



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, March 31, 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 31, 2016, at 12:30 p.m. A quorum was established.

2. ROLL CALL: BOARD MEMBERS

Members present: Chair Dana Pruhs (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).

Members participating via teleconference: Vice-Chair Russell Dick (Public Member) and Jerry Burnett (Deputy Commissioner, Department of Revenue).

3. ROLL CALL: STAFF, PUBLIC

AIDEA staff present: John Springsteen (Executive Director); Chris Anderson (Director-Commercial Finance); Mark Davis (Chief Infrastructure Development Officer (IFD)); Jim Hemsath (Director-Project Development and Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Tom Erickson (Chief Procurement Officer); Jennifer Haldane (Human Resources Director); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Staff participating via teleconference: Gene Therriault (Interior Energy Project (IEP) Team Lead)

Public present: Alan Bailey (Petroleum News); Elwood Brehmer (Alaska Journal of Commerce); Kathryn Black and Leila Kimball (Birch Horton Bittner & Cherot); Dan Britton (Pentex); Bruce Chambers (Chambers Commercial Real Estate); Don Clary (Denali Federal Credit Union); Suszan Dale, Kimberly Paulsrod, and John Regitano (Family Centered Services of Alaska); Wasatomo Fujiwara and Greg Rozitis (Hitachi); Mark Gardiner (Western Financial Group); Keith Hand (Spectrum); Jerry Juday (Department of Law); Debra Mack (Accu-Type Depositions); Bob Shefchik (IEP Team); and Ken Vassar (Law Office of Kenneth Vassar).

Public participating via teleconference: Bob Lafferty (Salix).

4. AGENDA APPROVAL

Mr. Springsteen requested to add Item 7C. Interior Energy Project Update, Item 7D. Site Review of MOC1, Mustang Road and Pad, and move Executive Session to Item 7E. The agenda was approved as amended.

5. PUBLIC COMMENTS

None.

6. PRIOR MINUTES - March 3, 2016

The minutes were approved as presented.

7. NEW BUSINESS

7A. Loan Resolution No. L16-02 - SHB, LLC

Mr. Springsteen stated Resolution No. L16-02 authorizes the Authority to participate in a loan to SHB for \$4,249,920. Mr. Springsteen corrected the memorandum stating the lender should be Denali Federal Credit Union (DFCU). He invited Ms. Anderson to present.

Ms. Anderson reviewed the specifics of the loan resolution. This is a refinance of an office warehouse building at 700 Bragaw Street in Anchorage. The borrowing entity is managed by an experienced commercial real estate broker, owner, and manager, Bruce Chambers, who is available to answer questions. The near-term forecast for warehouse space and rents is stable through 2016. AIDEA would take a First Deed of Trust lien position, an assignment of the current lease with British Petroleum (BP), and a UCC filing on the equipment and fixtures. The property was appraised at \$7.1 million. There is no related debt for this entity and no known environmental issues.

The strengths include the loan to value at 67%, the debt service ratio above the minimum at 1.66 to 1, and very strong outside financial support from the guarantors. The weaknesses include the expiration of the BP lease in 2019. The BP lease has two 5-year renewal options. BP uses the property for drilling core sample storage and would be necessary regardless of fluctuating oil prices. BP has made tenant improvements in excess of \$2.2 million. The property is well-suited for other tenants, should it need to be re-leased.

This credit would increase AIDEA's portfolio of office/warehouse type properties to 8.2% from 7%. The Anchorage region participation of office/warehouse loans would increase to 13.2% from 11%. Staff recommends approval of Resolution No. L16-02.

Deputy Commissioner Parady requested clarification regarding the minimal reduction of the debt service. Ms. Anderson stated the current interest rate is variable. This credit will provide a fixed 3.84% interest rate and the reduction in debt service will be approximately \$16,000 a year. Mr. Chambers explained he views this credit as a long-term bond with a permanent interest rate. It is anticipated to be passed on through trust for the next 25 years. BP occupies 100% of the

building and has moved their archives and core samples into one facility. BP is expected to be a long-term tenant.

Chair Pruhs asked Ms. Anderson if she knew the percentage of loan requests that are new business versus refinance. Ms. Anderson believes the majority of the loan requests are for refinance structures, primarily because interest rates are still historically low. She does not have a specific percentage answer at this time. Chair Pruhs requested Ms. Anderson obtain the percentage amount of the portfolio that consists of refinanced loans.

Chair Pruhs asked Mr. Chambers to provide his opinion on the market. Mr. Chambers stated his experience spans 43 years. He believes the office space market is mangled and the box store market is not good. Service retail and consumption retail market is good, and there is a huge demand for smaller warehouses. The demand for large warehouses far exceeds the capacity, especially on a national level. Mr. Chambers expressed concern about the Valley because of the amount of North Slope oil workers and high construction employment.

**MOTION: Deputy Commissioner Parady moved to approve Resolution No. L16-02.
Motion seconded by Mr. Kennedy.**

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

7B. Resolution No. G16-04 – J.R. Cannone Project, Bond Indenture, Placement Agreement, Loan Agreement

Mr. Springsteen stated Resolution No. G16-04 authorizes AIDEA to issue up to \$13 million in Conduit Revenue Bonds for the acquisition of an existing adolescent treatment facility located at 3101 Lathrop Street in Fairbanks. Proceeds for the Bonds will also be used to fund a debt service reserve account as security for the Bonds and to pay all or a portion of the costs associated with the issuance of the Bonds. RBC Capital will serve as placement agent and UMB Bank National Association will act as trustee. The Bonds will be issued as Conduit Revenue Bonds under AIDEA's Conduit Revenue Bond program. Neither AIDEA's credit or resources, or the State's, is at risk in connection with these Bonds. He invited Mr. Lamb to present.

Mr. Lamb said Mr. Ken Vassar, AIDEA's Bond Counsel, is available to answer questions. Mr. John Regitano and other members of Family Centered Services of Alaska are also present. He stated this is one of the good things AIDEA does. Conduit Bonds are where AIDEA becomes a conduit for 501(c)3 non-profits to get tax-exempt financing to lower the cost of financing. In the resolution, in the Therefore section, section 1 has the \$13 million and the second paragraph in section 1 is where the formal language in terms of no liability to the State or political subdivision, which of course AIDEA is a subdivision. The documents included in the packet are the memo, the resolution, and three documents: the trust indenture (agreement between AIDEA and trustee), the loan agreement (agreement between AIDEA and J.R. Cannone), and the placement agreement (agreement between AIDEA and RBC Capital). These bonds will be sold to sophisticated investors in minimum denominations of \$100,000, so there is no need for a

public offering. The TEFRA hearing has been held, consent from the City of Fairbanks and the Fairbanks North Star Borough has been received. Staff expect a letter from the Governor's office shortly and anticipate closing on April 26, 2016.

Mr. Pruhs asked what the effective interest rate is on the Bond. Mr. Lamb stated 6%, but I don't know if that is a pre-determined set rate. Mr. Pruhs asked if that is high or a standard rate. Mr. Vassar stated this is a negotiation between a financial institution and a borrower and takes into account everything to do with the loan. I'm not sure you can really say is it normal or not, it's what these two parties have worked out in these negotiations.

Mr. Wilken asked if Mr. Regitano would like to make a comment. Mr. Regitano provided a pamphlet with information on the Family Centered Services of Alaska (FCSA). He said these brochures will give you an idea on the uses of the facility and the history of FCSA. He introduced two key staff members who have spent the last two years negotiating this, Ms. Susan Bell and Ms. Kimberly Paulsrod. The interest rate was one of the items addressed during negotiations, along with the primary bond holders right to continue to be the primary holders through the life of the bonds. I would first like to thank everybody who has been involved working with us. Our Board of Directors was very insistent that the facility not close down because that was the option. The facility is licensed for 48 children right now and it's been full almost all the time, we are going to license it for 60, there is a need in the State. Our Board was originally founded to provide services for children in Alaska as close as they could to their community. So they didn't want to see the facility close down. The negotiations took a long time because we didn't want to end up in a situation like the original builders of the building. If anyone has any questions I will be more than happy to answer.

Deputy Commissioner Parady asked if FCSA services many clientele from the North Slope. Mr. Regitano said yes, a large percentage come from the North Slope and Northwest Alaska. We actually have children from statewide but the primary areas are interior Alaska, the North Slope, and Western Alaska. It's closer than going down to Anchorage. For children that need the services we provide the only other option is Anchorage, and Anchorage beds are fairly limited now too; NorthStar being the largest provider in the state, has a high percentage of filled beds.

Mr. Wilken asked Mr. Regitano to provide information on the initiative to bring the children home and how this all got started. Mr. Regitano stated this facility concept originated probably about 10 years ago. Alaska at its height had about 1,000 children in facilities all over the lower 48 and the state was paying, the largest figure I saw was \$52 million a year, to provide services for them outside. The services provided were good, but when you have adolescents and young children out there, where the predominant age was 10-16, it was like going to a foreign country. They had very limited contact with parents and the logistics of returning home was a challenge. Studies showed when they went out of state the children stayed about 30% longer than if they were treated in state. This facility really developed out of those studies. Initiated by the State of Alaska in cooperation with the Mental Health Trust they came up with the project "Bring the Kids Home" and in the 10 years since then there has been an expansion of beds at all different levels to include group homes. FCSA was developed to predominantly cover the interior.

MOTION: Mr. Wilken moved to approve Resolution No. G16-04. Motion seconded by Mr. Kennedy.

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

7C. Interior Energy Project Update

Mr. Springsteen requested Gene Therriault and Bob Shefchik present the IEP update and call on others as needed. Mr. Therriault reminded the Board that IEP is advancing under House Bill 105 and must identify the source of the natural gas, the estimated cost of the project, and the estimated price to customers in Fairbanks. Forward motion on completing the different components is ongoing, but the full package is not complete as of this meeting. More detailed questions on the status of negotiations can be discussed in executive session.

Mr. Shefchik said Nick Szymoniak is also at the table. Mr. Shefchik continued the IEP status report. There is a fundamental understanding on the commercial terms for liquefaction and is expected to be finalized soon. Mr. Shefchik said April 28, 2016, the next Board meeting, is the target for bringing forward a resolution to authorize the project, to move forward into feed, and to finance the feed efforts for the final investment decision.

Mr. Szymoniak provided the gas supply update and said that confidential discussions with multiple Cook Inlet producers are still ongoing for securing gas for the project. Mr. Szymoniak stated the next Board meeting is the target to have a firm term sheet for gas supply. The current Titan liquefied natural gas (LNG) plant has gas supply that goes through early 2018. These negotiations would supplant that gas supply, as well as supply gas for the expanded LNG capacity.

Mr. Shefchik stated the due diligence regarding the potential to expand the current Titan plant to increase capacity resulted in an estimate of \$8 million to \$10 million in improvements. Concurrent storage would also have to be developed. Any upgrades will be integrated into the project as a whole. Dan Britton noted the existing Titan facility produces approximately 50,000 gallons per day. The expansion is estimated to increase the production to 75,000 gallons per day.

Mr. Szymoniak stated the scope of the budget for the existing resolution included selecting a partner to serve the IEP. Once the project moves forward into feed, it is appropriate to have a new resolution with a new scope of work which will be brought forward at the next meeting. The funding in the current resolution for staff will be nearly exhausted by the next meeting and the remaining funding for consultants is expected to be rolled into the new resolution budget. The new budget will include funding for feed, sharing in the cost under early works agreements for front-end engineering design study for the LNG plant, and additional AIDEA staff, consulting, and legal costs to develop contracts from the term sheets. The timeline for the new resolution would include up to the project sanction and investment decision for the entire project.

Mr. Therriault reported work is ongoing regarding conversions with the Department of Environmental Conservation (DEC) and the Fairbanks North Star Borough to access the

Environmental Protection Agency (EPA) Air Shed Grant Program funds. The Borough would be able to apply separately for wood stove change-out and for conversions to natural gas.

7D. Site Review of MOC1, Mustang Road and Pad

Mr. Kennedy provided an overview of his recent inspection to the Mustang Project. He said this was his first time to Prudhoe Bay and expressed his appreciation to Mr. Hemsath for accompanying him. The trip was extremely valuable to his role as a Board member. He showed the photos taken of the project and indicated how impressed he was with the investment. The pad was built very close to a gravel pit from which half a million cubic yards were mined for the pad and the road. The pad was built close to the Alpine line.

Mr. Kennedy expressed appreciation to Brooks Range representatives who provided educational insights during his field trip. Mr. Kennedy stated he continues to utilize and learn from the AIDEA website. He was able to match what he learned from his visit to Mustang with information from the website.

7E. 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: Deputy Commissioner Parady 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 the confidential deliberative process matters regarding potential legislation and financial planning. Motion seconded by Mr. Wilken.

The Board entered Executive Session at 1:30 p.m. Participants included board members Dana Pruhs, Russell Dick (via teleconference), 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, Tom Erickson, Gene Therriault (via teleconference), Nick Szymoniak, and guests Dan Britton, Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 4:03 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen stated House Bill 143 has passed the House. This authorizes AIDEA to issue revenue bonds, not to exceed \$120 million, to finance the infrastructure and construction cost of the Sweetheart Lake Hydroelectric Project. The revenue bonds do not constitute a general obligation from the State of Alaska (SOA) or AIDEA. The bonds authorized would not be considered in calculating AIDEA's \$400 million rolling bond limitation for a 12-month period. The sunset date for the bond authorization is June 30, 2020. House Bill 268 has also passed the House. This regards stabilization of the AIDEA dividend to the SOA.

The Dashboard, Loan, Delinquencies-to-Outstandings Reports, IFD and PDAM matrices are included in the packet. The continuing education calendar was included and reflects sensitivity to the travel and hire restrictions. The Alaska Rural Energy Conference, cosponsored by AEA and the Alaska Center for Energy and Power (ACEP) is scheduled for April 26-28, 2016, at the Westmark Hotel in Fairbanks.

The next AIDEA board meeting is scheduled for Thursday, April 28, 2016, in Anchorage.


9. BOARD COMMENTS

Mr. Kennedy stated a Board meeting in Wasilla is on track for June 23, 2016, at the Wasilla City Council chambers, with a field trip on June 22 beginning at noon to visit Valley assets, including the Railroad, Titan, Salix, Wasilla Airport, and the Port. Chair Pruhs requested information regarding charges for the meeting room. Mr. Kennedy noted a community reception for the AIDEA Board has been tentatively planned on June 22, 2016 from 5:00 to 7:00 p.m. at the conference room in the Menard Sports Center.

Chair Pruhs said the Wasilla field trip will be good for the Board. He expressed his appreciation for the efforts and participation during today's meeting.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:09 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority