



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, November 9, 2011
Anchorage,
Juneau and Palmer, Alaska; NeiHu, Taiwan

1. CALL TO ORDER

Chairman Hugh Short called the meeting of the Alaska Industrial Development and Export Authority to order on November 9, 2011 at 10:37 a.m. A quorum was established.

2. ROLL CALL: BOARD

Members present in Anchorage: Chair Hugh Short (Public Member); Angela Rodell, Deputy Commissioner, Department of Revenue); and Gary Wilken (Public Member).

Member participating from Juneau, Alaska: Susan Bell (Commissioner, Department of Commerce, Community, and Economic Development).

Member participating from Palmer, Alaska: Robert Sheldon (Public Member).

Member participating from NeiHu, Taiwan, Ron Arvin (Public Member) joined the meeting at 10:54 a.m.

3. AGENDA APPROVAL

The agenda was approved as presented.

4. ROLL CALL: STAFF, PUBLIC

Staff present in Anchorage: Ted Leonard (Executive Director); Chris Anderson (Deputy Director-Commercial Finance); Jim Hemsath (Deputy Director-Project Development and Asset Management); Valorie Walker (Deputy Director-Finance); Karsten Rodvik (Project Manager, External Affairs); Mark Schimscheimer (Project Manager); Jay Drewry (Chief Procurement Officer); Chris Rutz (Chief Procurement Officer); Karl Reiche (Projects Development Manager); Brenda Applegate (Controller); Shelby Weems (Accountant V); Linda McMillan (Deputy Director-Operations, AEA); Emily Ford (Public Outreach Liaison, Susitna-Watana Project, AEA); Peter Crimp (Deputy Director-Alternative Energy & Energy Efficiency, AEA); Sean Skaling (Project Manager-Energy Efficiency, AEA); Sherrie Siverson (Executive Assistant); Shauna Howell (Executive Assistant, AEA); Sandy Burrows (Administrative Assistant); and Teri Webster (Administrative Assistant).

Others present in Anchorage: Brian Bjorkquist (Department of Law); Pat Clancy (Western Financial Group); Beth Stuart (KPMG); Per Bjorn-Roli (Reliant Advisory Services); Larry Houle, Bryce Klug, and James Dougherty (RIM Architects); Jan Sieberts (Washington Capital Management); Steven Kantor (First Southwest); Joe Griffith (ARCTEC); Gene Therriault (Golden Valley Electric Association).

Listen to the full audio recording of the 11/9/2011 meeting at <http://www.aidea.org/boardmin.html>

5. PUBLIC COMMENTS

Gene Therriault, Golden Valley Electric Association (GVEA)

Mr. Therriault gave a status update on GVEA meetings with AIDEA and AEA regarding several projects.

GVEA continues to work with AIDEA to obtain a permit renewal from federal agencies and non-governmental organizations to operate the Healy Clean Coal Plant. He said AIDEA staff have been accommodating with their time for meetings to discuss the issues and believes they have a good working relationship.

AEA staff recently introduced new Susitna-Watana project staff to GVEA. They held a meeting to inform the community and GVEA of the project progress and introduced the project staff. GVEA would like Lead Project Manager, Wayne Dyok, to speak to the GVEA Board in the future.

Mr. Therriault thanked AEA staff for helping GVEA access grant funds for the Eva Creek Wind Turbine Project. The project is fully sanctioned and expects to be generating up to 25MW of renewable clean power by September 2012.

6. PRIOR MINUTES – October 5, 2011 Board Meeting.

Minutes from the October 5th board meeting were adopted as amended.

7. NEW BUSINESS

7A. FY2011 Audited Financial Statement

Beth Stuart from KPMG gave a presentation on AIDEA's FY2011 Audited Financial Statement. KPMG issued three reports: a letter to the Board of Directors, the June 30, 2011 Financial Statement and a Federal Single Audit.

The Letter to the Board summarized the audit process, standards, and results. The audit did not find any significant problems in the accounting policies that were adopted by the Authority or any unusual transactions.

Ms. Stuart said KPMG consulted their national office for further review on three transactions: AIDEA's purchase of a loan from AEA; a loan participation financing the construction of a wastewater facility; and the transfer of property from the Department of Transportation. All three were found to have appropriate accounting in the financial statements of the Authority.

The Financial Statements include various estimates and judgments. KPMG evaluated the Healy Clean Coal Project with a carrying value of \$44M. Management asserted procurement did not occur on that asset. The audit agreed with the valuation.

Ms. Stuart said KPMG also evaluated \$12M allowance for loan losses for loans carrying a value of \$491M. The findings were believed to be reasonable.

No corrections were made to the Financial Statements.

The Federal Single Audit relates to compliance with grant requirements for major programs. AIDEA had one capital investment grant with the Department of Transportation which was found to be in compliance.

Mr. Short asked about the loan losses increasing from \$9M to \$11.5M in the past year. He asked if this was due to an increase in the loan volume or if there were reclassified loans. Ms. Stuart replied it was volume driven.

Mr. Short asked if the audit looked at documentation in files or if the audit was from a more global level. Ms. Stuart replied KPMG performs credit file reviews on higher risk loans. Auditors also review loan files prior to loan approval, and they look at documentation around the general reserve for the loan portfolio. She said they looked at 10 to 12 special reserve loans. There are no tests on the loans that are performing but payments are reviewed on sample loans.

Recess – 10:53 a.m.

Reconvene – 11:03 a.m.

7B. AIDEA and AEA Office Space Feasibility Study

Mr. Leonard reviewed AIDEA's and AEA's need for more office space due to increases in staff. It is the Board's wish to have AIDEA, AEA and Susitna-Watana staff located in one building. A feasibility study was performed and Mr. Larry Houle from RIM Architects presented the study results.

The RIM/Reliant team was asked to provide options for a larger facility to accommodate growth within AIDEA and AEA over the next 20 years, either at the present building or off-site. They analyzed five options: (1) expansion of the existing building; (2) purchase or renovation of a mid-town office; (3A) construction of a new office building on AIDEA property across from the existing building; (3B) construction of a new Class A office building in the mid-town area; and (4) keep the existing building and lease additional space for 25 people in the mid-town area.

Mr. Short asked if all AIDEA and AEA staff are currently located in the existing building. Ms. Fisher-Goad said the Susitna-Watana project office, located in the Sunshine Plaza, currently houses four AEA staff and one temporary employee. Additional staff will be added soon. The AIDEA and AEA warehouse is located off-site but is not included in the consolidation due to the space they require.

Criteria for the study was set forth as: A mid-town location bounded by Fireweed Lane, Lake Otis Parkway, International Airport Road, and Minnesota Drive; Class A office space constructed of steel, glass, and concrete; and undeveloped lots to accommodate a Class A construction.

The study looked at capital costs, operating costs and a net present value based on a 20-year occupancy and a five-percent discount rate. A matrix was provided to the Board with the results.

Summary of the finding:

- Task 1 - Expansion of the existing building was greatly inhibited by the parking requirements and a 20-foot ML&P utility easement. The easement would need to be relocated and could cost up to \$500,000.
- Task 2 - Purchase an existing building that meets the criteria. Two buildings were located. Both the Calais Office Center and the Tudor Park buildings have recently signed long-term agreements with their tenants. To purchase and occupy the building would require a buy-out of the leases.
- Task 3A - Construction on AIDEA-owned property would require a multi-level parking garage with an office on top. The parking garage would be costly with a demand for 160 parking spaces and a cost estimate of \$30,000 to \$32,000 per parking space. The existing structure would be disposed of for an additional needed parking garage.
- Task 3B - Eight lots were located in the mid-town area for construction of a new Class A building.
- Task 4 - Adequate available office space for lease was located in the mid-town area for a staff of 25.

Mr. Houle believes if AIDEA initiates a formal RFP for a procurement plan to purchase property or a building, the marketplace will present more opportunities than what they discovered.

Ms. Anderson asked if the utility easement would be grandfathered on a sale of this property. Mr. Houle said based on the existing parking agreement, AIDEA should have renegotiated the parking agreement when the building was purchased. He believes the utility company would re-assess the parking agreement if the building was offered for sale. The Municipality was not interested in moving the easement.

Deputy Commissioner Rodell asked if legislative approval would be needed to purchase a new building. Mr. Bjorkquist said AIDEA has the ability to expend the monies without going through the legislature.

Mr. Leonard asked the Board, based upon the study results, if staff could pursue drafting a resolution and a procurement process to purchase property or an existing building for AIDEA and present it at the next board meeting.

Mr. Wilken asked if Task 1 would work for AIDEA and AEA. Mr. Reiche said it would be a challenge to fit the projected staff expansion into a building addition. He said even if the building expansion was built to its maximum, AIDEA and AEA would still be short of space.

Mr. Short asked how AIDEA would finance the acquisition of new property. Ms. Walker said they believe the purchase and modification of a building would be eligible for tax-exempt financing but added not all options have been completely explored yet. Mr. Short asked what the current interest rate is. Mr. Clancy said it is less than 5%. This financing would utilize AIDEA's general credit rating of AA2, with a 20-year all-in-cost below 4.5% right now. Financing with bonds would allow AIDEA to keep cash reserves for other purposes.

Mr. Arvin asked if AIDEA and AEA considered looking at space in the Valley. Ms. Fisher-Goad said a Valley office may be more appropriate when AEA is in a construction mode but at this point it is very important for the Watana team to be close to AEA staff, contractors and other entities that AEA does business with. It is important to remain in the Anchorage community. Mr.

Arvin asked if there has been an analysis of how many employees of AIDEA and AEA live in the Valley. Mr. Leonard replied no, but that can be presented at the next board meeting.

Mr. Wilken asked if AIDEA is able to issue Certificates of Participation. Mr. Bjorkquist explained that a Certificate of Participation is used by the State as an alternative to bond financing when bond financing is not available. AIDEA could issue bonds for this particular project at a better rate than a certificate.

Mr. Wilken asked what benefit Task 3B has over Task 2 that is worth the difference of \$6.5 million. Ms. Fisher-Goad replied it would allow the flexibility to build-to-suit the Authority's needs. Mr. Rutz said when building from scratch, more efficient use of space is gained compared with moving into an existing building. Mr. Bjorn-Roli said the operation efficiencies are significant over time along with the productivity and morale of the staff. Energy efficiencies, operational costs, and innovations would have a significant cost reduction with a new building versus a remodel.

Mr. Short said he is aware of many office buildings that are vacant or near vacant. He asked what the current trend in acquisition of office space is right now. Mr. Bjorn-Roli said with respect to new construction availability, the market is currently soft. In the past, there has been a lot of availability in new construction but recently there has been a shift in the market and the space is being absorbed. If AIDEA chooses to pursue leasing as an option, there would be many choices available. The market is very tight for purchasing an existing building. Vacancies in mid-town are approximately 3%. This option has been a major challenge for buyers because the availability of buildings does not match the needs or the building is occupied by renters. Often the buyer resorts to new building construction. If AIDEA went with an existing building, chances are great the building would be shared with other tenants.

Mr. Arvin asked about the comparison between Tasks 1 through 3 and Task 4 (leasing). Mr. Bjorn-Roli said with Tasks 1-4 AIDEA would have a large capital outflow initially, followed by lower operating costs during the holding period and then a reversion from the sales of the asset at the end of the holding period. With the lease scenario, AIDEA has fewer costs up-front and higher operating costs in the form of a lease payment annually and no reversion. Mr. Leonard mentioned that if AIDEA wants to do an operating lease, legislative approval would be required to use operating funds because AIDEA does not have the money in the facility lease to absorb that cost. Mr. Bjorkquist confirmed that it would become part of the operating budget and therefore, would be required for appropriation to cover those costs versus a capital investment in a building which does not require an appropriation.

Mr. Rutz suggested pursuing Task 2 and Task 3B simultaneously through a competitive process with a broker. AIDEA can require the broker to look for either existing space or new space and then compare the results. There were no objections from the Board.

Mr. Wilken asked about the difference in the total operating expenses from Task 2 (\$490,000) and Task 3B (\$302,400). Ms. Walker said the difference was due to square footage. Task 2 is based on 70,000 sq. ft. and Task 3B is based on 43,200 sq. ft.

Mr. Short instructed the staff to move forward in drafting a resolution pursuing tasks 2 and 3B to be presented to the Board at the December 14, 2011 meeting.

7C. Resolution No. G11-20 Adoption of regulations and amendments to regulations regarding the Authority's Development Finance Program 3 AAC 99.540.

Mr. Leonard said on August 22, 2011, the Board passed Resolution G11-18 which allows the Authority to spend up to \$1.5 million on pre-feasibility costs for project development. AIDEA Regulation 3 AAC 99.540 needs to be modified to allow resolution G11-18 to take effect. This Resolution allows AIDEA to substitute the phrase, "or otherwise investing funds in" with the word "for." A public comment period and an oral hearing were held and no comments were received.

Mr. Short summarized Resolution G11-20 for Deputy Commissioner Rodell stating Resolution G11-18 allows AIDEA to spend up to \$1.5 million for pre-feasibility studies related to intermodal transportation, ports, and maintenance facilities.

MOTION: Mr. Wilken made a motion to adopt Resolution No. G11-20. Motion seconded by Deputy Commissioner Rodell. There was no discussion. A vote was called and the motion passed with Mr. Wilken, Mr. Sheldon, Mr. Arvin, Commissioner Bell, Deputy Commissioner Rodell and Mr. Short voting yea.

7D. Executive Session: DeLong Mountain Transportation System (DMTS)

MOTION: Mr. Wilken moved to go into executive session to discuss negotiations with the Northwest Arctic Borough regarding the DMTS because the immediate knowledge of the strategies for negotiations would have an immediate negative impact on AIDEA's finances. Motion was seconded by Deputy Commissioner Rodell. There being no opposition, the motion passed.

EXECUTIVE SESSION: 11:45 a.m.

The Board reconvened its regular meeting at 1:19 p.m. A quorum was met.

Mr. Bjorkquist said everything covered in executive session was appropriate to the motion.

8. DIRECTOR COMMENTS

Mr. Leonard gave an status update on the Cook Inlet Jack-Up rig ("Endeavour"). The purchase of the rig will close tomorrow (Nov 15, 2011) and the rig will be then be delivered to a shipyard in Singapore for retro-fit.

The next regularly scheduled AIDEA board meeting is Wednesday, December 14, 2011.

9. BOARD COMMENTS

Mr. Wilken asked three questions about Mr. Leonard's Board Update Memo distributed the previous day. Mr. Wilken asked if the City of Seward would get a better rate with a Certificate of Participation than with any one bank. Mr. Leonard said Seward would have a hard time bonding for the full amount due to their debt. A model that AIDEA is promoting is where the City, the Municipality and AIDEA have skin in the game and the private sector can be brought in as a partner.

Mr. Wilken asked if the Authority is spending any time on the natural gas project to Fairbanks. Mr. Hemsath said he was invited to be on the Fairbanks Gas Distribution Advisory Committee as they work out plans which could potentially be shipments of liquid natural gas, propane or a combination of both.

Mr. Wilken asked about the Memo and statement regarding having preliminary information ready for the legislative session. He asked if the information is coming from AIDEA. Mr. Leonard said they are working with the Department of Transportation and Nova Gold to find a favorable route and to see what types of partnerships may be possible. Mr. Leonard said this project is in a very early stage and he would like DOT to take the lead in drafting legislation. AIDEA will support DOT by assisting them in setting up a finance model on the route.

10. ADJOURNMENT

There being no further business of the Board, the meeting was adjourned at 1:26 p.m.



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