



Alaska Industrial Development and Export Authority
BOARD MEETING MINUTES
Thursday, May 19, 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 May 19, 2016 at 12:49 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); Dan Kennedy (Public Member); Fred Parady (Deputy Commissioner, Department of Commerce, Community, and Economic Development); and Gary Wilken (Public Member).

Members 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); Mark Davis (Chief Infrastructure Development Officer); Jim Hemsath (Director-Project Development & Asset Management (PDAM)); Michael Lamb (Chief Financial Officer); Leona Hakala (Loan Officer); Jennifer Haldane (Human Resources Director); Michele Hope (Contracting Officer); Matt Narus (PDAM-Project Manager); Bill Phelan (Loan Officer); Karsten Rodvik (External Affairs 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); Joe Beedle (Northrim Bank and Alaska Bankers Association); Dan Britton (Pentex); Hunter Christensen (Resources Energy, Inc.); Mark Gardiner (Western Financial Group); Sydney Hamilton (Accu-Type Depositions); Jerry Juday (Department of Law); Bob Lafferty (Salix); and Bob Shefchik (IEP Team).

Public participating via teleconference: Sheldon Fisher (Commissioner, Department of Administration)

4. AGENDA APPROVAL

The agenda was approved.

5. PRIOR MINUTES - March 31, 2016

The minutes were approved as presented.

6. PUBLIC COMMENTS

Joe Beedle addressed AIDEA's important ability to provide refinancing. Mr. Beedle stated commercial banks generally do not participate in long-term fixed rates loans, as to hedge for long-term rate exposure. He explained how commercial banks insulate from interest rate swings and credit risk to remain authorized to conduct business with AIDEA. Mr. Beedle believes AIDEA is limiting their overarching philosophy and goals by concluding the mission and economic support for the state is jobs, especially in this challenging economic cycle. He expressed the overarching goal of AIDEA should be about Alaska's value, stability and attributes of keeping businesses strong in the community.

Mr. Beedle suggested AIDEA continue to allow refinancing. If limiting refinancing is necessary, he requested the banks are not asked to hold more of the credit. Mr. Beedle explained the general terms under Alaska Housing Finance Corporation (AHFC) refinancing. He believes the administrative order by the Governor should reflect positively upon refinancing. Mr. Beedle reviewed the issue of troubled debt restructures for banks. He apologized for being rushed in the delivery of his comments.

Deputy Commissioner Parady requested additional time for questions to utilize Mr. Beedle's expertise. He asked why community banks do not make long-term loans at fixed rates. Mr. Beedle explained banks can fail for bad credit, negative margins, and interest rate risk. He disclosed if a bank makes long-term loans at low interest rates and interest rates rise, the bank goes into a negative spread, loses money, and fails.

Deputy Commissioner Parady inquired if banks do not lend long-term at fixed rates, is the risk being transferred from the private sector to the public sector, AIDEA. Mr. Beedle stated community banks are willing to take the risk to offer an interest rate swap at a variable rate with a significant prepayment fee or defeasance required. He hopes AIDEA, like AHFC, has long-term goals that maximize the portfolio hedge and use match pricing with the cost of the bonds.

Mr. Kennedy expressed appreciation to Mr. Beedle for commenting at the meeting today.

Chair Pruhs asked if the bank continues to service the loan after the bank's short-term loan has concluded. Mr. Beedle confirmed the bank services the life of the loan and is paid a reasonable fee. The bank is motivated to keep the loan strong because if it becomes delinquent, the bank could lose the right to participate in future loans for AIDEA.

Chair Pruhs asked if Mr. Beedle is they are experiencing an increase in the number of requests for longer-term solutions in anticipation of rising interest rates. Mr. Beedle agreed and believes quantitative easing is no longer working. He noted the decrease in new construction loans across all banks in the state.

Mr. Wilken thanked Mr. Beedle for attending and requested additional information on the linear attribute reference from the handout Mr. Beedle provided to members. Mr. Beedle provided a

thorough explanation of linear attributes and the relationship with net operating income (NOI), the cap rate, and a commercial business' ability to refinance, consolidate, and stay strong, while contributing to a strong economy.

Chair Pruhs asked what other alternatives community banks utilize besides AHFC and AIDEA. Mr. Beedle stated under certain circumstances Cook Inlet Housing and Federal Home Loan Bank is available.

7. NEW BUSINESS

7A. AIDEA Statutes, Regulations, and Policies related to Financing

Mr. Springsteen stated the discussion regarding AIDEA's programs and financing tools will begin with the commercial finance program and then compare and contrast with other AIDEA programs and tools. Mr. Springsteen invited Ms. Anderson to present. Ms. Anderson reviewed the general parameters of the loan participation program which provides long-term commercial financing to Alaska businesses. AIDEA can participate up to 90% of a loan originated by an eligible commercial lender, not to exceed the statutory cap of \$25 million. The terms for financing personal property is up to 15 years and for real property up to 25 years. The maximum loan-to-value is at the industry standard of 75%. Interest rates can be either fixed or variable. Currently the fixed rate is 3.84% and the variable is 5.06%. The program has supported the creation of approximately 5,000 construction jobs and 6,000 permanent jobs over time.

Ms. Anderson walked the Board through the loan participation process a borrower undergoes. Chair Pruhs asked what AIDEA's cost is from the beginning of the process to the loan execution. Ms. Anderson stated the complexity of the loan is a factor to the amount of time that is spent on a loan. She is not aware of specific cost tracking, but believes the 1% loan participation fee AIDEA charges each loan adequately covers loan-processing costs.

Ms. Anderson continued the presentation outlining loan participation diversification by regions of the state and diversification by industry. She noted retail, tourism and healthcare are presently the most active industries. Deputy Commissioner Parady asked if AIDEA has active outreach to the regions and sectors who are not currently serviced. Mr. Springsteen reported he has visited areas with low participation. He found it is necessary to inform communities about the availability of AIDEA's tools. He also found there is a balancing act in rural Alaska between subsistence-based economies and cash and collateral economies that are tenable by commercial banks. Mr. Springsteen stated he has reached out to numerous companies who will utilize AIDEA if the need arises. Active outreach also includes an annual panel discussion with other entities, such as AHFC, Evergreen and SBA.

Chair Pruhs noted communications and transportation is not represented on the loan balance by industry pie chart. Ms. Anderson specified the pie chart is a compact representation of industries. Mr. Springsteen stated AIDEA and Department of Transportation (DOT) each cover a transportation purview. The FedEx maintenance hangar is considered under warehouse and Penn Air is considered under hangar/terminal. Ms. Anderson reviewed verbatim statutory language regarding AIDEA's participation in loan refinancing.

Chair Pruhs requested Mr. Springsteen research the industry standard regarding economic policies on maximum sector diversification percentages in the portfolio and specific recommendations for AIDEA's portfolio diversification.

Ms. Anderson pointed out a number of loan participations, including energy-related improvements to Alaska Pacific University, new construction at Deadhorse, a cruise ship dock and new/renovated buildings for the Icy Point Strait Project, new construction of an Aspen Hotel, debt refinance and equipment acquisition of H2 Oasis, long-term financing of tour vessels for Allen Marine, and long-term financing of Chinook's restaurant.

Mr. Springsteen reviewed AIDEA's project and infrastructure finance program which evaluates operating experience, capital contribution, final designs, completed permits, signed purchase agreements, and signed sales agreements. Mr. Springsteen requested Mr. Hemsath and Mr. Davis provide comments on the program examples in the presentation. Mr. Hemsath and Mr. Davis gave a detailed report on four AIDEA projects: DeLong Mountain Transportation System, Camp Denali Readiness Center, Endeavour - Spirit of Independence Jack-Up Rig, and the BlueCrest Rig.

Mr. Springsteen explained the evaluation criteria comparison of coverage, collateral, and guarantees between AIDEA's commercial finance program and project development/ infrastructure development programs.

7B. Interior Energy Project (IEP) Update

Mr. Springsteen invited Gene Therriault to present the IEP update. He stated the project continues to move forward on all fronts to meet the targets of House Bill (HB) 105. Further discussion will take place in executive session because confidential contract negotiations are ongoing. Mr. Therriault reported the PACE legislation did not get scheduled for its final vote and died with yesterday's adjournment of the Legislature. Mr. Therriault expressed appreciation to Vice-Chair Dick, Mr. Kennedy, and Mr. Wilken for their interactions with the Legislature regarding the importance of the PACE legislation.

Mr. Therriault stated if there is no opportunity for the PACE legislation to be added during the special session, he believes the local Fairbanks government can advance the understanding of the PACE mechanism so businesses can comprehend its benefits. The local government could work on draft ordinances, review model contractual language of other states to source funds for loans, determine how to utilize low-interest federal funds, and continue working with Alaska Department of Environmental Conservation (ADEC) on accessing the Environmental Protection Agency (EPA) Air Shed Grant Program.

Mr. Therriault reported the Government Accounting Standards Board (GASB) bill, HB 268, unfortunately died during session because it was caught up in larger negotiations. Staff will continue to monitor the oil and gas tax credit bill, HB 247, which was reintroduced by the Governor for special session. Mr. Wilken asked for the list of bills included in the Governor's special session call. Deputy Commissioner Burnett disclosed bills include the operating budget, the capital budget, the Permanent Fund Protection Act, HB 247 - the oil and gas tax credit, the tax bill for income tax, motor, fuel, alcohol, mining, and fish, HB 200 - the petition for proxy of

adoption or guardianship, HB 27 - duties of Health and Social Services for permanent placement of a child in need of aid, HB 374 - relating to funding for a reinsurance program, and the act related to major medical insurance for survivors of peace officers and firefighters.

7C. 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 2:40 p.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, Michael Lamb, Mark Davis, Jim Hemsath, Gene Therriault, Nick Szymoniak, and guests Dan Britton, Mark Gardiner, Jerry Juday, and Bob Shefchik.

The Board reconvened its regular meeting at 3:59 p.m. Chair Pruhs stated no formal action was taken during executive session.

8. DIRECTOR COMMENTS

Mr. Springsteen reiterated the AIDEA dividend stabilization bill did not pass during the session and dividend fluctuations will continue due to mark-to-market provisions. The dashboard, loan, delinquencies reports, IFD and PDAM project matrices, continuing education calendar, and the Callan Investment report are included in board members' packets.

The next AIDEA Board meeting is scheduled for Thursday, June 23, 2016 in Wasilla.

9. BOARD COMMENTS

Mr. Kennedy expressed what an honor it is to serve on the AIDEA Board. He continues to work on the possibility of touring in a National Guard Black Hawk helicopter on June 22, 2016. The Department of Defense has recently changed regulations, which has added a new layer of difficulty for this mission.

Chair Pruhs expressed his appreciation to staff, consultants and members for a good meeting.

10. ADJOURNMENT

There being no further business of the Board, the AIDEA meeting adjourned at 4:04 p.m.



John Springsteen, Executive Director
Alaska Industrial Development & Export Authority