



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, April 28, 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 April 28, 2016 at 10:00 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); Jerry Burnett (Deputy Commissioner, Department of Revenue); Dan Kennedy (Public Member); and Gary Wilken (Public Member).

Members participating via teleconference: Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development).

3. ROLL CALL: STAFF, PUBLIC

AIDEA staff present: John Springsteen (Executive Director); Chris Anderson (Director-Commercial Finance); Mark Davis (Chief Infrastructure Development Officer); Michael Lamb (Chief Financial Officer); Tom Erickson (Chief Procurement Officer); Leona Hakala (Loan Officer); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs Officer); Nick Szymoniak (Energy Infrastructure Development Officer); Gene Therriault (Interior Energy Project (IEP) Team Lead); Sherrie Siverson (Executive Assistant); and Krin Kempainen (Administrative Assistant).

Public present: Alan Bailey (Petroleum News); Elwood Brehmer (Alaska Journal of Commerce); Dan Britton (Pentex); Kent Craford and Mike Stedman (Kalinin Partners); Luke Fanning, Bill Inscho, and Chris Longacre (First National Bank Alaska (FNBA)); Mark Gardiner (Western Financial Group); Isabell Howell and Sunny Morrison (Accu-Type Depositions); Jerry Juday (Department of Law); Karl Kuhn (Jack White Commercial); Todd Nugent (Meridian Park Medical Building); Chad Powelson (Western Enterprises); and Bob Shefchik (IEP Team).

Public participating via teleconference: Dan Bross (KUAC Radio Fairbanks); Bob Lafferty (Salix); Todd McManus (First National Bank); Julia Nickley (Northern Alaska Environmental Center); and Janis Wold and Kim Wold (Crescent Key, Inc.).

4. AGENDA APPROVAL

Mr. Springsteen requested to add Item 6F Board Member visit and review of Red Dog Port Road and Mine Facility, move IEP update to 6G, and Executive Session to 6H. The agenda was approved as amended.

5. PUBLIC COMMENTS

There were no public comments.

6. NEW BUSINESS

6A. Loan Resolution No. L16-03 - Erickson Investments, LLC

Mr. Springsteen stated Resolution No. L16-03 authorizes the authority to participate in a loan to Erickson Investments, LLC in the amount of \$2,430,00 to refinance a 11,930 square-foot medical office building located at 3066 East Meridian Park Loop in Wasilla. There is a related debt in the amount of \$9,931,461, which includes the pending Loan Resolution No. L16-07. He invited Chris Anderson forward to present.

Ms. Anderson reviewed the specifics of the loan resolution. Approximately 60 new jobs will be created and 15 jobs retained because of this transaction. The managing entity is Wade and Heather Erickson. AIDEA would have a first deed of trust on the improvements and an assignment of leases. There is a 75% loan to value and the debt service is estimated at 1.65 to one.

Ms. Anderson noted there are no known environmental issues. The strengths include a strong demand for medical facilities in the Wasilla area. This is an established business operation. The guarantors have financial strength. There were no extraordinary risks beyond the typical real estate market cycles. As of year-end, the total statewide portfolio contained 2.34% in the healthcare industry and would increase to 3.06% upon approval. Participated loans in the Mat-Su Region is at 2.96% of the portfolio and would increase to 7.83%. There are two primary tenants with 12-year leases. Cash flow is generated by the tenants and is included on page three in the credit presentation

MOTION: Mr. Kennedy moved to approve Resolution No. L16-03. Motion seconded by Vice-Chair Dick.

Mr. Wilken asked for additional information on the new jobs created from the approval of this refinance resolution. Todd Nugent stated the existing tenants, with the exception of the Urgent Care, are coincidentally relocating to another facility. Mr. Nugent assumes the new jobs will be created by the new tenants in the medical park.

MOTION: Mr. Wilken moved to remove the sentence in Resolution No. L16-03 approximately 60 new jobs will be created and 15 jobs retained. Motion seconded by Vice-Chair Dick.

Mr. Kennedy spoke against the motion to remove the sentence. He believes the 60 new jobs is related to Loan Resolution No. L16-07 in which a medical office building is expanding.

The motion to amend was withdrawn by maker and seconded.

Vice-Chair Pruhs requested Mr. Springsteen determine a way the job creation metric can be reported with more accuracy and diligence. Deputy Commissioner Burnett pointed out Loan Resolution No. L16-03 and No. L16-07 may have overlap in job creation and job retained numbers. He believes the report of the net jobs number would be helpful. Mr. Kennedy stated the total job creation by both loan resolutions may be overstated and the Board's recommendations are fair. He believes the construction quality of the medical office is superior. Mr. Kennedy thinks very highly of the appraiser who was utilized. He offered to give Board members a drive-by tour of the facility.

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

6B. Resolution No. L16-04 - Kalinin Partners, LLC

MOTION: Vice-Chair Dick moved to approve Resolution No. L16-04. Motion seconded by Mr. Wilken.

Ms. Anderson stated Resolution No. L16-04 authorizes AIDEA to participate with FNBA in a 15-year fixed loan to Kalinin Partners, LLC in the amount of \$6,390,000. FNBA's participation is \$710,000 at a 10-year variable rate. The guarantors are Kalinin Holdings, Inc.; Air Excursions, LLC; Kalinin Aviation, LLC; Kent Craford; Michael Craford; and James Stedman. Ms. Anderson noted the loan is to refinance a hangar and multiple aircraft in Juneau. Approximately 15 to 30 jobs will be created and 15 jobs retained as a result of this loan participation. Combined collateral provides a 72% loan to value. The debt service coverage is 3.11 to one. Additional information is provided in the credit presentation.

Ms. Anderson stated AIDEA will require an assignment of the City of Juneau land lease, as well as release provisions on all of the aircraft. There are no known environmental issues. The strengths are the guarantor's financial strength, experienced operators, excellent outlook for tourism, and minimal competition. Weaknesses include industry risk and is mitigated by current insurance and safety programs. As of year-end, the total statewide portfolio contained .05% in the aircraft industry and would increase to 1.96%. There are no loans in the Southeast Region of the portfolio and would increase to 10.74%.

Mr. Wilken asked for additional information on the new jobs created from the approval of this refinance resolution. Kent Craford stated the jobs are the result of growth, but would not be eliminated if this resolution failed. The process was initiated with FNBA last year and three additional aircraft have been acquired. Mr. Wilken said he does not believe the job creation numbers are being reported accurately in the refinance resolutions. He requested Mr. Springsteen determine a way the job creation metric can be reported to the Board and the public more accurately.

MOTION: Mr. Wilken moved to remove all references in the memorandum and the credit presentation of Resolution No. L16-04 relating to 15 to 30 jobs being created.

Deputy Commissioner Parady agreed staff needs to work on the issues with reporting of job creation.

The motion to amend was withdrawn by the maker.

Deputy Commissioner Burnett said he will support the resolution and expressed concern with long-term lending in small aircraft aviation in Southeast Alaska because of the historically high turnover.

Deputy Commissioner Parady asked if the term of the land lease is coincidental with the term of the loan. Ms. Anderson stated AIDEA's standard assignment of land leases is 10 years beyond the term of the loan. The land lease in the Resolution exceeds the term of the loan and expires in 2049. Deputy Commissioner Parady believes the market comments in the memorandum could have been strengthened.

Chair Pruhs asked if the improvements on the land revert to the land owner at the end of the lease or if there is a renewal option. Ms. Anderson stated typically the land owner would renegotiate a new lease. Luke Fanning said the industry standard is the improvements revert back to the land owner at the end of the lease. Chair Pruhs asked for more information regarding the relationship between the ownership of the facility, the ownership of the air taxi certificate and aviation assets. Mr. Craford stated Kalinin Partners holds the assets and leases them to the operating entities. All are commonly owned by a parent holding company. Chair Pruhs asked about cross-liability should an accident happen. Mr. Craford disclosed the structure is common in the industry and is established purposefully to limit liability. The seat liability is \$1 million, which is above the minimum state requirement.

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

6C. Loan Resolution No. L16-05 - Crescent Key, Inc.

MOTION: Vice-Chair Dick moved to approve Resolution No. L16-05. Motion seconded by Ms. Brown.

Mr. Springsteen stated Resolution No. L16-05 authorizes AIDEA to participate with First Bank in a 25-year fixed loan to Crescent Key, Inc. in the amount of \$4,162,250. First Bank's participation is \$462,525 at a 20-year variable rate. The term financing is for a newly constructed, 104-unit expansion of the self-storage facility in Ketchikan, as well as refinancing of existing term debt.

Ms. Anderson provided the details of the loan. Approximately 25 construction jobs were created, one permanent job was created and three jobs were retained. The borrowing entity is owned and managed by Kim Wold, a well-known commercial real estate appraiser and owner of Alaska Appraisal Associates, Inc.

Ms. Anderson stated AIDEA will take a first deed of trust on the facility, including the three locations owned and operated by the borrowing entity, and a security interest in the equipment and fixtures. Collateral provides a 75% loan to value. The debt service coverage is 1.57 to one. Additional information is provided in the credit presentation. There is no related debt and no known environmental issues. The strengths include an excellent history of profitable operations and a well-established, stable tenant base. Weaknesses include the Wold's net worth is concentrated in the assets of Crescent Key and is mitigated by the proven history of profitable operations. As of year-end, the total statewide portfolio contained 3% in the warehouse/self-storage type properties and would increase to 4.2%. The participated loans in the Southeast Region of the portfolio is 1% and would increase to 8.2%. A third-party appraisal review was recently received and is being analyzed. Ms. Anderson believes the value and loan amount will probably decrease by no more than \$200,000. Mr. Springsteen pointed out the resolution allows participation up to \$4,162,725 if approved by the Board today. The Board would be informed of any adjustment made decreasing the loan amount.

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

6D. Loan Resolution No. L16-06 - City Center Wasilla, LLC

MOTION: Mr. Kennedy moved to approve Resolution No. L16-06. Motion seconded by Vice-Chair Dick.

Mr. Springsteen stated Resolution No. L16-06 authorizes AIDEA to participate with FNBA in a 25-year fixed loan to City Center Wasilla, LLC in the amount of \$1,080,000. FNBA's participation is \$120,000 at a 15-year variable rate. The term financing will refinance a newly constructed retail strip mall located in Wasilla. There is related debt in the amount of \$10,035,832.

Ms. Anderson provided the details of the loan, which will benefit the cash flow of the project. Approximately two jobs will be retained. The borrowing entity is managed by Western Enterprises, Inc., which has extensive experience in commercial property management. There are no known environmental issues.

Ms. Anderson noted AIDEA would have a first deed of trust on the property. Collateral provides a 75% loan to value. The debt service coverage ratio is 1.62 to one. The strengths include an outside financial support available from the guarantors with strong net worth and cash flows, and experienced owners in commercial development and management. Weaknesses include the overall exposure and concentration to the guarantors and to the Wasilla Center project is weighted in commercial real estate and is mitigated by the strong net worth of the guarantors. As of March 31, 2015, the total statewide portfolio contained 20.6% in the retail type properties and would increase to 20.8%. The participated loans in the Anchorage region of the portfolio is 24.06% and would increase to 26.3%.

Mr. Kennedy spoke in favor of the refinancing.

Chair Pruhs expressed his appreciation for the summary of the leases in the confidential credit presentation. He asked for the typical lease term in this retail space. Ms. Anderson noted retail leases are considered long-term at five years. Chad Powelson stated this retail niche is for a small space with a three-year flexible lease.

Deputy Commissioner Parady requested additional information about waiving AIDEA's prepayment penalty fee. Ms. Anderson explained the structure of the loan was negotiated to allow the borrowing entity to pay down the principal by up to \$50,000 each year without a prepayment penalty. The full payoff prepayment penalty structure still remains.

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

6E. Loan Resolution No. L16-07 - Meridian Park MOB, LLC

MOTION: Mr. Kennedy moved to approve Resolution No. L16-07. Motion seconded by Vice-Chair Dick.

Ms. Anderson stated Resolution No. L16-07 authorizes AIDEA to participate with FNBA in a 25-year fixed loan to Meridian Park MOB, LLC. in the amount of \$7,020,000. FNBA's participation is \$780,000 at a 15-year variable rate. The term financing is for new construction of a medical office building located in Wasilla. The multiple guarantors are John T. Grissom, Matt and Stacey Heilala, Wade S. and Heather J. Erickson, Todd Nugent, Joseph Ty Bell, Evan Wolf, Jeff Simerville, William Vaughn Gardner, and Garth LeCheminant. There is related debt in the amount of \$6,680,329.41. The existing loans have paid as agreed. Approximately 30 new jobs will be created and 70 jobs retained. The borrowing entity is managed by Capstone Family Medicine, LLC, which is owned 75% by Wade Erickson. There are no known environmental issues.

Ms. Anderson said AIDEA will require an assignment of leases, first deed of trust, and recorded first lien position on improvements located at 3190 East Meridian Park Loop, Wasilla. Collateral provides a 68% loan to value. The debt service coverage ratio is 1.55 to one. The strengths include new construction, strong guarantor financial strength, and high demand for healthcare facilities in Wasilla. Weaknesses include being a special use facility and is mitigated by the noted strengths. As of March 31, 2016, the total statewide portfolio contained 2.72% in the healthcare industry and would increase to 4.73%. The participated loans in the Mat-Su region of the portfolio is 2.87% and would increase to 15.52%.

Mr. Wilken noted the representation to the public that Resolution No. L16-07 and No. L16-03 will create 90 new jobs and will retain 95 jobs is not correct. He reiterated the importance of providing valid information regarding job creation to the public.

Mr. Kennedy believes this project will be a capstone of expanded medical facilities for the fastest growing area in the state.

Mr. Nugent stated the upper floor design of the tenant improvements for the foot and ankle clinic, the pharmacy, and the pain clinic was completed after the AIDEA loan application was prepared by FNBA. The first floor is a warm shell lease for the Surgery Center of Wasilla. Mr. Nugent requested the total loan amount be increased from \$7.8 million to \$8.1 million. Ms. Anderson informed Mr. Nugent a loan increase request is not appropriate at this time.

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

6F. Board Members visit and review of Red Dog Port Road and Mine Facility

Mr. Kennedy and Ms. Brown shared photos and gave a report of their brief and well-appreciated trip to the Red Dog Mine facility and port. Mr. Kennedy was impressed with the level of safety training and concern at the mine and the port. He reported the use of the latest industrial technology for the operators. The facilities also sublease to other entities, including Fish and Wildlife who now are conducting an expedition tagging polar bears. Ms. Brown commented on the detail to safety that staff exhibited to during their visit. The website is kept current and contains additional information and developments.

Mr. Kennedy had a discussion with the general manager regarding the potential Northwest Arctic Borough property tax issue. This was a significant element of the trip and could be a future challenge. Ms. Brown said approximately 9 of the 12 employees she interviewed had migrated from their original community down to Anchorage and Wasilla. She noted a couple of those employees had plans to move back to their original community to participate in the subsistence hunting lifestyle. Mark Davis stated a recent article was reported in the Economic Development Journal by Bob Loeffler, a University of Alaska professor, focusing on the Red Dog Mine and sustainable communities, and he would be willing to forward if board members were interested.

6G. Interior Energy Project (IEP) Update

Mr. Springsteen requested Gene Therriault, Bob Shefchik, and Nick Szymoniak present the IEP update and call on others as needed. An excerpt from the Quarterly Report to the Alaska State Legislature was provided to Board members. The full report is available online at www.interiorenergyproject.org or upon request.

Mr. Therriault stated advancement of the IEP project has been successful across all fronts. Negotiations are near conclusion on a gas supply with the delivered price in the \$15 range. The hope is this price will be lowered as the project continues to develop. The utility consolidation efforts are ongoing. Property Assessed Clean Energy (PACE) legislation has advanced and is now poised in Senate Rules. The House adopted the Senate language. The passage of PACE legislation will support natural gas conversion mechanisms. Mr. Therriault noted Senator Peter Micciche requested to be the floor leader on the PACE legislation.

Mr. Therriault stated the final details on the pricing term sheet are being determined with the gas supplier. Salix negotiations regarding liquefaction continue and a final commercial term sheet for the plant and tolling agreement is near completion. Staff anticipates presenting the FEED

(front end engineering and design), an early works scope, and the budget for consideration at the next Board meeting. The final documents should be available to the Board within a week or two. Additional details on the status of negotiations can be discussed in executive session.

Mr. Wilken asked if it would be helpful if Chair Pruhs contacted Senator Micciche and/or Senator Meyer and expressed the importance of the PACE legislation to the IEP project, in addition to Mr. Springsteen drafting a letter of support signed by the Board members and sent to Senator Micciche, Senator Meyer, Senate Finance and Senate Rules. Mr. Therriault stated no indication has been received regarding problems with the content of the bill. The negotiations continue between the House and Senate, and between the Legislature and the Administration. Mr. Therriault shares the concern of assuring the AIDEA legislation gets scheduled. He is confident the PACE legislation and the AIDEA dividend modifications would pass once scheduled.

6H. Executive Session: Interior Energy Project, Brooks Range Petroleum (BRP), Mustang Operations Center (MOC1), Skagway Ore Terminal

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), and the Skagway Ore Terminal. Motion seconded by Ms. Brown.

The Board entered Executive Session at 11:31 a.m. Participants included board members Dana Pruhs, Russell Dick, Elaine Brown, Jerry Burnett, Dan Kennedy, Fred Parady (via teleconference), and Gary Wilken. AIDEA staff invited to join the session, at different times for related topics: John Springsteen, Mark Davis, Michael Lamb, Tom Erickson, Gene Therriault, Nick Szymoniak, and guests Dan Britton, Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 2:03 p.m. Chair Pruhs stated no formal action was taken during executive session.

7. DIRECTOR COMMENTS

Mr. Springsteen expressed appreciation to Mr. Kennedy and Ms. Brown for their presentation on the Red Dog Road and port system. He believes this project provides a great model for the balance between environment, subsistence and development in Alaska.

Mr. Springsteen noted the dashboard, loan, delinquencies reports, IFD and PDAM project matrices are available for review in members' packets. Please contact Ms. Siverson with interest in attending a continuing education course.

The next AIDEA Board meeting is scheduled for Thursday, May 19, 2016 in Anchorage.

8. BOARD COMMENTS

Mr. Wilken expressed his pleasure with the progress the team has made on the IEP. He believes this is a capital-constrained project and it is important to focus on saving millions of dollars on the plant. Mr. Wilken stated he has not seen the annual report of local hire for the last two years requested with the sale of the shipyard to Vigor. He asked Mr. Springsteen follow up on the annual report expectation. Mr. Wilken disclosed he was uncomfortable with the issues today regarding inaccurate job creation reporting and the issues have to be addressed. He suggested removing the entire section in the interim, unless the developer can write a hard line paragraph describing the creation of jobs.

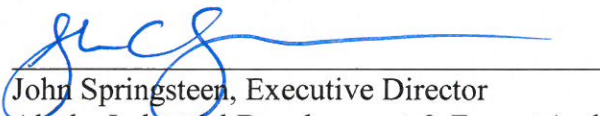
Mr. Kennedy expressed his appreciation to the members for a very productive meeting, with special thanks to Deputy Commissioner Burnett and Deputy Commissioner Parady for their extraordinary work.

Deputy Commissioner Parady echoed Mr. Wilken's comments regarding the use of jobs data and looks forward to a meaningful discussion with staff regarding these issues. He believes it is necessary to have a deeper discussion on how AIDEA deploys its capital, both in refinancing and external investment, especially in light of the Alaska economic atmosphere. He requested Mr. Springsteen provide him with the contract for the strategic plan.

Chair Pruhs expressed his appreciation to Board members and staff.

9. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 2:10 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority