



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Tuesday, October 1, 2013
Anchorage, Juneau, and Fairbanks, Alaska;
San Diego, California; and Washington, D.C.

1. CALL TO ORDER

Acting Chair Commissioner Bell called the meeting of the Alaska Industrial Development and Export Authority to order on October 1, 2013 at 10:02 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present in Anchorage: Wilson Hughes (Public Member); Crystal Nygard (Public Member); Michael Pawlowski (Department of Revenue); Dana Pruhs (Public Member)

Members participating via video and teleconference: Acting Chair Susan Bell (Commissioner Department of Commerce, Community, and Economic Development); Russell Dick (Public Member); Gary Wilken (Public Member-phone).

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); Mark Davis (Deputy Director-Infrastructure Development); Michael Lamb (Deputy Director-Finance and Operations); Gene Therriault (AEA-Deputy Director-Energy Policy Development); Brenda Applegate (Controller); Leona Hakala (Loan Officer); Jennifer Haldane (AIDEA and AEA-Human Resource Manager); Karsten Rodvik (Project Manager-External Affairs); Jeff San Juan (Infrastructure Development Finance Officer); Lori Stender (Project Manager-Project Development & Asset Management); Nick Szymoniak (Energy Development Finance Officer); Kirk Warren (AEA-Project Manager); Sherrie Siverson (Executive Assistant); and. Krin Kempainen (Administrative Assistant).

Staff participating via phone: Jim Hemsath (Deputy Director-Project Development & Asset Management from Washington, D.C.)

Public present in Anchorage: Will Baynard and Michael Martin (Northrim Bank); Cory Borgeson (GVEA); Chris Brown (MWH); Rick Cathriner (Norgasco Inc.); Tom Delamater and Charlie Sassara (Sitnasuak); Keith Hand and Ray Latchem (Spectrum LNG); Randy Hobbs (Hobbs Industries); Jerry Juday (Department of Law); Jeff Logan (Lobbyist); and Sunny Morrison (Accu-Type Depositions).

Public participating via phone: Luke Hopkins (Mayor, Fairbanks North Star Borough)

5. PUBLIC COMMENTS

Mayor Hopkins of the Fairbanks North Star Borough stated it is Election Day across the state and there are certain issues he is tracking in his community, which include resolving the issue of the high cost of energy. He hopes the cost of natural gas coming into his community is at the lowest possible cost. This is the most critical factor for Fairbanks' economy and for Fairbanks' air quality. He noted his concern that as the Interior Energy Project (IEP) moves forward, the estimated cost of the natural gas per Mcf pricing has increased. This has caused concern to the members of the community.

6. PRIOR MINUTES - July 25, 2013, August 9, 2013, and August 29, 2013

MOTION: Mr. Wilken moved to approve the Minutes of July 25, 2013. Motion seconded by Commissioner Bell. Motion passed unanimously.

MOTION: Mr. Wilken moved to approve the Minutes of August 9, 2013. Motion seconded by Mr. Hughes. Motion passed unanimously.

Minutes of August 29, 2013. Mr. Wilken requested a change on page two in Section 6B, Paragraph 2, Line 4, which reads, "to act fairly quickly," to instead read, "to act very quickly."

MOTION: Mr. Wilken moved to approve the Minutes of August 29, 2013 as amended. Motion seconded by Ms. Nygard. Motion passed unanimously.

7. NEW BUSINESS

7A. Loan Resolution No. L13-04 Kiska Properties, LLC

Acting Chair Commissioner Bell noted she will lead this discussion, but will recuse herself from voting because she is a shareholder of Sitnasuak Native Corporation. Mr. Leonard said Loan Resolution No. L13-04 is a request from Northrim Bank for AIDEA to participate in a loan of \$6,637,500 at 90%, which is \$5,973,750. Ms. Anderson provided an overview of the loan request received from Kiska Properties, LLC.

MOTION: Mr. Hughes moved to adopt Loan Resolution No. L13-04; Motion seconded by Mr. Pawlowski.

Mr. Dick inquired about the reason why Northrim is only participating in 10% of this loan. Ms. Anderson said Northrim has the capability of taking a higher percentage. AIDEA requires the lender to have at least a 10% participation and surmised the borrower would like to keep as many funds on a long-term fixed basis, which would be the reason to maximize AIDEA's percentage interest.

Mr. Hughes asked for an explanation of the interest rate subsidy from the BIA guarantee. Ms. Anderson said the borrower receives a percentage of the interest back over the first three years

from BIA. Mr. Hughes stated the two separate issues are the interest rate subsidy and the 90% guarantee from BIA for the length of the loan. Ms. Anderson concurred.

Mr. Pawlowski requested clarification between the 47 retained jobs listed in the documents and the 49 retained jobs stated by Ms. Anderson. Ms. Anderson noted she misspoke and 47 is the correct number.

The motion passed with Board members, Wilken, Pawlowski, Pruhs, Nygard, Hughes and Dick voting yea; Commissioner Bell abstained.

7B. Resolution No. G13-15 Polaris Fund Investments

Mr. Leonard said AIDEA made an investment into a venture capital fund in 1990. At the end of 2012, the fund has run its limit and the Board agreed with the partnership to dissolve the fund. AIDEA received common and preferred shares at distribution. Since these stocks are not a normal investment for AIDEA, this resolution allows AIDEA to hold the stocks until appropriate dispensation is determined.

Mr. Lamb further explained this investment was made almost 23 years ago. It was intended to last a decade. The partnership was dissolved. The original contribution was \$6 million and \$7.6 million was returned. This resolution does not change the investment policy, but it allows the Board to specifically hold onto the stocks until it makes sense to sell it or proceed appropriately.

Mr. Dick asked how long these shares will be held and requested an explanation of the strategy for these assets. Mr. Leonard said the shares are in a hold position and some of these companies are not currently active. He noted the CFO will review the shares and determine what to do with the assets. Mr. Lamb said the percentage of ownership of these companies are incrementally small and it really is a housekeeping matter in maintaining compliance with the investment policy. The hope is to collect two remaining receivables of almost \$400,000 and then devise a plan for next steps.

Mr. Hughes asked the value of what has been received. Ms. Applegate said the stock is not marketed at all, not traded, so staff could not place a value on it. The Polaris Fund Limited Partnership is on the books at zero cost. Mr. Hughes said the initial investment was \$6 million and requested clarification on the return numbers for this fund. Mr. Leonard said the total amount received, including return of investment, should be a little over \$8 million. Mr. Lamb reported the stocks are in closely held small companies that have no market.

Mr. Pawlowski said he understands the stocks to be valued at zero, but the royalty interests are in the producing lease. He asked if the royalty interests have a current value. Ms. Applegate said there is no value on the books, but approximately \$2,000 a month in royalty payments is being received as income. Mr. Lamb noted the value is recorded conservatively on the balance sheet.

MOTION: Mr. Pawlowski moved to adopt Resolution No. G13-15; Motion seconded by Mr. Hughes. The motion passed with Board members, Wilken, Pawlowski, Pruhs, Nygard, Hughes, Dick and Bell voting yea.

7C. Resolution No. G13-16 Authorization AIDEA to participate in the Alaska Municipal League Investment Pool (AMLIP) and Resolution No. G01-14D Amended and Restated Resolution Relating to Fixed-Income Investment Policies (amendment to G01-14A-B-C)

Mr. Leonard said this resolution would allow AIDEA to join the Alaska Municipal League Investment Pool, AMLIP, in order to invest in short-term funds. Mr. Lamb said for the record he is currently on the Board of AMLIP; all Board positions are uncompensated. He noted AMLIP was formed by the Legislature and signed into law by the Governor in 1992. Mr. Lamb reported since its formation, AMLIP has had no liquidity issues and only positive yield returns, though they are exceedingly low and have been low as result of quantitative easing.

Mr. Lamb said AIDEA does not currently have an account which can segregate proceeds, then immediately institutionally invest those same funds, and also have those funds immediately accessible for use as required. AMLIP allows for one-stop segregation and investing of funds in a safe place that then makes arbitrage, yield restrictions and use of funds reporting very efficient. According to a comparison by Key Bank, AMLIP does not invest in any securities prohibited by AIDEA's IPS. Mr. Lamb recommends the Board adopt Resolution No. G13-16.

Mr. Leonard said he has had successful prior experience utilizing AMLIP in working in municipalities and school districts to invest funds, get a rate of return, and have complete liquidity access to the funds when needed.

Acting Chair Commissioner Bell requested an explanation of the relationship of Resolution No. G13-16 and Resolution G01-14D. Mr. Lamb said if Resolution No. G13-16 is adopted, then Resolution No. G01-14D will modify the investment policy to insert what the Board approved and clarifies that the SETS funds follow the same investment criteria.

Mr. Wilken asked what the current procedure is and what happens if the resolutions do not pass today. Mr. Lamb said AIDEA has many segregated individual accounts. In the revolving fund, some of the funds get invested internally, usually in treasuries, and some funds get invested with externally managed funds. He noted it has been a long time since AIDEA has issued revenue bonds, but if there is a refunding of bonds, usually those monies are kept by a third-party and then are used in the defeasance of the bonds. He believes AIDEA is far better off utilizing AMLIP because it is important to have proceeds invested as soon as possible and have the benefit of liquidity. Mr. Wilken asked if this resolution provides for more efficiency and more liquidity. Mr. Lamb said yes. Mr. Leonard said this is an additional cash management tool that has a feature of very high liquidity with the ability to segregate funds.

Mr. Wilken asked if Callan Associates have offered an opinion as to whether this would be a beneficial decision. Mr. Lamb said he never asked them because it never occurred to him this was not a good move. Mr. Leonard noted Callan is in charge of the long-term investment strategy and this was viewed as a short-term management strategy. Mr. Lamb said that approximately six years ago, Michael O'Leary of Callan Associates was hired to report on the

structure of AMLIP to its Board. The report indicated AMLIP should continue its present operations. Mr. Wilken inquired if management feels Callan Associates should be requested to provide their opinion on this decision. Mr. Leonard said this is a short-term money management tool and believes Callan's opinion is not necessary for action. He does believe Mr. O'Leary would state this is a good tool and is willing to get Callan's opinion for the Board. Mr. Wilken asked if AIDEA will have a maximum limit amount of contribution to AMLIP. Mr. Lamb said there are no limits, but the funds contributed would be the internally managed funds, which totals around \$20 million.

MOTION: Mr. Wilken moved to adopt Resolution No. G13-16; Motion seconded by Mr. Pruhs.

Mr. Wilken made a suggestion on page three of No. G13-16 to include a date to revisit this resolution to have an assessment as to the wisdom of this decision. Mr. Leonard asked attorney Mr. Juday if any changes would have to be made to the investment policy if the amendment was made to this resolution. Mr. Juday responded no changes would be needed to the investment policy and the amendment would work as presented.

MOTION: Mr. Wilken moved to amend Resolution No. G13-16, Section Four to include, "or until June 30, 2017, whichever event occurs first." Motion seconded by Mr. Dick. Motion passed unanimously.

Mr. Pruhs requested a comparison of the current yield and the anticipated yield from AMLIP. Mr. Lamb said for like-kind investments, the yield is about the same, perhaps a little bit better. The main benefit is in liquidity.

The motion passed with Board members, Wilken, Pawlowski, Pruhs, Nygard, Hughes, Dick and Bell voting yea.

Mr. Pawlowski asked for a clarification of the language on page seven, "or any successor to that entity," and asked if this was necessary or overly broad. Mr. Juday said the word "successor" is used because in the event the existing nonprofit entity is reconfigured, AIDEA could continue utilizing the entity. Mr. Pawlowski said the previous Resolution No. G13-16 was specifically for AMLIP and wanted discussion by the Board regarding the investment policy revision language offering more than was just included in the previous language of Resolution No. G13-16. Mr. Pawlowski noted he is comfortable with the use of these short-term tools and mechanisms.

MOTION: Mr. Pawlowski moved to adopt Resolution No. G01-14D; Motion seconded by Mr. Dick. The motion passed with Board members, Wilken, Pawlowski, Pruhs, Nygard, Hughes, Dick and Bell voting yea.

Mr. Leonard requested the Board reconvene an investment subcommittee to review the investment policy. One of the issues is the foreign investment exposure. Acting Chair Commissioner Bell noted no action is needed at this time and expressed her appreciation for Mr. Leonard's request.

7D. Update on Endeavour *Spirit of Independence* Jackup rig

Mr. Leonard gave a brief update of the report sent to the Board. He noted the Endeavour jackup rig in the Cook Inlet has finally completed its refurbishment in August of 2013, and moved out to the Cosmopolitan area. The first well was completed and Buccaneer reported the results were very promising. The rig has since been moved to the Southern Cross.

Mr. Hemsath joined by telephone and continued the update on the Endeavour jackup rig. He said the rig had some settling after it was moved to the Southern Cross. Sonar investigation determined the tide had eroded soil behind the rig. Arrangements were made with the state to move the rig 450 feet to the north. The rig is required to move out of that part of Cook Inlet at the end of the month when the ice season begins. The rig will be winterized at a site which is yet to be determined and drilling will start in the December to January for further delineation of the good prospects in the Cosmopolitan field. Mr. Hemsath said Buccaneer is finalizing, if not have already submitted, their ACES credit application for the first well and the winterization and the transportation of that rig to Cook Inlet, all of which are eligible expenses. He noted Buccaneer is looking to a good operational season.

Acting Chair Commissioner Bell commented there is a lot of activity in the media regarding this issue and she expressed her appreciation for the update.

7E. Update on Interior Energy Project

Mr. Davis and Mr. Therriault gave a PowerPoint presentation regarding the Interior Energy Project. Mr. Hughes asked what areas the numbers in the presentation represent. Mr. Davis said the numbers represent the existing Fairbanks natural gas certificated area. Mr. Hughes asked if the numbers included a North Pole expansion. Mr. Davis said the numbers are not for a North Pole expansion because the RCA has to first determine their parameters.

Mr. Leonard said the Board previously requested information regarding the operations of other LNG plants that work in the Arctic environment. That process is underway and will work with the committees to review operations and issues related to Arctic working conditions. Mr. Hughes asked if the distribution side or production side is going to contract to haul. Mr. Davis said once the utilities, which would purchase the gas, are set up in Fairbanks, they would contract with the trucking companies for their particular needs. Industrial users would also contract with trucking companies for their needs. Mr. Hughes said AIDEA and its private partner would sell liquefied natural gas FOB Prudhoe and then an independent contract trucking company would transfer it to the distribution system. Mr. Davis agreed and noted the utilities have different views on the types of contracts they would like to have with the trucking companies and believes the utilities should bid out the trucking services at the best price and the best system without AIDEA interference.

Mr. Pruhs asked if there are any long-lead items for trucks or specialized trailers that would affect the schedule of the delivery system. He also asked if there have been any discussions or research with Workforce Development in Fairbanks regarding availability of qualified drivers and maintenance workers. Mr. Pruhs commented his business is having a very hard time finding

qualified workers in this industry and assumes Fairbanks is experiencing the same pressures. Mr. Davis said a company from Canada has been contracted to look at the overall trucking and lead times for trailers. Fairbanks Natural Gas has communicated they have belief they have sufficient trailers for their processes. He believes the project will begin with the more readily available diesel tractors and then eventually convert to LNG tractors. Mr. Davis said he is in contact with the Department of Labor regarding this project and if the trucking companies identify any issues, they will work with Assistant Commissioner Cashen to address them.

Ms. Nygard asked if the air permit is driven by the technology that is going to be used. Mr. Davis said HDR has been requested to provide a permit that would be useable with the various plant designs. The permit has not yet been filed. A timeline is in place so HDR will be able to file for the appropriate technology within the time limits. Mr. Hemsath said one of the issues with the air permit is the location and another issue is modeling the current ambient air conditions. He noted they can proceed with the permit and come back with an amendment as necessary.

Acting Chair Commissioner Bell expressed gratitude to Ms. Nygard for becoming the third member on the IEP Subcommittee.

7F. Executive Session: Healy Clean Coal Project

MOTION: Mr. Dick moved to enter into an Executive Session to discuss confidential negotiations concerning the Healy Clean Coal Plant. Motion seconded by Mr. Hughes. The motion passed.

The Board entered executive session at 11:54 a.m. The Board reconvened its regular meeting at 12:26 p.m. Everything covered in executive session was appropriate to the motion.

7G. Election of Officers

MOTION: Mr. Hughes moved to elect Mr. Dick as Vice-Chair and Mr. Pruhs as Chair; Motion seconded by Mr. Wilken. Motion passed unanimously.

Commissioner Bell asked if a press release is appropriate. Mr. Leonard said a press release regarding the election of officers will occur. Commissioner Bell suggested the website bios be updated to reflect the new officers. She requested Mr. Pruhs take over and continue the meeting as Chair because she had to leave the meeting to attend the Governor's cabinet meeting.

Chair Pruhs thanked the Board members for their support and confidence in himself and in Vice-Chair Dick.

8. DIRECTOR COMMENTS

8A. Director's Status Report of AIDEA Programs and Projects

Mr. Leonard said the project updates and reports are included in the member packets and he is available to answer any questions. The first ship out of the Alaska Ship & Drydock ship hall, the *Arctic Prowler*, will be christened on October 5, 2013. This is an important milestone of the combined efforts of the Board, the community, Alaska Ship & Drydock, and the build-out of the assembly hall. This ship was commissioned by former AIDEA Chairman John Winther, who has since passed away. Mr. Winther is missed and was a great leader. Mr. Wilken requested Mr. Leonard pass on his congratulations to Mrs. Winther at the christening ceremony. Mr. Leonard reported an ad will be placed in the Ketchikan paper congratulating the community and thanking the Governor, the Legislature and information will also be included about Mr. Winther.

Mr. Leonard reviewed the update on the Skagway Ore Terminal. There are issues with the project that was approved in July. The project sponsor, Mr. Eaton, has concerns about the required amount of investment needed to mitigate AIDEA's risk. The project sponsor is communicating with the press and the municipality, but not with AIDEA. Staff is trying to restart the conversations with the different parties, including the Mayor, the Assembly, Mr. Eaton, the Board Commissioner, and the community to discuss a way to move forward on the issues. AIDEA's goal is to provide economic development through investment and finance, and the projects are responsible for repaying AIDEA.

Mr. Wilken asked if the target of \$50 million in FY14 allocated loan participations will be reached. Mr. Leonard said as of August 31st, \$25 million will potentially be funded and believes the target will be exceeded. He noted the target of \$50 million was for commercial transactions, but SB 23 and SB 300 have increased the scope of loan participations. He believes the target number needs to be reviewed and addressed.

Mr. Wilken asked if the determination has been made in regard to Ambler mine whether the road will be public or private. Mr. Leonard said the EIS process will occur this year and after the report is finalized in 2014 the determination will be made.

8B. The next regularly scheduled meeting will be Tuesday, October 29th, 2013.

9. BOARD COMMENTS

Mr. Wilken congratulated Mr. Leonard on the new format for the project updates included in the packets. He noted they are nicely done and much more readable. Mr. Wilken asked if the next meeting may be more than a one-day meeting because of the energy project and because AEA's meeting schedule. Ms. Siverson said AEA has a meeting scheduled for October 29th. Mr. Leonard said there is a possibility the next meeting will be more than one day. Mr. Wilken suggested the Board expand their personal schedules to include an additional Monday or a Wednesday or to lengthen the work day, because this is an important meeting with the potential of being a long meeting day.

Mr. Wilken said while he has been on the Board, there has never been a briefing on what Callan does for their quarterly report and how the investments are organized. Mr. Wilken requested, at a time when the agenda is light, to invite staff to give a presentation to the Board regarding investments. Mr. Leonard agreed and suggested reconstituting the Investment Subcommittee. He said he will see when Callan would be available to come and discuss the investment policy with the Board. Mr. Wilken said he believes staff is capable of presenting the information and it is not necessary for Mr. O'Leary to make a special trip.

Chair Pruhs requested Ms. Siverson again provide the Board with the proposed calendar of meetings.

Mr. Hughes said Healy Clean Coal has been a giant headache for many years and to see this come to a successful conclusion is great. He expressed his appreciation for all of the efforts of Mr. Leonard and his staff.

Mr. Dick expressed his appreciation to the Board for the appointment to the Vice-Chair position and looks forward to working with everyone.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 12:49 p.m.



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