



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, March 3, 2016
Anchorage and Juneau, Alaska

1. CALL TO ORDER

Chair Pruhs called the meeting of the Alaska Industrial Development and Export Authority to order on March 3, 2016 at 10:02 a.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); Dan Kennedy (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development); and Gary Wilken (Public Member).

Member participating via teleconference: Jerry Burnett (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

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

Public present: Alan Bailey (Petroleum News); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Pentex); Chris Clark and Larry Howell (HDR); Marcia Davis (Governor's Office); Ray Dinger (Northrim Bank); Mark Gardiner (Western Financial Group); Jerry Juday (Department of Law); Carl Kuhn (Jack White Commercial); Sunny Morrison (Accu-Type Depositions); Lisa Ross (Birch Horton Bittner & Cherot); Greta Schuerch (NANA); Bob Shefchik (IEP Team); and Nancy Wainwright (WLS, LLC).

Public participating via teleconference: Dan Bross (KUAC); and Julia Nickly (Northern Alaska Environmental Center).

4. AGENDA APPROVAL

Mr. Springsteen requested Skagway Ore Terminal and confidential deliberative process matters regarding potential legislation and financial planning be added to Item 7G. Executive Session. The agenda was approved as amended.

5. PRIOR MINUTES - December 17, 2015 and January 13, 2016

The minutes were approved as presented.

6. PUBLIC COMMENTS

Nancy Wainwright expressed her gratitude to the Board for hearing the public's concern on the issue of DOWL's conflict of interest. She noted the Board made a request of AIDEA staff in June 2014 to provide a formal response to the issue of DOWL's conflict of interest. No response was received and the Board made the same request of AIDEA staff at the meeting on January 13, 2016. AIDEA staff has provided a memo addressing these issues. Ms. Wainwright requested the Board refrain from voting on Resolution No. G16-02 to allow the public and Board members adequate time to thoroughly review the staff memo and to provide written cogent comments regarding the issues.

Ms. Wainwright stated three minutes is not enough time for her to give an analysis of the memo. She noted her main concerns. The memo was apparently drafted on the advice of Jerry Juday. There is no indication Mr. Juday disclosed that he or someone with the same name has represented interests affiliated with DOWL. Ms. Wainwright provided a document to the Board showing Mr. Juday, in private practice, was the organizer of the 4040 B business, which she stated is directly linked to DOWL. Ms. Wainwright requested the Board determine if Mr. Juday is the most appropriate person to undertake the conflict of interest analysis for AIDEA.

Ms. Wainwright noted Attachment 3 to the memo was written by Mr. Juday almost two years ago to the Department of Transportation (DOT) and was not previously disclosed to the public. She believes the tone of the attachment is in support of gathering evidence for the finding of no conflict of interest and should have been a judicious and non-prejudiced inquiry.

Ms. Wainwright added the memo states there is no conflict of interest because AIDEA's interest and NovaCopper's interests are aligned. Ms. Wainwright stated alignment of interests does not preclude of a conflict of interest. The Supreme Court has found a conflict of interest is where a person's income or assets will be promoted when the person is supposed to be an independent actor. DOWL has reaped financial benefits from NovaCopper, when NANA was a primary owner, from DOT, and from AIDEA. DOWL's financial interests are being promoted and it is not an independent actor.

Ms. Wainwright stated disclosure of a conflict of interest normally comes before the conflict occurs. There is no record of disclosure to DOT that NANA owned 51% of DOWL. Ms. Wainwright noted she did not find any examples of ratification of a conflict of interest after an entity has worked on a project for years. She reported the Supreme Court has said any actions taken in such a situation where they might violate the conflict of interest, even when disclosed, must be rescinded or sent back to the governing body.

7. NEW BUSINESS

7A. Resolution No. L16-01 Tudor Investors, LLC

MOTION: Mr. Wilken moved to approve Resolution No. L16-01. Motion seconded by Mr. Kennedy.

Mr. Springsteen stated Resolution No. L16-01 approves the authority to participate in a loan to Tudor Investors, LLC in the amount of \$2,062,000. He noted there is related debt in the amount of \$8,031,417. Ms. Anderson was invited to present this resolution. She stated the term is at a 25-year fixed rate. Northrim Bank will be at a 10-year variable rate. The guarantors are Mark Dunn and Carl Kuhn. The purpose is to refinance the multi-tenanted retail building on West Tudor. The economic benefit of this refinance is to lower the interest rate, lower the monthly payment, elongate the maturity, eliminate the

balloon payment, and retain three jobs. The local retail rates and rents are expected to be stable, with vacancies continuing at about 5%. The debt service coverage is 2.29 to 1. An assignment of rents will be taken. There are no known environmental issues with the property.

Ms. Anderson stated the strengths include the low loan-to-value, good loan history with the related debt, and strong guarantor financial strength. No extraordinary risks above general market risk have been noted. This request would increase the AIDEA portfolio retail industry to 23.04% from 22.56%. Staff recommends Resolution No. L16-01 for approval.

Deputy Commissioner Parady expressed concern regarding the cuts in the Legislature and a possible recessionary downturn. Ms. Anderson stated no material downturn indications from the retail and tourism sectors have occurred. Deputy Commissioner Parady requested additional information regarding the balloon payment. Ms. Anderson disclosed the balloon payment either has to be paid off or refinanced when it comes due. Deputy Commissioner Parady requested an update on the forward-looking information typically received from DED. Mr. Springsteen stated the final draft of the information will be distributed after the meeting.

Chair Pruhs asked for an update on the policies being considered regarding the current marijuana industry regulations, and specifically, if an owner with an AIDEA loan can lease to the marijuana industry. Mr. Springsteen believes that leasing is allowable under state law, but given the federal complications, FDIC banks and lenders do not accept the marijuana industry's stream of cash flow, or the assets as collateral, because of the risk of federal seizure. Chair Pruhs requested a policy be created to clarify and address the marijuana industry regulations.

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

7B. Pentex Update - Dan Britton

Mr. Britton discussed the Pentex operations report. Pentex has continued to provide uninterrupted service to customers with no issues related to the operations of the assets, no lost time injuries and no at-fault vehicle accidents. On January 20, 2016, notice was received from one of the operating groups that they have elected to be represented by the IBEW.

Deputy Commissioner Parady asked if the receipt of notice of the petition filed by IBEW to represent all natural gas operators was limited to Fairbanks Natural Gas (FNG). Mr. Britton said yes, noting the ballots were counted on February 25, 2016. Deputy Commissioner Parady requested further information on the swift material change in labor relations. Mr. Britton stated enhanced union pressure has occurred in previous years with high construction activity and an increased labor force. Another contributing factor was the difference between the Davis-Bacon wage paid by the contractor doing the work on the Interior Gas Utility compared to Pentex employees who are not paid Davis-Bacon wages.

Chair Pruhs asked if Mr. Britton had meetings with the employees. Mr. Britton disclosed he provided letters to the three employees discussing the company's position that a continued one-on-one relationship is more beneficial to employees, rather than being represented by the union. The union filed a human rights complaint against Mr. Britton suggesting he did not follow the rules. Mr. Britton is confident he did not run afoul any rules and an investigation will occur within a couple of weeks.

Mr. Britton stated the testing of the trailer with enhanced LNG capacity is ongoing to ensure knowledge of the handling characteristics. Initial driver reports indicate stable performance with no additional problems caused by the trailer.

Mr. Britton reported the first part of the year has been financially challenging because of the warm weather. The heating degree days have been 17% lower than budgeted, which affects revenue and sales to customers. The rate change was implemented January 1, 2016. Mr. Britton noted the current low cost of oil, with an approximate differential of 25% in Fairbanks, has caused some customers to switch from gas to oil. Expenses will be closely monitored and the prudent deferral of capital projects will occur to ensure financial security.

7C. Resolution No. G16-01 Approving Fairbanks Natural Gas Rate Decrease

MOTION: Mr. Wilken moved to approve Resolution No. G16-01. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. G16-01 establishes the interim rates approved by the Board on December 17, 2015 be adopted as permanent rates effective March 31, 2016. The proposed permanent rates achieve AIDEA's policy and financial objectives for the Pentex acquisition and result in significant rate reductions from 2015 rates for FNG customers. Public input was invited from January 4 through February 4, 2016, and a public hearing was held in Fairbanks on January 21, 2016. One person testified and a single written comment was received.

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

7D. Resolution No. G16-02 Ambler Mining Industrial Access Project - Waiver of Conflict of Interest for Prior Activity

MOTION: Vice-Chair Dick moved to approve Resolution No. G16-02. Motion seconded by Deputy Commissioner Parady.

Mr. Springsteen explained Resolution No. G16-02 is a waiver of conflict of interest for DOWL for prior activity related to the Ambler Mining District Industrial Access project. He noted staff and staff's attorney reviewed the conflict of interest allegation made against DOWL regarding their work on the Ambler Road project and the memo included in the Board's packet reports on the inquiry. Mr. Springsteen stated at the time DOT engaged DOWL to work on the access study for the Ambler project, DOWL disclosed to DOT they had performed work for NovaCopper's predecessors and that DOWL was owned by NANA Development Corporation. DOT, nevertheless, engaged DOWL to work on the project, which eliminated any conflict of interest question. Mr. Springsteen disclosed when AIDEA took over the Ambler project, DOWL was no longer working for NovaCopper and was no longer owned by NANA. No possible conflict existed at that time.

Mr. Springsteen reported DOWL did additional work for NovaCopper in the summer of 2015 to delineate wetlands around its mining claims. At that time, AIDEA's discretionary work on the Ambler project was suspended under the Governor's Administrative Order 271. Staff and staff's attorney have concluded DOWL's 2015 work for NovaCopper does not constitute a conflict of interest because, 1) the wetlands delineation work did not involve the mining district access road, 2) AIDEA and NovaCopper have aligned interest in pursuing the development of the Ambler Mining District as evidenced by the signed MOU, and

3) the 2015 work occurred when AIDEA's discretionary work on the project was suspended. Staff and staff's attorney recommend the Board adopt Resolution No. G16-02 to waive any possible conflict with respect to DOWL's work for NovaCopper through January 21, 2016.

Mr. Wilken expressed his appreciation to Ms. Wainwright for her patience and professionalism over the last couple of years. Mr. Wilken stated he has complete confidence in staff and the legal advice. He will vote yes on the resolution.

Mr. Kennedy believes the investigation was comprehensive and exceeded the expectations of other ethical boards of which he is a member. He will vote yes on the resolution.

Deputy Commissioner Parady requested Mr. Juday provide additional observations regarding the public testimony received concerning the 4040 B entity and whether the conflicts of interest standards align where income is generated. Mr. Juday explained 4040 B is not DOWL Engineers. It was a real estate transaction involving the partnership referring to an LLC. He represented the LLC. Mr. Juday stated the engineering conflicts of interest standards are whether the engineer's professional judgment is somehow being impaired by work being done for another client. Receipt of income from two different sources may be part of a potential conflict, but it is not the definition of a conflict.

Deputy Commissioner Parady cited page five of the Board memorandum on January 21, 2016, stating the guidance the Society of Professional Engineers provides on conflicts of interest confirms an engineer can ethically act for more than one party that has an interest in a particular project. Deputy Commissioner Parady will vote yes on the resolution.

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

7E. Resolution No. G16-03 AIDEA Board Support of Governor's Travel and Hiring Restrictions

MOTION: Vice-Chair Dick moved to approve Resolution No. G16-03. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. G16-03 is in support of Governor Walker's travel and hiring restrictions.

MOTION: Mr. Wilken moved to amend Resolution No. G16-03 Section 3 line three to read "one meeting per calendar year". Motion seconded by Vice-Chair Dick.

The motion to amend was approved without objection.

Mr. Wilken expressed his appreciation for the Board's inclusion in drafting the resolution.

Mr. Kennedy commended the Administration for being frugal with travel. Mr. Kennedy disclosed he is paying for his own travel to Prudhoe Bay on March 21, 2016 in order to get a better understanding of AIDEA's significant investments and assets located on the North Slope. He encouraged Board members look for opportunities to be frugal in these times of financial hardship to the State of Alaska.

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

7F. Interior Energy Project Update

Mr. Springsteen requested Gene Therriault present the IEP update and call on others as needed. Mr. Therriault invited Bob Shefchik, Nick Szymoniak and Tom Erickson to the table. Mr. Therriault reported work on all of the components of the IEP is ongoing and includes gas supply, LNG plant, transportation, storage and receipt of the LNG, and distribution. Moving forward with the determination of the supply out of an LNG plant is a critical component that impacts many of the other components. Included in the Board's packet are the results from the RFP Review Committee, who were charged with evaluating the RFP submittals. The Review Committee unanimously determined Salix, Inc. as the top ranked project from this process and recommended term sheet negotiations continue with the IEP team. Mr. Shefchik gave a detailed description of the proceedings and results of the Review Committee meeting. The Review Committee is comprised of seven members, whose identities will be revealed to the public after the Board makes a recommendation and the Notice of Intent is issued.

Deputy Commissioner Parady stated he supports the Review Committee's conclusions. He requested discussion of the \$15.74 delivered price and the continued challenges to meet the target. Mr. Shefchik explained before a final investment decision comes before the Board, additional opportunities will be negotiated that may lower the capital expenses in the Salix proposal, including combined operations of the two plants and further term sheet negotiations.

Mr. Wilken discussed a list of items he believes is important to include in the record. He requested a general explanation of what was meant by the comment, "Salix was more acceptable to utilities." Mr. Shefchik explained parallel discussions occurred with the top two companies for the formation of the contract. The willingness to work with the utilities and the structure of payments in Salix' term sheet was more attractive to the Review Committee utilities' representatives.

Mr. Wilken requested a table showing the lower capital cost and the resulting monies to be used elsewhere. Mr. Shefchik expects side-by-side comparisons to be illustrated when a Salix recommendation is brought before the Board. Mr. Wilken offered a correction to the "GVEA unwillingness to participate" bullet point on page four of the Review Committee Notes. He suggested it reads, "GVEA unwillingness to evaluate participation." Mr. Wilken asked for additional information regarding a low-demand scenario. Mr. Shefchik stated the contingency and approach for a low-demand scenario, including low oil pricing and low degree heating days, is still under negotiation with Salix and would include ways to reduce the annual operating expenses. The contingency will be outlined when the final recommendation is brought before the Board.

Mr. Wilken noted the ownership at the end of 30 years in the Salix approach reverts to the utilities. Mr. Shefchik stated the ownership is still to be discussed under term sheet negotiations. Mr. Wilken requested an overview of the Review Committee's discussion of the results. Mr. Shefchik outlined the events, they included the review of all documents. The Review Committee members then went around the table three separate times and gave individual recommendations, reasons, and concerns. The summary of results was drafted and provided individually to the Review Committee members to ensure concurrence. Mr. Wilken asked if the reference to the LNG storage facility in Fairbanks is the FNG project for storage of up to five million gallons. Mr. Shefchik said yes, and Mr. Britton noted the storage provides a minimum of approximately 10 days' worth of fuel.

Mr. Wilken asked if there is a ceiling on the amount of shared costs AIDEA is expected to contribute. Mr. Shefchik stated the structure of the early works shared cost agreement proposes \$250,000 for Salix and \$250,000 for AIDEA, rather than the up to \$500,000 as written in the provided document under detailed project costs. Mr. Wilken requested the sentence be changed to reflect the clarification. Mr. Wilken asked for the definition of EPC and EPC(M). Mr. Shefchik described Engineer, Procure, Construct (EPC) is a turnkey guaranteed price for a plant from a contractor. EPC(M) includes Management of the construction.

Mr. Wilken inquired as to the decision of charging 1% on the \$28 million of AIDEA SETS financing for 30 years. Mr. Shefchik stated the terms provide an expectation range which matched the financing of the North Slope plant. The terms are at the discretion of the Board and may change to a longer term with no interest or a shorter term with more interest depending upon what is necessary to meet the \$15 target price. Mr. Wilken asked for the equivalence of \$15.74/Mcf to oil. Mr. Britton stated \$15.74/Mcf is approximately equivalent to \$2.10 a gallon of fuel oil. Mr. Shefchik believes the quoted \$3.24/Mcf liquefaction fee will ultimately be reduced. Mr. Wilken requested the delivered price of gas be clarified to read, "the delivered price of gas at the meter."

Mr. Wilken asked for the savings if a 4,000-gallon pup trailer is utilized. Mr. Shefchik stated his spreadsheet on the transportation costs included the additional savings of 25 cents for utilizing a pup trailer. He will provide the spreadsheet. Mr. Wilken expressed his appreciation to Mr. Shefchik for his service on the project.

Deputy Commissioner Parady requested additional information regarding conversions. He expressed concern regarding the financial incentives to conversions and the health aspect necessity of regulatory action.

Mr. Kennedy expressed his appreciation to Mr. Springsteen and his team for their tremendous amount of work. He asked if there are other opportunities for economic development based on these recommendations. Mr. Springsteen noted if the Board accepts the final recommendation of Salix, there would be additional development in Cook Inlet, Mat-Su Borough, Fairbanks, and supplemental activities from cost savings. Mr. Shefchik added other economic development includes the potential for a state-owned rail and the increase of box stores in the Fairbanks area as the result of the availability of a firm gas supply. Mr. Kennedy asked if additional markets could be developed from the Cook Inlet recommendation. Mr. Springsteen believes there are currently takers of LNG shipments in Talkeetna and tourism is expected to continue and grow. Mr. Therriault noted the potential delivery options to Tok may even be less than the delivered cost to Fairbanks, and other communities on the road system may also benefit economically once the delivered price is known. Service of tidewater hub communities is another potential future economic development.

Ms. Brown asked what the price of oil would have to be to make the LNG price economic for conversions. Mr. Shefchik believes a rough correlation is \$30 per barrel of oil is equivalent to \$14.50/Mcf. Mr. Britton noted other reasons to convert include air quality concerns, upgrading boiler systems, and the removal of buried tanks. Ms. Brown inquired if there will be adequate gas supply for a normal high demand winter. Mr. Shefchik agreed and noted additional firm customers would not be signed up until more capacity is developed.

7G. Executive Session: Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), Skagway Ore Terminal, and the confidential deliberative process matter regarding potential legislation and financial planning

MOTION: Vice-Chair Dick moved to go into Executive Session to discuss confidential and financial information related to the Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), Skagway Ore Terminal, and confidential deliberative process matters regarding potential legislation and financial planning. Motion seconded by Deputy Commissioner Parady. The motion was approved.

The Board entered Executive Session at 11:34 a.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Jerry Burnett (via teleconference), Dan Kennedy, Fred Parady, and Gary Wilken. AIDEA staff invited to join the session, at different times for related topics: John Springsteen, Mark Davis, Jim Hemsath, Michael Lamb, Tom Erickson, Nick Szymoniak, Gene Therriault, and guests Marcia Davis, Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 2:14 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen stated the Administration made the statement in January, "We cannot continue with business as usual. Increasingly, we will have to do less with less." AIDEA has been called upon to do more with their tools and to be creative in their application to support development in the state. He expressed appreciation to the Board and staff during these difficult times.

The Dashboard, Loan, and Delinquencies-to-Outstandings Reports, Infrastructure Development and Project Development and Asset Management matrices and fact sheets are included in the packet. The Callan quarterly review is available in Mr. Springsteen's office. The continuing education calendar is included in the packet and reflects sensitivity to the travel and hire restrictions.

The next AIDEA board meeting is scheduled for Thursday, March 31, 2016 at AIDEA's offices.

9. BOARD COMMENTS

Mr. Kennedy expressed appreciation for everyone's patience as he endeavors a sharp learning curve. He thanked staff for their recent guidance. Mr. Kennedy noted he is working toward a possible Board meeting in Wasilla, including a prospective field trip on the prior day to look at assets and other potential economic development.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 2:17 p.m.


John Springsteen, Executive Director
Alaska Industrial Development & Export Authority

