to implement this resolution or in implementing this resolution, which projects they want to focus upon.

Mr. Sheldon said this particular resolution seemed to address seasonality remoteness which primarily challenged the private sector throughout the state. At a minimum he would like to consider not adding the addition that relates to maintenance. he thinks that increases the scope vastly further than what the original reading of the resolution appears to be shooting for. He agrees that it appears to be much broader and would have difficulty voting for a much broader resolution. The resolution seems to address seasonality issues, rather than day-to-day items that might come up. This is the first blush effort at getting things off the ground.

Chair Short asked for a clarification from Mr. Sheldon asking if he agrees to the manufacturing capacity and the intent language around manufacturing, but not the maintenance. Mr. Sheldon confirmed that is correct and maintenance is further down the line than he believes this resolution is targeting.

Mr. Hemsath agreed with Mr. Sheldon saying the expansion of the industrial capacity is consist with the memo specifically talking about in state processing, that the manufacturing element

capacity. These funds are related very specifically to the study of new projects of which maintenance does not fit and we are not maintaining existing projects. We are looking for a few projects and preferable the maintenance does need to be struck because it makes it inconsistent with the capital funds include capital projects not maintenance costs

Mr. Leonard asked Mr. Ward if he is trying to include the facilities that do maintenance like shipyards. Mr. Ward replied that what he was trying to accomplish was reduction in costs in maintenance, but with ports and harbor facilities, to have manufacturing capacity to provide maintenance structures that might be needed to support both mining and resource development enterprises in the state. He understood the difficulties that the term "maintenance" puts in and agreed to have the term "maintenance" struck in order to keep the scope consistent. He stated they support those resolutions that just passed regarding AIDEA's financial activities.

MOTION 3: Mr. Sheldon moved to strike "maintenance facilities" from the amendment to the motion to adopt Resolution No. G11-18. Commissioner Bell seconded the motion. A roll call vote was taken and the motion passed unanimously.

Chair Short said they were back to the original amendment to the first motion. There is a motion and a second with some revised language before the board.

MOTION 2: There being no discussion a roll call vote was taken and the motion passed unanimously.

Chair Short said they are back to the original motion to adopt G11-18. He asked if there was further discussion on this resolution.

Mr. Wilken asked if this is something that the Authority has done before or is this new. Mr. Leonard said it is new to the mode of what AIDEA has done in the past. For a long time, the Authority mainly used reimbursement agreements. Before that point AIDEA used funds out of the development account for preliminary feasibilities. Now they are asking the board for pre-feasibility monies.

Ms. Walker said it was always specific projects, not situations similar to this one. She said AIDEA has used its own cash to fund pre-feasibility studies many years ago.

Mr. Wilken asked who decides how to spend the \$1.5M and on what basis do they decide to move forward. Mr. Leonard said the resolution gives that authority to the Executive Director with the caveat to report back to the Board quarterly on these funds. The funds are mainly to be used for major infrastructure. For example, on Rare Earth processing plants AIDEA believes there is a need to do a study on where the processing plant should be. AIDEA would bring in experts to assist in this pre-planning, pre-analysis stage before a reimbursement agreement can be made. AIDEA is asking the Board to use some of the revolving account monies to invest in pre-planning reports.

Mr. Wilken asked if AIDEA's work starts when someone has an idea within AIDEA or when someone walks through the door with an idea. Mr. Leonard said it could be both. For example, with industrial roads there are several industrial roads that the State and communities are interested in, so AIDEA can work with the communities beforehand on the roads. There could be many different sources where these projects come from, but each would go through the

process of deciding if the project is right for AIDEA, with communication to the Board. If someone came in with an idea and we believe it matched AIDEA's mission, or fit where AIDEA wants to use its resources, AIDEA would look at it. It does not automatically mean monies would be spent on those projects.

Mr. Wilken asked if this new initiative will create a need for new staff. Mr. Leonard estimated that most of the money would be used by the Authority partnering with the private sector or experts in the field.

Mr. Wilken said it seems to be focused around rare earth minerals. If a port was needed in Hoonah, would this be covered by this resolution? Mr. Leonard said it could be used for port facilities. AIDEA is currently looking at the Port of Seward. Staff are looking at bringing in the Community Development Quota program and funds could be used for that study.

Mr. Wilken said the resolution title is very broad, but in line five it drills down to Arctic ports and in the WHEREAS on the second page, AIDEA is interested in development of ports in the Arctic. Is AIDEA restricted to talking about ports in the Arctic whereas it could be ports anywhere for intermodal transportation? What does it bring to this resolution other than some sort of restriction?

Mr. Leonard said it is narrowed down to intermodal transportation and port facilities that support the development of natural resources. He believes fishing is not included in natural resources, unless you could tie it back to development of natural resources.

Mr. Davis said the mention of certain products of the Arctic ports is just by way of example. It would not be so limited legally. It has to be for actual planning of the projects and these projects are going to be characterized by the high cost of building them before revenues are available. He said the big issue will be building them before revenues are up and running. For example, with industrial access roads, the mine will follow the road. So there will be a gap.

Mr. Wilken said he is fully supportive of the resolution, but is very concerned that this may have restricted the authority of those who follow. There is a limestone mine in Metlakatla. This can be construed as not applying to the mine because it is not in the Arctic, unless we define Arctic as anything north of Prince Rupert.

Mr. Leonard asked Mr. Bjorkquist if Section 1 overrides the "WHEREAS" or do we need to strike the "WHEREAS?" Mr. Bjorkquist said Section 1 has some language, but Section 3, the operative section dealing with the expenditure of money, also provides that it's limited, that it is for intermodal transportation projects and infrastructure projects that relate to the development of natural resources and then gives examples. Arctic is not included in any of the operative sections, Sections 1 through 4, but the WHEREAS clause could be read by somebody to suggest that there is a limitation. So, if there is some concern, the easiest approach would be to just delete those references. So the one WHEREAS clause that "the Authority is interested in development of ports in the Arctic" and the other reference to the Arctic could be deleted, it would not have a substantive impact on the resolution.

Mr. Wilken said he is concerned what this means for someone who looks at this five or ten years from now.

MOTION 4: Mr. Wilken moved to amend Resolution No. G11-18 in two ways. In the title remove the words on the fifth line "...and Arctic." Second, on page 2 in the first WHEREAS clause, at the end of the "WHEREAS," the sentence will end after the word "port(s)" and "in the Arctic" will be deleted. Motion No. 4 was seconded by Commissioner Bell.

Chair Short said he has a problem with this. His personal issue is he thinks there is a general consensus in the state that Arctic can encompass the Ambler Mining District, Outer Continental Shelf (OCS), Western Arctic Coal. A lot of these big resource projects are located in this part of the state. One of his intentions in supporting this is he thinks the future of resource development is going to happen in this part of the state and further north, whether it's OCS, there is going to be a need for ports to support shipping oil. In case there is a spill, there will need to be a massive infrastructure to support that. Intermodal transportation is really roads. There will be a need for roads to be built to supply the mines from the port to the mine. He thinks AIDEA can play a significant role with HB119 being passed. This allows the Authority to directly invest in the projects, ports and roads, co-invest in the projects with others and bring private sectors. This amendment potentially takes away that emphasis which important to his support of this resolution. He said it is not a deal-killer, but wanted to state "for the record" that from his perspective it is an important part of this resolution.

Mr. Sheldon said he agrees with Chair Short's comments. To him, this is targeting one of the highest intensity from the standpoint of opportunities that lay before us. From his experience in the private sector, with venture capitalists and large companies that can fund these sorts of things, it is a source of transportation connectivity that really hurts the potential rate of return on a project. He notes that the intensity in other areas of this state is present. He said in this area, due to the remoteness and the seasonality of the region of what we are referring to as the Arctic, the intensity has not been jump-started. He would be reticent to make any adjustments although he understands the logic behind them. However, when we look at the intensity of what has been involved in this area, it just does not exist and with folks he has been speaking to, they are looking for an indication of both a quasi-public entity such as AIDEA, as well as the State of Alaska hopefully (noting we can't speak for them) would be willing to participate in one manner or another. To him this is a very strong signal from the perspective of this Authority of the intent to participate and even enable the process. Mr. Sheldon said he cannot agree with those amendments.

Mr. Wilken said he appreciated their comments. He said for the record then, does this board believe that inclusion of the word "Arctic" specifically should exclude "ports, intermodal transportation or facilities" any place other than in the Arctic?

Chair Short said from his personal perspective, he did not think so. He said there is a project in the region where he is from, Donlin Creek, that is in need of major infrastructure development and would hope if there was an effort from the private sector or from the staff to look at that, he would be supportive under the language here for helping that infrastructure development. He does not agree that we are excluding anything including Metlakatla.

Mr. Davis made a suggestion to take the heading and revise it, as Board Member Wilken suggested, to take the full "WHEREAS" clause on page 2 and modify it to read, "WHEREAS the authority is interested in the development of port(s), including those in the Arctic," that might

signal that we are interested in every port, but there is an interest particularly in the Arctic because the resources are here.

Commissioner Butcher said he was going to say something similar to what Mr. Davis said, whereas if you keep the specifics out of the more legal area than be-it-resolved, but yet in the WHEREAS where it is more appropriate to put a lot of what you are thinking in it, call attention to it. You could do it in a way that you are not making a legal issue while still focusing attention on the Arctic.

Chair Short said so potentially an amendment to the amendment could be to strike "Arctic" from the title and include "WHEREAS the authority is interested in the development of port(s), including in the Arctic;" as a compromise.

MOTION 4: Mr. Wilken withdrew his amendment with the approval of the second and to start a new amendment as stated. Mr. Sheldon seconded.

Mr. Sheldon said there have been a number of steps that have taken place under our current governor, beginning with speeches in December and January that began a very important signaling process to the investment community and talking about both financiers as well as developers who would like to partner with resource owners. That continued with the House Bill 119 passage. This is further along those lines and he believes it is required. He said he definitely concurs with the language. He told Mr. Davis he thought that was a wonderful suggestion.

MOTION 5. Mr. Wilken moved to amend Resolution No. G11-18 by, in the title remove the word "Arctic" on line five and on page 2, amend the text to read "development of port(s), particularly in the Arctic." Mr. Sheldon seconded the motion. Chair Short called for discussion. Hearing none, he called for a vote. The motion passed unanimously.

The board recessed at 11:22 a.m. and reconvened at 11:34 a.m.

8. DIRECTOR COMMENTS

8A. Directors Status Report of AIDEA Programs and Projects

Potential Involvement in Developing Alaska's Film Industry

Chair Short said the film industry has taken notice in Alaska, primarily due to the fact that the State of Alaska provides an approximately 44% state tax credit for movies made in Alaska. Everyone knows the big film last year was "Everyone Loves Whales," which used actors and actresses from this community. It was a huge economic boom for Alaska to have that movie here. Going forward, the film industry is very interested in coming to Alaska. The problem is that we do not have the infrastructure in Alaska. The film industry needs sound stages to be able to get out of the cold environment. There is uncertainty about legislation passing through House Finance next session and the tax credit may not be there. Currently there are four films that would like to film in Alaska, four big productions possibly worth over \$100 million in production costs.

Another area of interest is Kulis Air National Guard Base (Kulis) located near the airport. At the end of the fiscal year it will be turned over to the Department of Transportation & Public Facilities (DOT&PF). DOT&PF has actively been marketing the buildings and assets at Kulis. Potentially the entire campus could provide infrastructure for the film industry in Alaska. If sold parcel by parcel it may be purchased by industries, airline, warehousing, or different private sector investments that have nothing to do with the film industry. If you have not been on a tour of Kulis, it is actually the perfect campus. Being next to an airport could make filming prohibitive, but based on sound tests it is actually a really good campus in the interim – a least until the private sector knows the tax credits are available and the film industry is here.

Potentially AIDEA could step in and negotiate a master with DOT&PF for the facility for the next year to two. AIDEA could then get the productions currently on the board into the facilities and sound stages and possibly create hundreds if not thousands of jobs in Alaska through the film industry. That is the intent. This proposal was put together by Mr. Leonard, his staff and consultant Rich Wilson. This is not an action item. Mr. Leonard, Commissioner Bell, and the Commissioner of DOT&PF have been involved in discussions with state government about this. Chair Short said he wanted to bring this to the Board and provide an opportunity for the Board to ask questions and provide input. This is a real opportunity for AIDEA to step in, help create jobs, and hopefully get those assets to the private sector in the near future and start a process where the film industry is more heavily invested in Alaska. Potentially there are many below-the-line and above-the-line jobs available and we hope to create those opportunities.

Mr. Leonard said AIDEA is taking a bridge role to see where the film tax credits may go next year. The group has been working with the Department of Commerce (DOC) and DOT&PF to see where AIDEA may participate and allow this to move forward. This would give the Legislature the chance to finish its analysis of the film tax credit program and allow time for the public private sector to become involved in creating this infrastructure.

Commissioner Bell said the tax credit program is administered by the Film Office in the Division of Economic Development (DED) and she has worked closely with the Department of Revenue (DOR) throughout the process. Earlier this summer DED contracted Rich Wilson to do preliminary planning. He was an excellent selection because the entities that are involved - DOT&PF, DOC and the Department of Military and Veterans Affairs (DMVA) - all recognize his long history with the airport, the facilities, and his understanding of what the State is obligated to do when this becomes DOT&PF property adjacent to the airport. He did some preliminary work that preceded what is before the AIDEA board today. A week ago the Governor asked for a meeting with General Katkus. The facilities are being turned over to DOT&PF and DMVA has moved offsite. General Katkus, DOT&PF Commissioner Luiken and herself discussed this and said they are interested in helping fill a gap while DOT&PF goes through the leasing process. They did partial appraisals and there could be a delay before the information is available. They want to send a clear message that the State wants to maximize economic development and employment opportunities for Alaskans and there is a role AIDEA can play to help ensure that if there is a period where the facilities are not available, they can fill that.

The Governor asked Commissioners Luiken and Bell to identify a path forward and report back to him. She said last week several people were standing by because they were all prepared to also talk directly with Commissioner Luiken and his staff but between his travel schedule and hers, they were not able to set that up. Discussions are imminent. DOT&PF has some information from Mr. Wilson and others that are a more current because they have been

tracking this closely. This is a priority area that the Governor would like them to show how the private sector will have access to this facility. She thinks AIDEA can fill a gap and make sure that the commerce continues to happen.

Mr. Wilken asked if there are statute requirements or restrictions for DOT&PF in marketing that valuable property. Mr. Bjorkquist said the constitutional limitations would be in a disposal of a right or an interest in land. There is Article 8, Section 10 of the Constitution that requires any disposal of state land include a public notice and other safeguards of the public interest. So every agency who deals with state land has to go through public processes for a disposal.

Mr. Wilken said he would assume that is what, if this became DOT&PF land, that DOT&PF would go through and this being the first he has heard of this and the limited amount of what he has heard, he would assume that DOT&PF would do something and provide AIDEA with some sort of rights to the airport land and that AIDEA would, under its own authority, deal with it.

Once the land becomes an interest in land for AIDEA, AIDEA is a little bit different than other state agencies in that it probably would not be disposing of an interest in land, but would have permits for short-term use. This would not trigger the constitutional provisions for notice. It all depends on the details and circumstances. With respect to statutory limitations, if Kulis is transferred to DOT&PF, becomes part of the airport, he thinks there are some statutory provisions that require it be used for airport purposes. He does not know what that means and would have to take a look at what the specific DOT&PF statutes are and whether there are any airport limitations in uses.

Mr. Wilken referred to page 13 and said there were two references to the FAA. He asked if this required some sort of federal fix in order for that property to be transferred to AIDEA. Commissioner Bell said there is a priority for aviation use, particularly in the area of the property listed on pages 10 and 11, and part of this is the need to be compliant with FAA and consistent with the airport master plan.

Mr. Davis said the land is being transferred from the federal government to the state, specifically DOT&PF, but they have added some caveats in the transfer. Those are exactly the same type of caveats that appeared when the federal government transferred the Alaska Railroad to the state. They wanted it to stay a railroad. Commissioners have certain aviation priorities and Mr. Wilson is an expert on that and can answer which specific buildings.

Mr. Wilson referred to page 10 in the report, which showed an aerial photo of the facilities. He said there is a distinction being drawn by both the federal and the DOT&PF as to the appropriate use for interim purposes. He referred to the hangars that are adjacent to the taxiway system and said those are very valuable from an aviation standpoint and will ultimately return to aviation use once the economics of the aviation sector returns. In the meantime, those could be used on short-term basis according to the information that the airport provides him, but they have consulted with the FAA on this. The details of how long those uses could be allowed would probably not go beyond six to twelve months per use for the aviation hanger facilities. He said there are three major hangars: 3, 45, and 46. In the "uplands", which is higher ground, behind all of those hangar facilities, those are more flexible for longer term use, three to twenty years they indicate. They could be considered interim non-aeronautical use for three to twenty years. So there are two sectors that have been defined in a Kulis Land Use Plan the airport prepared dated last February.

There was a discussion on where the “uplands” start.

Mr. Wilken asked if the FAA will weigh in on Alaska’s decision or are they out of this once they transfer the land. Mr. Wilson said yes, the FAA is involved. The transfer is between the Department of Defense (DOD), the United States Air Force and DOT&PF. The FAA will be consulted because of what is known as the FAA Grant Assurances. Because the airport receives federal grants, it has to sign a piece of paper saying that it will comply with all grant assurances that the FAA requires. One of those is to use the airport frontage and most of the facilities for aviation use. It also provides for aviation support use but there are opportunities for non-aeronautical use for periods of time in the interim, but his understanding between communication between DOT&PF and FAA have been positive for both use of some of the hangars for short period of time and the uplands for longer periods of time.

Mr. Sheldon said he noticed a large number of buildings are set to be demolished and asked for the rationale behind this. He noticed a lot are labeled administrative. He asked what the replacement value is. Mr. Wilson said the airport has contracted an appraisal expected to be done by the end of September. Buildings shaded in red on page 11, figure 4 are buildings identified by the airport as older or of less use from an aviation point of view in the long term, or were in the way of a future taxiway system improvement project.

Mr. Leonard asked Mr. Wilson to elaborate on the fact that the airport had to make a decision on which buildings are going to be demolished. Mr. Wilson said the airport may not have demolished the building in red right away but there is a one-time opportunity for DOD to pay for the demolition and create a green field opportunity for long-term aviation development. The Base Realignment and Closure bill (BRC) was passed several years ago and Kulis was one of the bases identified. The mission of Kulis was retained but was moved to Elmendorf within the past six months. The next step is for the demolition of the facilities identified by the airport. The contract has been let by DOD and this is moving forward rapidly. There are some petroleum products that need to be cleaned up. These have been identified and defined under the appropriate processes and this may extend to next summer. DOD will decide how fast the demolition will be.

Mr. Sheldon told Mr. Wilson he encapsulated his primary concern and once the ball is rolling it goes very quickly. He said the replacement value for a new structure on the Kenai Peninsula was exceedingly high. His concern is that they are being too hasty in the process of demolishing buildings that may be perfectly usable. Capital is becoming scarcer each day. Is the demolition absolutely necessary and has there been given much thought for replacement value versus other potential projects?

Mr. Wilson said he cannot speak to the DOT&PF research that resulted in this list of demolition projects. He is not sure how much flexibility there is left because the contract for demolition has been let.

Chair Short said he knows a little about this and there have been conversations about the Feds providing money to DOT&PF for use at their discretion. The answer he received is the Feds have not been willing to do that, which may be a little bit different from what Mr. Wilson said. It is a shame because some of the buildings set for demolition are perfectly fine buildings and he feels it is disheartening to have to tear them down.

Mr. Davis said under the BRC procedures there are appropriations for Congress to spend on each base within a certain period of time. They will do what the new property owner wants done with those funds. He does not know of a way to transfer federal funds to a state agency. It is probably an FAA issue. He was involved with the Fort Greely closing and ran into the same issue. But this is free and to be fair to the DOT&PF, they are being told they can get these things done and the federal government will pay for it on their time schedule.

Mr. Sheldon said it may be free money but how much value are we destroying in the process? A conversation should be had with the DOT&PF. Buildings will have to be built on a scale of what we are talking about. There are very large numbers floating around out there about entities who would be delighted to purchase these buildings because of what is probably on its way to Alaska. We are an emerging economy and in that emergency economy you don't destroy good infrastructure. He has been on the base in some of the buildings cited here and they have been incredibly kept up. He hopes that as part of this process we can ask what our requirements are, do we have to accept the dollars whether or not we are destroying something of more value than we are preserving by demolishing the buildings.

Commissioner Bell said she will convey the comments expressed when she continues discussion with Commissioner Luiken. In fairness to the parties who have been working together, there are productions that have used the facilities and anticipate using them again and have been very pleased. Some of the ones that have also toured it have been very responsive to the private sector. One of the sensitivities in moving forward is aviation and non-aviation interests and it is appropriate for state agencies to think through these processes. Sensitivity to the private sector interests, recognition of specific timelines, guidelines for DOD and DOT&PF negotiation and other economic opportunities should be considered. This is where AIDEA can play a role. She wants to be sure that we are not turning away economic opportunities for the state whether it's to DOT&PF, to AIDEA, or to another commercial entity that might be interested in partnering with this facility. They are looking for ways to help smooth this out, provide a stop-gap measure so that things can progress in an orderly fashion. They will be talking with the Governor and DOT&PF in the course of the next few days.

Mr. Sheldon said he is completely delighted with the progressive nature of utilizing some of these buildings and some of the uses until things do pick up. But, what we are talking about today has a lot to do with signaling. If it is said to come but are destroying a whole bunch of building that could be use, instead of being six months out from mobilizing in an area, now it is three years out because new structures have to be built. He said that is the part he has difficulty with.

Chair Short said this item is a moving target that should probably be brought back at the October 5 meeting. Hopefully there will be some resolution to this.

Mr. Hughes said that in the interest of full disclosure, he has had the tour and have engaged an architectural firm to evaluate the value to GCI of the five "upland" buildings. Nothing he heard today was of a proprietary nature, so he did not disrupt at that point but knows that there are companies out there looking at the non-aviation uses. He is one of those and thought it was an interesting opportunity. He said he has more to learn about the value of further support of the film business beyond the tax advantage that the state has already provided, but is open to learn.

Loan Activity Reports, Dashboard Reports, Project Updates

Mr. Leonard said in the board packet was the regular dashboard reports, loan reports and project updates and the staff is ready to answer any questions the board may have. He thanked the Northwest Arctic Borough, the Mayor and Chairman for allowing AIDEA to come up and looked forward to the afternoon work session.

Mr. Sheldon pointed out for the record, the loan delinquencies are abnormally low. Apparently, whatever steps needed to be taken to draw down from roughly \$3,000,000 in loan delinquency to going to \$600,000 over the last month period did not go unnoted by him. This is a very difficult environment and it just shows the efforts of staff in vetting and making sure we are making good decisions on loans. It is a small fraction of what the statewide delinquency rates are lower and he is very thankful and wanted to thank staff for their good work in that area.

Chair Short said to add to that he thinks having a loan delinquency is great. He would hope that the Authority does not manage their portfolio so conservatively that they are not providing opportunities for those that really could use the help. When you manage a delinquency rate of such a low percentage, you are also limiting the access of those funds to those rural entities that could potentially use those funds. It is a fine balance and he understands that and he applauds it, but at the same time wants to make sure that the Authority is doing their best in their portfolio to help those organizations that could really use our help. Things are expensive in rural Alaska, the price of fuel is expensive, everything is more expensive and so if we can provide lower interest rates for a longer term and still provide a good credit, that's important.

8B. Next regularly scheduled meeting Wednesday, October 5, 2011.

9. BOARD COMMENTS

Mr. Hughes apologized for not attending in person but will rearrange his schedule in the future to make it work better. He appreciated the preparation work by staff and the efficiency of the meeting.

Mr. Wilken apologized for missing the July meeting. He expressed his thanks to Mr. Leonard and Ms. Anderson for coming to Fairbanks on June 9, 2011. They visited four local banks, met with each of their executive officers and various clerks and found it very interesting. Since that time he has had feedback on what a great thing that was.

The Chairman's initiative to get out from behind the desk and visit the people you serve was appreciated. He suggested doing the same thing several times a year by taking a few board members to sit in meetings and observe. He found it very beneficial and the feedback was very beneficial to those who would not normally see AIDEA as faces. He applauds the effort and hopes this will continue as a normal part of AIDEA operations.

Mr. Sheldon thanked Mayor Whiting, President Sampson, and all of the other community leaders who took time out of their day from the Assembly and other entities to share in the first, of what he hopes will be an annual event, at least in this region. He said this is a tremendous opportunity to move forward and see what might be done. He particularly enjoyed the relevant

conversation in the meeting today about this region and is looking forward to the afternoon session.

Commissioner Bell said she echoes the appreciation for the warm welcome and the hospitality and looks forward to the afternoon discussion.

Commissioner Butcher thanked the hosts and said he loves this area of the state. With his schedule he is not always able to attend every board meeting, but when he saw this meeting was scheduled up north, he made sure to be here and participate. He informed the Board that DOR has hired a new Deputy Commissioner for the Treasury, named Angela Rodell, who will start in September. She comes from First Southwest, a financial advisor in New York City, and has an extended background in finance with the State of Alaska.

Chair Short expressed his thanks and noted that it was a real honor to be here in the Northwest Arctic Borough and Kotzebue and was looking forward to the afternoon meeting.

10. ADJOURNMENT

There being no further business of the Board, the meeting was recessed at 12:13 p.m. and will be reconvened as a work session in the afternoon.



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