



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, June 25, 2015
Fairbanks and Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on June 25, 2015 at 11:48 a.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (Public Member); Vice-Chair Russell Dick (Public Member); Jerry Burnett (Deputy Commissioner, Department of Revenue); Crystal Nygard (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development (DCCED)); and Gary Wilken (Public Member).

3. ROLL CALL: STAFF, PUBLIC

AIDEA & AEA Staff present: John Springsteen (AIDEA Executive Director); Sara Fisher-Goad (AEA Executive Director); Ted Leonard (AIDEA Director Emeritus); Jim Hemsath (AIDEA Director-Project Development & Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Gene Therriault (AEA Director-Energy Policy & Outreach (EPO)); Emily Ford (AEA EPO Manager); Karsten Rodvik (AIDEA External Affairs Officer); Nick Szymoniak, (AIDEA Energy Infrastructure Development Officer); Kirk Warren (AEA Project Manager); Sherrie Siverson (AIDEA Executive Assistant); and Teri Webster (AEA Executive Assistant).

AIDEA Staff participating via teleconference: Chris Anderson (Director-Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Matt Narus (Project Manager PDAM); Jeff San Juan (Infrastructure Development Finance Officer); Catherine Bliss (Administrative Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Elwood Brehmer (AK Journal of Commerce); Dan Britton (Fairbanks Natural Gas (FNG)); Tim Gallagher (HDR); Mark Gardiner (Western Financial Group); Doug Issacson (Former SOA Representative); Linda Leary (Alaska Railroad); Bob Shefchik (Interior Energy Project (IEP) Team Leader); and Jamie Schwartzwald (Channel 13 Fairbanks).

Public participating via teleconference: Mark Fineman and Robert Scanlon (Blood Bank of Alaska (BBA)); Jerry Juday (Department of Law); Ladonna Lindley (Accu-Type Depositions).

4. AGENDA APPROVAL

The agenda was amended to move Item 7C. Interior Energy Project Update to before Item 7B. Resolution No. G15-02A Authorizing Expenditures from the Sustainable Energy Transmission and Supply Development (SETS) Fund. The agenda was approved as amended.

5. PUBLIC COMMENTS

There were no public comments.

6. PRIOR MINUTES - May 19 and May 27, 2015

MOTION: Vice-Chair Dick moved to approve the minutes from May 19 and May 27, 2015. Motion seconded by Ms. Nygard.

Vice-Chair Dick noted the Minutes read May 27, 2015, but the agenda reads May 25, 2015. The correct date is May 27, 2015. The minutes were approved unanimously.

7. NEW BUSINESS

7A. Resolution No. G15-13 Development Project Finance Loan - Blood Bank of Alaska

MOTION: Vice-Chair Dick moved to approve Resolution No. G15-13 Development Project Finance Loan - Blood Bank of Alaska. Motion seconded by Ms. Nygard.

John Springsteen said Resolution No. G15-13 authorizes AIDEA to make a development project finance loan to the BBA to complete a new headquarters, consolidated laboratory, and collection facility. The BBA is an integral part of the state's emergency preparedness network, and an essential facility for disaster relief. The new facility will offer benefits to all Alaskans, in terms of quality, safety, and reliability of blood supply. He requested Jeff San Juan provide further information and answer any questions.

Mr. San Juan said the loan request is for up to \$8.5 million, of which, approximately \$7 million is for finalizing the design and construction related completion cost of a 57,000 square-foot facility at 1215 Airport Heights Road in Anchorage, Alaska. This facility is located across from Alaska Regional Hospital. An estimated \$1.5 million would be used for furniture, fixtures, and equipment. The loan is structured in two phases. The first phase is an interest only fixed line of credit for the construction portion. The second phase is a long-term term note for the balance of the loan. The 35-year permanent financing is fully amortized with monthly principal and interest payments. The interest rate will be fixed and locked in at today's U.S. Treasury plus 250 basis points. The range will be within 5.44% and 5.72%. The loan is structured to be able to utilize a new market tax credit allocation, if provided.

Deputy Commissioner Parady asked for an explanation of the seven-year forbearance period. Mr. San Juan said the seven-year forbearance period is required as part of the structure of the New Markets Tax credit allocation. Mr. Juday said the seven-year forbearance period is required by federal law.

Mr. San Juan said the loan will have a first real estate secured position on the new building, with a loan-to-value of just under 30%. The loan will also have a first lien position on the existing building, which has a purchase agreement in place of \$2.75 million. After the existing building is sold, the loan-to-value will become approximately 18%. There are no known contaminations on the new construction site. The Board has been provided with the

confidential financial information for the BBA. There is adequate 1.25 debt service coverage. The BBA has an additional \$250,000 line of credit with Wells Fargo Bank. The project has sourced approximately 73% of the funds for this project from the State of Alaska through grants, approximately 6% from private donations, and approximately 19% from this potential AIDEA loan.

Mr. San Juan discussed the BBA's repayment sources and board governance structure. The economic benefit provides a significant statewide impact of approximately \$66 million. The total jobs created directly and indirectly are approximately 230. The expanded service jobs after construction is approximately 20, of which 11 are high-paying jobs with annual salaries of approximately \$60,000 each. Some of the weaknesses of the project include there being no guarantors for this nonprofit organization as it doubles in size and there is no historical improvement capacity for that growth. The loan covenants require audited financial statements to be provided within 180 days of the fiscal year close, a 1.25 debt service ratio, and any new debt or lease payments must be approved by the Authority. AIDEA is listed as co-obligee on the insurance. Staff recommends approval of this loan.

Deputy Commissioner Parady asked why the year-end 2013 audit was used rather than the year-end 2014 audit. Mr. San Juan stated the year-end 2014 audit will not be complete until September 2015. Deputy Commissioner Parady requested assurance there were no material changes from the 2013 audit to the 2014 audit. Robert Scanlon, BBA, noted healthcare structures and methodologies are changing throughout the country, specifically because of the decision from the Supreme Court regarding the Affordable Care Act. He stated the BBA has faith in the healthcare future and will provide critical infrastructure and routine demands for the State of Alaska. The primary concern of the BBA is delivery of the mission and delivery of service.

Chair Pruhs asked if the BBA is satisfied with the cash flow projections based on the past history. Mr. San Juan said the historical financials support the debt service on the \$8.5 million loan and staff believes the BBA would be able to meet the debt service obligations.

The motion was approved with members Pruhs, Dick, Burnett, Nygard, Parady, and Wilken voting yea.

7C Interior Project Update

Bob Shefchik and Nick Szymoniak gave a presentation summarizing the IEP work over the last six months and describing the benchmarks for the next six months.

Mr. Shefchik said the concession agreement was terminated in January and the IEP restart began. The Governor's Office introduced House Bill (HB) 105. AIDEA and AEA developed a project charter for that framework, which included evaluating more options and allowing the utilities and the community to participate more in the process and decisions. The Pentex letter of intent to purchase was agreed upon and pursued and an IEP Team was formed. Due diligence continued for Pentex. Gene Therriault led the legislative effort for AIDEA and AEA.

Mr. Shefchik said most of the effort in March and April was spent legislatively with HB 105. This took longer than expected and consumed more resources than expected. HB 105 passed as modified, with authorized propane and pipeline options. Intent language required an open and competitive process through request for proposals (RFP). The Governor will sign HB 105 next Tuesday at the Fairbanks Chamber of Commerce. Quarterly reports to the Legislature are required.

Mr. Shefchik noted the efforts in May and June consisted of local community input, continued due diligence, discussions and work on integration of utilities, an RFP for natural gas and alternatives, an RFP for purchase of natural gas, and the framework for utility collaboration. The final versions of the RFPs are on the AIDEA and AEA procurement web page (<http://www.aideaaeaprocurement.org/>). Proposals will be accepted for a 60-day period. The focus during this time is on storage and transportation. The Pentex acquisition decision was made. There is ongoing work on the remaining closing tasks, including the management agreement. The application for the Certificate of Public Convenience and Necessity (CPCN) transfer has been filed.

Mr. Shefchik stated much discussion has occurred at the public meetings regarding the Hilcorp supply contract. AIDEA approved a resolution on how rates will be established. That work will continue and a rate recommendation will come before the Board at a later meeting. Work and engaged participation of the IEP process with the utilities is ongoing.

Mr. Szymoniak discussed the open and fair RFP process and the options for consideration which include natural gas, Liquefied Natural Gas (LNG), small diameter pipeline, and propane. AIDEA will facilitate the commercial structure and negotiations between the project developer and the utilities. The utilities are expected to be on the RFP evaluation team. Mr. Szymoniak said AIDEA will probably enter into a contractual agreement to provide financing, but AIDEA will not contract to buy capacity out of the plant. The RFP will result in a deal between the private developer and the utility. RFP responses are due August 3, 2015. Four final respondents will be selected within 30 to 60 days, and further negotiations will occur. Per HB 105, the objective is to bring the selected proposed project developer to the Board before the end of the year.

Mr. Szymoniak reviewed the request for information (RFI) issued at the direction of DCCED, Administrative Order (AO) 272, to evaluate the feasibility of a stand-alone Cook Inlet natural gas plant to meet the goals of the IEP. The RFI is due July 16, 2015.

Chair Pruhs asked if most of the RFI information could have been provided from the Department of Natural Resources (DNR). Mr. Szymoniak stated DNR has access to technical and physical information, but not pricing, economics, and commercial structure information. DNR will work in a validation role evaluating the amount of reserves available. Mr. Szymoniak noted the previous reserves of 1 trillion cubic feet (Tcf) is for existing fields and does not include new fields coming into development or proposed fields. He said 1 Tcf is a low number.

Chair Pruhs asked how proposed production will be verified. Mr. Szymoniak explained DNR is provided with confidential information from the producers and leaseholders. This information will not be used inappropriately in commercial negotiations. An outside consultant may be hired to verify production, and the due diligence completed by AIDEA and the utilities may also be used for verification.

Chair Pruhs asked if surety or guaranteed delivery is used in this industry. Mr. Szymoniak stated there are multiple ways to provide assurance of supply, including excess production and alternative supply for fuel. Those assurances will be determined by the utilities. If there are penalties involved, a guarantee would need to be provided for payment.

Mr. Szymoniak said a Memorandum of Understanding (MOU) was established with utility participation as a framework to help define participation in the RFP process. All calls and inquiries are encouraged to go through the RFP process. Mr. Shefchik said any questions should be directed to Kirk Warren, AEA Project Manager. Mr. Warren will respond in writing and provide every potential vendor with the answers. Utility integration planning is ongoing and discussions will continue to occur.

Mr. Shefchik reviewed the project timeline. It is expected the team will bring a single recommended local control entity with a concept plan to the Board in advance of the close during the October report. Mr. Szymoniak noted that the action the Board took with the acquisition of Pentex and the integration of utilities will avoid the problems the electric utilities are currently experiencing.

Mr. Shefchik said AIDEA has no control over the timing of the Attorney General (AG) action and decision on the Pentex/Harvest agreement. Chair Pruhs asked how that timing effects operations and project deliverables. Mr. Shefchik stated operations will continue to run as they are with FNG managing from the Titan operation, which is one of the Pentex assets. Neither party could make upgrade decisions on a facility in terms of capacity or scales or meters. Status quo will remain until an AG action is made. It would be best if the AG decision was made before August 3, 2015.

Chair Pruhs asked Jerry Juday if he could give an AG timeline on the determination on the LNG purchase to Hilcorp. Mr. Juday stated he is not participating in those negotiations and does not know when a decision will be made. He is aware of a time limit in the agreements between Pentex and Harvest for the deal to close.

Chair Pruhs asked if it would be beneficial for AIDEA staff to write a letter to the AG requesting a time-certain for their determinations in order to decide how to proceed forward. Mr. Juday said he does not know if that would be helpful or not. Chair Pruhs requested to put on the record AIDEA's request for the AG to provide a time-certain date for their determinations on these issues.

Mr. Wilken asked if it would be harmful to send a letter to Birch Horton Bittner & Cherot asking for expedited consideration of these issues. Mr. Juday noted Lisa Ross in the D.C. office is handling the Regulatory Commission of Alaska (RCA) proceedings, and those are

separate from the AG's antitrust review. Mr. Shefchik stated he cannot envision a downside to Mr. Wilken's request.

7B. Resolution No. G15-02A Authorizing expenditures from the Sustainable Energy Transmission and Supply Development (SETS) Fund

MOTION: Vice-Chair Dick moved to approve Resolution No. G15-02A Authorizing expenditures from the Sustainable Energy Transmission and Supply Development (SETS) Fund. Motion seconded by Crystal Nygard.

Mr. Springsteen said Resolution No. G15-02A is a request to amend the original resolution and provide the budget for continued investigation of alternative means of bringing energy to Interior Alaska. The request is to increase the original SETS Fund authorization from \$500,000 to \$1 million, and the original Economic Development Account authorization from \$200,000 to \$400,000. Mr. Springsteen said the original SETS Fund authorization has a remaining balance of \$94,000. The original Economic Development Account authorization has a remaining balance of \$32,000.

Mr. Shefchik stated it is expected that during the proposal selection process, contractors will be hired to provide technical evaluations of the proposals. This is where the majority of the increase in the SETS Fund authorization will be focused. The budget recommendation is also to allow staff to continue to work the project timeline through the end of the year.

The motion was approved with members Pruhs, Dick, Burnett, Nygard, Parady, and Wilken voting yea.

7D. Executive Session: Interior Energy Project, Skagway Ore Terminal, North Slope Investments

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential information related to the Interior Energy Project, Skagway Ore Terminal, and North Slope Investments. Motion seconded Deputy Commissioner Parady. The motion was approved.

The Board entered Executive Session at 1:03 p.m. Participants included board members Dana Pruhs, Russell Dick, Jerry Burnett, Crystal Nygard, Fred Parady, and Gary Wilken; AIDEA staff John Springsteen, Ted Leonard, and Jim Hemsath; and guests Mark Gardiner (WFG), Jerry Juday (DOL) (by phone), and Bob Shefchik (IEP).

The Board reconvened its regular meeting at 3:12 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen expressed his appreciation to the IEP team on making good progress and all the entities working on this project. He said the Loan, Dashboard, Delinquencies to

Outstandings Reports, IFD and PDAM Project Matrices were included in the packets, and he is available to answer any questions.

If any Board member is interested in any continuing education opportunities please contact Ms. Siverson.

The next AIDEA Board meeting is Thursday, August 6, 2015, at AIDEA's offices.

9. BOARD COMMENTS

Mr. Wilken expressed his appreciation to the Board for spending two days in Fairbanks. He thanked staff for the great job in coordinating the meeting. Mr. Wilken noted his excitement about the progress that has been made over the last six months. He remains positive about the lower cost of gas and cleaner air in Fairbanks, and looks forward to firing off the first furnace.

Chair Pruhs expressed his appreciation to staff for coordinating the meeting, and thanked Mr. Wilken for providing a warm welcome to Fairbanks. Chair Pruhs believes it is important to visit communities where AIDEA is trying to make a difference.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 3:15 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority