



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Wednesday, January 13, 2016
Anchorage, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on January 13, 2016 at 12:58 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

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

3. ROLL CALL: STAFF, PUBLIC

AIDEA Staff present: John Springsteen (AIDEA Executive Director); Chris Anderson (AIDEA Director-Commercial Finance); Mike Catsi (AIDEA Director-Business Development & Communications); Mark Davis (AIDEA Chief Infrastructure Development Officer); Jim Hemsath (AIDEA Director-Project Development and Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Gene Therriault (Interior Energy Project (IEP) Team Leader); Tom Erickson (Chief Procurement Officer); Eric Johnson (Accounting Analyst); Jennifer Haldane (Human Resources Director); Karsten Rodvik (AIDEA External Affairs Officer); Lori Stender (AIDEA PDAM Project Manager); Nick Szymoniak (AIDEA Energy Infrastructure Development Officer); Kirk Warren (AEA Project Manager); Sherrie Siverson (AIDEA Executive Assistant); and Krin Kempainen (AIDEA Administrative Assistant).

Public present: Kelly Arduino (Wipfli); Alan Bailey (Petroleum News); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Fairbanks Natural Gas (FNG)); Newton Chase, Deanna Lathan, Kris Manke, Tommy Tompkins, Lisa Wimmer, and Dan Winkleman (Yukon-Kuskokwim Health Corporation (YKHC)); Pat Clancy and Mark Gardiner (Western Financial Group); Kent Crandall (Arcadis); Marcia Davis and Sterling Gallagher (Governor's Office); Fred Eoff (Public Financial Management (PFM)); Joan Frankevich (National Parks Conservation Association); John Gaedeke (Brooks Range Council); Sydney Hamilton (Accu-Type Depositions); Misty Hull and Greg Stuckey (US Department of Agriculture (USDA)); Jerry Juday (Department of Law); Josh Pepperd (Davis/SKW); Toby Rittner (Council of Development Finance Agencies (CDFA)); Bob Shefchik (IEP Team); and Nancy Wainwright (public).

4. AGENDA APPROVAL

The agenda was approved.

5. PRIOR MINUTES - December 3, 2015

The minutes were approved as presented.

6. PUBLIC COMMENTS

Joan Frankevich from the National Parks Conservation Association stated the nonprofit is one of the oldest conservation groups in the country, whose mission is to protect national parks for our children and our grandchildren. Ms. Frankevich stated she has concern regarding the Ambler Road project because it would cross the Gates of the Arctic National Park and Preserve. She expressed concern about misleading, nonsensical, and disingenuous statements in the press from AIDEA and the Governor's Office on why the project has been allowed to continue.

Ms. Frankevich noted one of the stated purposes is to preserve the previous studies. She understands from her research it is not necessary to continue the process to preserve the completed Department of Transportation (DOT) studies. Another stated purpose is to conduct the scoping portion of an Environmental Impact Statement (EIS). Ms. Frankevich reported she has reviewed at least 50 EIS' over the years and has never seen the stated process of the EIS to conduct scoping, then stop and reevaluate. She discussed this with individuals from the National Park Service and Army Corps of Engineers and has concluded this is an unprecedented and strangely stated purpose. The third stated purpose was this project was stalled in mid-step and needs to progress to a natural stopping point. Ms. Frankevich believes this is erroneous because the project was at a logical stopping point. AIDEA's application in November began, what is now, a very lengthy and complicated EIS. She asked the Board the reason these misleading statements exist and requested the misleading statements be corrected for the record.

Chair Pruhs expressed his appreciation for Ms. Frankevich's testimony and requested she direct those questions to John Springsteen and AIDEA staff in writing.

Nancy Wainwright addressed the Board regarding the Ambler Road. She and others have raised many issues and expressed appreciation to the Board for hearing the issues. Ms. Wainwright commented the Board generally directs staff to respond to inquiries and unfortunately, for almost two years, the responses have not been provided. She stated there are too many examples to list in her comments today and shared the two most important.

In April 2014, the public raised questions about the budget for the project, Executive Director Leonard gave an estimated figure of \$42 million and stated he would provide the budget to the Board at the next meeting. Ms. Wainwright noted the budget was not provided at that next meeting. Ms. Wainwright stated at the meeting in October 2015, she again raised the budget issue with the Board. The minutes reflect Chair Pruhs directed staff revisit the Ambler budget and ensure the budget is clear, understandable, and provided to the public. The minutes reflect agreement by Mr. Springsteen. Ms. Wainwright noted the budget has not yet been provided. She requested the Board address this issue again.

Ms. Wainwright stated the second issue that has not been addressed is the potential conflict of interest of DOWL HKM. She noted in June 2014, Mr. Wilken and Vice-Chair Dick requested a

formal response be given to the public. Ms. Wainwright reported the public has never been provided with a formal response. She stated AIDEA received a letter from DOWL HKM a month later, but AIDEA did not provide that document to the public until a year-and-a-half later in late 2015. Ms. Wainwright indicated the letter from DOWL raises more questions than it answers. She requested the Board provide an independent analysis to determine whether or not there is a potential conflict of interest with DOWL, LLC providing Ambler Road studies to the State of Alaska while working for the two beneficiaries of the Ambler Road.

Mr. Wilken requested a date certain be determined to brief the Board and to provide a public opinion on the conflict of interest issue. Mr. Springsteen stated the conflict of interest issue will be on the agenda for the March 3, 2016 meeting.

John Gaedeke, Chairman of Brooks Range Council, commented he has come today to hold the Board to their word of investing in Alaskans. AIDEA's bylaws and resolutions speak of authority, power and responsibility for Alaskans. The proposed road to the Ambler Mining District can only be built by ignoring fiscal prudence and the Alaskans in its path. Mr. Gaedeke stated his family has been in the area of the proposed road for over 40 years.

Mr. Gaedeke noted Alaskans in Bettles and Evansville stood firm against the road proposal through their villages. AIDEA chose a new longer, more expensive route, which crossed the Gates of the Arctic, possibly requiring an act of Congress. Mr. Gaedeke commented questions of a conflict of interest with DOWL continue to go unaddressed. He does not believe this is the time to invest in the largest road construction proposal since the haul road. Mr. Gaedeke strongly urged the Board to cut this project before wasting millions of dollars.

Mr. Gaedeke believes the Ambler Road will be an additional tax on the villages' subsistence lifestyle. The current route would force Doyon to ignore its shareholders that are against the road and would require 150 miles more road to attach the proposed road to villages. Mr. Gaedeke believes the proposal will back Alaska into fiscal austerity and is not investing in Alaskans.

7. NEW BUSINESS

7A. Yukon Kuskokwim Health Corporation - presentation

Mr. Springsteen introduced Fred Eoff, Dan Winkleman, Tommy Tompkins, and Newton Chase, who provided an informational briefing on the YKHC project. Mr. Eoff introduced others in attendance who are part of the project: Kelly Arduino, Wipfli is in charge of the feasibility study; Josh Pepperd, President of Davis/SKW, the general contractor; Kent Crandall Senior Project Manager from Arcadis; representing the USDA is Greg Stuckey and Misty Hull. Deanna Lathan Director of Capital Projects and Kris Manke Director of Construction, both with YKHC. Mr. Eoff commented YKHC has gone to great lengths to assemble a very qualified team of consultants to assist with this project.

Mr. Eoff stated YKHC has provided healthcare since 1969 when it was formed on behalf of the 58 recognized tribes. YKHC is the sole certificated healthcare provider in this 75,000 square-

mile region, serving approximately 30,000 people. One of the central elements to this program is the Joint Venture Construction Program, which is specifically developed by Indian Health Services (IHS) for rural hospital staffing. YKHC competed in an open competition for participation in this program and was ranked number one out of all applications.

Mr. Eoff reported the project is to construct a new primary care facility in Bethel and to remodel the existing hospital and related space. The third-party feasibility study is almost complete. YKHC is planning to inject \$8.2 million directly into the construction project. YKHC will utilize up to \$30 million of existing cash toward reserves and advanced funding of the lockbox structure.

The USDA has approved a \$165 million loan at 3.625% for this project. The Legislature has approved up to \$102.5 million to be issued through the Alaska Municipal Bond Bank Authority (AMBBA) for this financing. Mr. Eoff believes AIDEA has a key role in this financing and will be requested to loan up to \$25 million dollars. Other funding sources are not anticipated to be needed. Mr. Eoff noted YKHS' financials are quite strong.

Mr. Eoff stated a key assumption, before the project can move forward with any financing, is to finalize, ratify and complete the IHS Funding Agreements. Chair Pruhs requested further explanation of the funding agreement. Mr. Chase explained IHS has created requirements and specifications, to include population services, demand, and forecast over the next 15 years. If YKHC will pay for construction of the clinic that meets IHS' requirements and specifications, IHS will pay for all of the staffing for the new clinic, the hospital, and the other spaces. Current processes are ongoing to show the IHS requirements have been met by YKHC.

Mr. Winkleman expressed his appreciation to AIDEA staff for their assistance over the last year. He provided a detailed overview of the history of YKHC, describing its service area, strong financial position, multiple payors, population health, internal management, industry leader advisors and consultants.

Chair Pruhs asked what percentage of YKHC services are paid for versus written off. Mr. Winkleman stated YKHC received \$70 million from IHS, which is the annual compact. YKHC received about \$80 million in third-party revenue. Mr. Tompkins noted the contractual agreements comprise about 50%, which is a normal percentage for a healthcare system.

Mr. Winkleman described YKHC as a four-tier health system, made up of village services, sub-regional services, regional services, and statewide services.

Chair Pruhs requested more information regarding the length of the project, construction employment, and permanent jobs. Mr. Winkleman stated this is a five-year project, anticipated to bring in approximately 250 construction jobs and 300 new permanent staff.

Mr. Winkleman continued the presentation describing the importance of the project and explained the primary challenges he has faced in his career are mostly related to not enough funding, not enough resources, and not enough staff. The YK Delta is one of the few areas in

Bush Alaska that is actually growing, with a projected 19% growth rate over the next 10 years. This project will help address the needs of the projected growing population.

There is a high percentage of poverty in the YK Delta region. The USDA calls this a "Strike Force Area," and focuses on increasing economic growth within the rural area. Mr. Winkleman discussed the population health statistics, including elevated cancer rates, unintentional injuries, and suicide rates. The suicide rate in teens is 17 times the national average. This project will increase access to integrated healthcare and provide real economic growth.

Mr. Chase reviewed the project budget and schedule. Chair Pruhs asked how the construction schedule ties into the financing. Mr. Chase noted YKHC is currently working with their own funding. The IHS agreement is anticipated to be signed in early spring. After which, the agreements with USDA, AIDEA, and the Municipal Bond Bank will move forward. The concept design is completed and needs to be verified as meeting the IHS requirements before the final design begins. The current cost estimates are based on the concept design and will continue to be checked during the process.

Ms. Arduino described the key components and the process of the feasibility study and examined financial forecast for the project. The reports are being prepared, which is a requirement for the USDA financing. AIDEA and AMBBA will also need to approve the reports. Ms. Arduino provided an overview of the preliminary work completed and an outline of what to expect in the near future. The preliminary results of future financial performance for the first year of debt service in 2022 indicate a positive operating margin, strong EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), upward trend of day's cash on hand, and a 5.16 debt service coverage from the strong third-party revenue pledge component. Ms. Arduino believes her firm will provide an opinion that is feasible.

Chair Pruhs asked if the IHS guarantee is subject to federal appropriation on an annual basis. Mr. Chase agreed and directed the Board to the provided letter from their attorneys discussing that issue. Once the appropriation occurs, it becomes part of the ongoing funding base. Deputy Commissioner Parady commented the letter is very strong, but the risk remains and will need to be considered and addressed by staff in order to properly protect AIDEA.

Mr. Eoff finished the presentation by summarizing the project funding sources and uses, and the operational flow of funds.

Mr. Wilken inquired if YKHC is involved in the discussions regarding forming a borough in the project area and what effect that type of local government organization would have on the project. Mr. Winkleman stated YKHC has participated in some of the preliminary discussions and the outcome would not affect the project at all.

Ms. Brown asked if YKHC's construction company will be working on this project with Davis/SKW as the lead contractor. Mr. Chase stated Davis/SKW will be utilized because this project demands their level of expertise. YKHC is committed to local hire and training of staff. YKHC will work closely with Davis/SKW, who will select from a labor pool. YKHC will

utilize its own construction cadre for smaller portions of the project, including remodeling of the administrative office and housing related areas.

7B. IEP Update - January 1, 2016 Quarterly Report to the Alaska Legislature

Mr. Springsteen stated the quarterly report provided to the Legislature can be found within the Board's packet. Mr. Springsteen introduced Bob Shefchik, Gene Therriault and Nick Szymoniak, who presented the IEP update and reviewed the quarterly report. Mr. Shefchik stated the new attachments can be found on the IEP website. They are: A. Instructions to Finalists for Best and Final Offers; E. Alaska Railroad Corporation Liquefied Natural Gas Transportation Approval; and H. Heating Oil Price Sensitivity Report.

Mr. Shefchik reported the gas supply will be sourced from either Cook Inlet or the North Slope. Teams are working on nondisclosure contracts from both and signed termed sheets are expected to be completed before it goes to the Evaluation Committee on January 22, 2016. Mr. Shefchik stated Golden Valley Electric Association (GVEA) made a decision in December to limit their IEP participation as a summer-only customer. This negatively impacts higher capital costs and higher operating cost projects because there is less demand.

Mr. Shefchik showed a video regarding the pilot trucking hauls. An end result report will be provided to the Board after the last haul next week. Initial returns indicate it is hauling approximately 12,500 gallons, rather than 13,000 gallons at this point, because of the gross weight. The tractor's weight contributes to the gross weight and work will occur with the trucking company to see how the tractor's weight could be optimized. Chair Pruhs suggested a waiver be sought from the DOT for the approximate one-ton overage at full capacity.

Deputy Commissioner Parady requested a brief summary of Attachment H. Heating Oil Price Sensitivity Report, particularly regarding the conversion rate at current pricing. Mr. Shefchik stated the natural gas customer projection is a smaller number than was in last quarter's report. The conversion calculation is the willingness to convert based on economics, and the age and models of furnaces. The willingness to convert was 72% at \$4 fuel oil over a six-year period of time. The most conservative conversion model brings the willingness to convert down to 51% at \$2.75 fuel oil over an eight-year period of time. Lower demand is significant to the dynamics of financing build-outs funded by bonds. It is expected the utilities and AIDEA's staff will focus on the core of the plant, the pipe in the ground, and ensuring the budget remains within the capital and available SETS monies.

Deputy Commissioner Parady asked if the decline in the conversion rate drives the need for local mandates because of the health concern. Mr. Shefchik noted the decline in conversion rates reinforces the need for mandates. He believes additional funds will be targeted to specific policies like wood stove change-out programs in certain areas with poor air quality before any mandates or requirements are set.

Mr. Therriault stated the local Conversion Working Group will reengage after the supply of gas is determined to be available for consumers, these meetings are open. The PACE legislation is pending in both the House and Senate Finance Committees and is a mechanism for local

governments that would help finance business conversions. Mr. Therriault does not recommend requesting expansion of the PACE legislation to include residential conversions initially, because it would impact the ability to sell in the secondary market. He believes the business mechanism should be created first and residential inclusions may be recommended at a later time, if it proves to be successful in similar PACE legislation in the Lower 48. Mr. Therriault reviewed the potential funding sources and programs for residential conversions that are non-general fund monies with low interest rates and favorable loan terms. These include "On-Bill Financing," the Home Energy Rebate Program, the State Clean Water Fund, Emerging Energy Efficiency Conservation Loan Program, and EPA targeted air shed grants.

Mr. Szymoniak reviewed the report of the expenditures and remaining funds of the legislative appropriation and authorizations. Chair Pruhs requested an update on the final disposition of the North Slope pad building and the discrepancy with the contractor regarding the volume of yardage on the pad. Mark Davis stated he understands a general compromise resolution was reached because of a potential ambiguity in the contract. Tom Erickson explained an additional payment to DNR had to be paid that was not mentioned in the contract. Mr. Shefchik stated a complete answer will be prepared and provided to the Board.

Mr. Shefchik continued the presentation and informed there is \$43 million of remaining grant funds and \$72 million of remaining SETS funds. He stated the \$150 million of bonds will not be utilized until the differential price between oil and gas increases.

Chair Pruhs asked if the pad is currently being used. Mr. Shefchik stated the pad was leased, but has been turned back over to AIDEA. The pad has approximately 15 useable acres. If a North Slope project is chosen, the pad will be utilized for the project. If a Cook Inlet project is chosen, the pad is an asset that can benefit the IEP.

Deputy Commissioner Parady recommended the report contain noted progress against a timeline and schedule. Mr. Shefchik agreed. He stated the information regarding construction has been provided by both vendors and can be included for the Board. Mr. Shefchik noted a special Board meeting will be called during the last two weeks of February to act on the project plan recommendation in advance of the March Board meeting.

7C. Resolution No. G15-02B Approving Expenditures to Evaluate Alternatives to the North Slope Concession Agreement

MOTION: Mr. Wilken moved to approve Resolution No. G15-02B. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. G15-02B is a request to amend the original resolution and provide a budget for continued evaluation of alternative means for supplying energy to Interior Alaska as discussed in the IEP update. The request is to increase the authorization by \$300,000 from either of the original SETS Fund authorization or the original Economic Development Account authorization. In June 2015, the Board authorized an increase from \$500,000 to \$1 million from the original SETS Fund authorization and an increase from the original Economic Development Account authorization from \$200,000 to \$400,000. The increase was for activities

that occurred through December. Mr. Springsteen noted on page three, where it states Fairbanks, Alaska, will be corrected to state Anchorage, Alaska.

Chair Pruhs requested an account of the amount of funds spent to-date. Mr. Szymoniak stated under \$600,000 of the \$1 million SETS Fund has been spent as of December 29, 2015. The full \$400,000 of the Economic Development Account has been completely spent to cover staff and facilities. A separate AIDEA operating account is now being used to continue that funding. If Resolution No. G15-02B is adopted, the total committed budgeted amount would be \$1.7 million. It is anticipated there are enough funds budgeted to complete the scope of this resolution, which is the selection of a project partner, and to get through most of April. After that point, another resolution will be brought before the Board defining a new scope for the next stage of the project.

Chair Pruhs requested a new prudent procedure be followed that once any fund is 75% spent or committed and is anticipated to need more funding, it becomes an agenda item to the Board. Also, a supplemental paragraph be added to describe where the funding will be spent. Mr. Szymoniak expressed his appreciation for the comments. He apologized and explained it was determined in December more funding was needed. The decision was made not to place the resolution on the December agenda at the last minute and to wait until this meeting to present. Mr. Szymoniak stated if the project scheduled is achieved and a recommendation is provided by the end of February, the full \$300,000 would not be necessary.

Mr. Wilken requested a fourth column entitled "Other Funds" be added to the expenditures report provided to the Board, which shows other expenditures from AIDEA accounts that are being tracked internally. Mr. Springsteen agreed the other funds can be included for the Board's review.

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

7D. Executive Session: Executive Director Annual Review, Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), and Potential legislation

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential and financial information related to the Executive Director Annual Review, Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), and potential legislation. Motion seconded by Ms. Brown. The motion was approved.

The Board entered Executive Session at 3:25 p.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Jerry Burnett, Dan Kennedy, Fred Parady, and Gary Wilken. AIDEA staff invited to join the session: John Springsteen, Mark Davis, Jim Hemsath, Michael Lamb, Tom Erickson, Nick Szymoniak, Gene Therriault, and guests Pat Clancy, Marcia Davis, Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 5:49 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen thanked Toby Rittner, CEO of CDFA, for attending the meeting today. AIDEA is member of CDFA, and has benefitted from the provided forum and format for development of finance education, coordinated policy discussions with the federal government, and participation in the think-tank for development finance ideas.

Mr. Springsteen noted the dashboard, loan and delinquencies-to-outstandings reports, IFD and PDAM project matrices, and the continuing education calendar were included in each packet.

The next AIDEA board meeting scheduled is for Thursday, March 3, 2016. A special meeting for the IEP selection process is anticipated to be scheduled before the next meeting. Mr. Wilken requested the special meeting date be provided as soon as possible.

9. BOARD COMMENTS

Deputy Commissioner Parady expressed his appreciation to staff for their meeting preparation.

Ms. Brown thanked staff for their hard work. She stated she is originally from Bethel and is very familiar with YKHC and has utilized the hospital. She knows three of the YKHC presenters on a personal level and Delta Western holds fuel contracts with YKHC on a professional level.

Chair Pruhs expressed his appreciation to staff for the information presented. He noted staff is heading for uncharted territory in Juneau and the Board is ready to assist in progressing the mission during the legislative session.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 5:55 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority

